To Be or Not to Be . . .
– Brand Affiliation in the Hotel Industry

Mats Carlbäck

UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

To my mother and father

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Department of Business Administration
School of Business, Economics and Law
University of Gothenburg
PO Box 610
405 30 Göteborg
Sweden
www.fek.handels.gu.se

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Paper II

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Paper III

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Paper IV

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Abstract

A large proportion of any business's value comprises intangible assets, and for many businesses a considerable part of these assets' value is attributable to brands with which businesses affiliate. In light of increasing affiliation of hotel properties with hotel chains and the increasing importance of branding in the hospitality industry, senior managers/owners should be aware of the importance of concepts such as brand equity and brand value and, better yet, incorporate them into their strategic decision-making processes. The extent to which hotel management scholars and industry practitioners understand or use the concept of brand value attributable to affiliation (BVAA) is, however, limited.

The aim of this research project is to increase our understanding of the costs and benefits connected with operating a hotel independently or as part of an affiliation, using both quantitative and qualitative methods. Such an understanding could be used to spur further research but should also be directly applicable by the practitioners.

The results of this research indicate that affiliating with a brand matters to managers/owners in the hotel industry, but also that brand-related concepts are used only to a limited extent. One of the studies comprising this dissertation, which included 51,000 hotels in the U.S. during a full economic cycle, suggests that affiliated hotels produced better financial performance than unaffiliated hotels, especially during the global economic recession of 2007–2009. On the other hand, the results from a study of hotels and organisations in Sweden suggest that brand value–related information attributable to affiliation is not used to any large extent in the industry. In the third study, a method for financially evaluating BVAA is developed, making it possible not only to measure whether affiliating produces a positive BVAA, but also to demonstrate a practical method for financially assessing a current affiliation and the various affiliation options. Consequently, these findings should contribute new ways of treating the strategic question of affiliation.

Keywords: Hotel Industry, Hotels, Intangible Asset Value, Valuation, Consortia, Brand Value, Constructive Approach

Content

Prologue

A mountain to climb! That would be the situation for any business owner in the hospitality industry, as it is tremendously challenging to operate a small business, regardless of background. Apart from the more obvious work of keeping track of the day-to-day running of the business just in order to survive, any attempts to grow and develop will require sound business decisions, backed by theoretical and practical knowledge. This would in many cases not be limited to growth-oriented strategies. In several cases it could be a plain matter of survival.

The story behind this dissertation begins with the author's own experience as a small-scale business owner in the hospitality industry, and could as such be taken as an attempt to answer an unavoidable question which is a part of many business owner's daily life—not least in the dynamic hospitality business.

Running a small hotel in a tourist area could initially present itself as a daunting task, especially if the business is the first of its kind for the person in question. After the initial hard work involved in turning around an underperforming business and putting one's own mark on the place, the entrepreneurial challenges will diminish. For a serious growth-interested businessperson the motivation will decrease if his or her business is performing according to plan and most of the routines and operational standards are in place. The businessperson who is driven by development and the desire to build up ventures will easily lose enthusiasm for the daily tasks involved in running a small business. This is what distinguishes entrepreneurs from "corner shop-owners", those who are happy with a small, functioning business, who are able to control all aspects of the operation and very rarely let anyone else in on the "secrets" behind the operation. The distinct difference between a growth-oriented entrepreneur and the "corner shop-owner" is the desire to advance as a business. The startup process, the strains connected with a business's fragile first phase, and the eventual loss of motivation are all factors related to the entrepreneur, while "corner shop-owners" thrive in running a smooth day-to-day operation. There is no right or wrong associated with this—one is not better than the other, they just correspond to different types of small-scale entrepreneurs, for whom the motivational factors differ. These options should be seen, from a larger perspective, as complementing each other, where one enjoys starting a business and the other enjoys maintaining one. These options cause a problem only if we do not acknowledge this and fail to understand the differences. The wrong person in the wrong place would lead to less satisfying results.

In the case of the small hotel run by the author it was clearly a question of growth and development. Even if this was not known in the initial phase, it became evident as the business started to operate in a desired way and the majority of tasks shifted from problem-solving and innovations to maintaining and cultivating a going concern.

As the growth path was identified as a motivational factor, however, the whole venture became much more complex and harder to grasp. While taking over a failing business in a foreign country was a task of great magnitude, the road-mapping of a possible path to growing the business represented an even higher mountain to climb. What options are available? What options are feasible based on an owner's financial status and knowledge base?

One option would naturally be to grow by acquiring additional outlets and over the long term initiating what could be developed into a small-scale chain or portfolio. Very often an entrepreneur's financial situation will limit these possibilities as even a very small albeit efficient business will fail to produce sufficient returns to develop more quickly.

As the author's venture with the small hotel was followed by two other ventures—an internet café and an upmarket restaurant—one issue clearly surfaced in their wake. This issue was the question of considering whether to affiliate with or establish a brand and, if so, how to do this. In all three businesses, growth would, in one way or another, involve branding or affiliating. To join an affiliation to trigger growth, or at least lay a foundation for growth, seems to be a universal answer in the hospitality industry for anyone interested in growth. The alternative would be to build up a strong brand name and use this to create a chain or affiliation, either company owned or by means of franchising.

So far so good, but for the small-scale businessperson the rather "trendy" notions of branding and affiliation come with a complex set of questions that are not easily answered by someone fully occupied with operating a business and keeping one's own head and the business above water.

If a businessperson is striving for independence and freedom, then the thought of grouping together with similar businesses would seem to defy that objective. Still, affiliating is a widely preferred option and in many cases the only option for growth. Or is it?

So what exactly does all this mean to the discerning businessperson? The words 'brand', 'brand value', 'brand equity', 'affiliation', 'franchise', and ‘consortium’ are extravagant, but in what way could one use them for one´s own purposes? What do I have to give up to gain something, and what exactly will I gain and at what price?

For most business owners this mountain will have to be conquered with very little help. There will be no one there carrying the weight or giving directions. Consequently, the climb will be too much of a challenge and most will give up even before they reach the first base-camp.

This dissertation is an attempt to add to the relevant body of knowledge and to make it possible, at least, to map possible routes one could take to overcome such a daunting task. By learning more about where the various routes could lead, the struggling businessperson could find some help discovering sounder strategic decisions regarding what direction to take while remaining consistent with one’s own beliefs and values. But is the view that much greater further up the mountain?

In the quest to provide some of the answers to the questions and issues mentioned above, the author embarked on something that could best be described as finding an even higher mountain to climb—writing a dissertation.

As I am now nearing the peak, I realise that this could not have been done without the help of others. Such a task calls for help, inspiration and guidance. So, thank you Tommy D. Andersson and Christian Ax for pointing out where the peak actually was located. Thank you, John Armbrecht, Erik Lundberg, Lena Mossberg, Taylan Mavruk, Bill Barnet, Malin Tengblad and Kajsa Lundh for providing valuable information along the route.

One also needs inspiration, motivation and moral support. For that I am tremendously grateful to Maximilian and to Mari, who has looked after me at every base-camp, and Esbjörn and Karin Carlbäck and Margit Carlsson, who all have contributed enormously, not least in an inspirational way.

If I now manage to reach the actual peak, I promise you all I will not attempt it again, at least not in the foreseeable future. I shall now focus on helping others climb . . .

The dissertation

The thesis consists of a licentiate thesis, four additional articles and an introductory chapter. The former is included as an appendix. It was defended in Gothenburg in June 2011. The academic field for both parts is business administration with a focus on hospitality management. Both parts stem from practical problems and are attempts to advance knowledge and create possibilities for the future.

The licentiate part, including three articles published in academic journals, will be summarized briefly here to give the reader a better understanding:

The objective of the licentiate (*From Cost Accounting to Customer Accounting in the Hospitality Industry—a Constructive Approach)* is to analyse and identify the role of tools used in the restaurant industry to improve resource management, efficiency and performance, to develop and test the Experience Accounting tool, and to test and evaluate whether this particular system could fill a gap in the hospitality industry. The research is based on the notion that the restaurant industry is part of the experience industry and is producing an experiences rather than only a plate of food. By using a constructive approach to review the current situation (Carlbäck, 2008) and then using a case study to test and establish the practicality of the new management accounting tool (Andersson & Carlbäck, 2009), the goal is to lay the foundation for a tool that could be used by practitioners for better utilisation of the resources at hand, by producing experiences that are better aligned with the guest's willingness to pay for experiences. The research identified a need for more sophisticated management accounting methods. Furthermore, the study resulted in a new management accounting tool—Experience Accounting—which takes a step from cost accounting towards customer accounting (Andersson & Carlbäck, 2009). This new tool was received well by practitioners involved in the Swedish restaurant business (Carlbäck, 2010). The tool also contributed a valuable ad-hoc feature in terms of providing a snapshot of business performance at any given time, making it possible to compare current performance with historic data, preset aims or budgets. It could also be applied by managers or consultants as a benchmarking feature compared with industry standards.

The following published articles were included:

Carlbäck, M. (2008). Are the Chain Operations Simply with It? Five Aspects Meal Model as a Development Tool for Chain Operations/Franchise Organizations.*Journal of Foodservice, 19,* (1), 74–79.

Andersson, T. D., & Carlbäck, M. (2009). Experience Accounting: An Accounting System that is Relevant for the Production of Restaurant Experiences. *Service Industries Journal, 29*(10), 1377–1395.

Carlbäck, M. (2010). From Cost Accounting to Customer Accounting in the Restaurant Industry *Int. J. Revenue Management, Vol. 4, Nos. 3/4, 403–419*

In the second element of the dissertation the focus is on the brand (i.e. the flag) associated with an affiliation. Both brand value and brand equity will be used as concepts to gain a better understanding of what affiliating would mean for a hotel owner and how this could affect decision-making. One aim is to find out if entering an affiliation improves performance and if it does so under varying economic conditions. To advance knowledge, it is also necessary to understand the factors affecting hotels searching for an affiliation from a business-to-business (B2B) perspective and how this could be used in a constructive manner. The focus is on the consortium option (marketing and sales organisations for independent hotels), as this is a preferred option for hotel owners currently without affiliations (Carlbäck, 2012). A model for measuring Brand Value Attributable to Affiliation (BVAA) is also presented as sound business decisions need to be supported by accurate calculations. A constructive approach, wherein a factual problem is identified and a possible solution based on theoretical and practical data is developed is used for this study as well. Kasanen et al. (1993) describe the process of a constructive approach as follows:

1. Find a relevant practical problem which also has research potential.
2. Obtain a general and comprehensive understanding of the topic.
3. Innovate, i.e. construct a solution.
4. Demonstrate that the solution works.
5. Show the theoretical connections and the research contribution of the solution.
6. Examine the scope of applicability of the solution.

A practical and relevant problem was identified—the lack of a method for establishing the costs and benefits of affiliation—and the research process follows the steps mentioned above.

1. Introduction

1.1 Background

The mere mention of the concept of affiliation, i.e. belonging to a chain or multi-property organisation, or indeed the concept of a brand, will attract attention from practitioners and academics alike—and the hotel industry is no exception. The issue of affiliation is on many agendas. In academia it is a current topic for research and in the practical world it is a part of many strategic business decision processes. A competitive industry would require well-grounded decisions—by the larger affiliation organisations—where branding often is core business (Elbanna, 2016; Ivanova & Ivanov, 2015), but also for small independent hotels, for which affiliation could be a way to survive in an increasingly competitive marketplace.

The growing interest in the brand and affiliation concepts is, however, shadowed by issues that require knowledge to apply them constructively. Even though brand- and affiliation-related issues have been researched and debated for at least two decades, it is a subject that calls for further research.

Why are brands, branding, and brand management such complex constructs? Mainly because several aspects surrounding brands are intangible, which makes them difficult to define and measure. It stands to reason that something that is problematic to define is hard to measure.

In this context, one school of thought argues that a brand name should be accounted for as an asset (i.e. a long-term investment), not as a cost on a profit and loss (P&L) statement (Tiwari, 2010; Wood, 2000). In many contexts, not least in the hotel industry, the brand name associated with an affiliation is typically perceived and treated as a cost on the P&L statement, not as an asset reported on the balance sheet (Lassar et al., 1995; Tiwari, 2010). If an affiliation adds to the business value reported on the balance sheet, then it would be handled differently from a strategic perspective compared with something that is perceived only to induce costs. Such an asset could be what is known as brand value, which could imply higher future earnings and/or increased enterprise value, which in turn should make it easier to secure financing and obtain a better price if a hotel is sold. In this project the focus is on BVAA, defined as the portion of a brand's value that is due specifically to its affiliation, i.e. the benefits achieved by displaying a specific brand (for example Best Western) as opposed to trading only with one's own independent brand.

The idea of affiliation might be introduced to a hotel property owner when a business is focused on growth and development, or when it is a question of survival in the marketplace. Profitable independent hotels may not have the same need to affiliate as long as their businesses are operating according to plan, or if growth is not a desired strategy.

Dittman et al. (2009) illustrates the complexity in the hospitality sector by observing that most hotels are engaged in manufacturing (albeit not of tangible products), service, and retail simultaneously. As the hotel industry is perceived as conservative and with most hotels being small and medium-sized enterprises (SMEs), it is not surprising to find that the tools, methods and systems used will often be imported from industries other than the hotel industry, such as manufacturing or retail. One problem is the conventional approach used by many of the small, family-run hotels in the hotel industry, where business strategies will be based more on tradition and "gut feeling" than on tested and approved tools. In several articles the limited understanding and use of managerial accounting in the hotel industry, particularly among SME hotel businesses, is often perceived as a barrier to growth and increased efficiency (Carlbäck, 2008; Dittman, Hesford, & Potter, 2009; Harris & Mongiello, 2006; Jönsson & Knutsson, 2009). These insights represent a research challenge. Dittman et al. (2009) suggest a road map for management accounting research in the hospitality industry. The following areas are highlighted in their analysis of the literature (Dittman et al., 2009):

- Cost management
- Design and use of management control systems
- Customer profitability analysis
- Affiliation vs. independence
- Measuring efficiency
- Financial and non-financial performance measurement and control
- Capital budgeting
- Outsourcing
- Competitor-focused accounting

In this research project the focus will be on the affiliated vs. independence issue. The overarching research question of this thesis is; *"What are the advantages and disadvantages of being affiliated in the hotel industry*?"

1.2 Current Issues and challenges

While the hotel industry has for a long time been dominated by small-scale independent businesses, segmentation has changed over time. Multinationals and affiliation organisations have changed the fundamentals of the industry.

In this thesis the focus is on both affiliation organisations, defined as companies with more than three outlets trading under the same brand name and with the same logotype, and consortia, defined as membership organisations that are based on independently owned hotels trading under a common brand to gain better recognition in the marketplace. Affiliation organisations would include consortia as well as company-owned brands (e.g. chains such as Holiday Inn and Marriott), franchise organisations and other types of organisations where the ownership of the brand name or logotype lies with one company. Consortia, on the other hand, are usually concepts (and brands) that are part-owned by members, where the members retain a degree of independence, but share some benefits, such as pooled marketing efforts, purchasing, and central reservation systems (e.g. Best Western).

Consequently the focus of the study will be on the brand and the business value directly linked to this—in other words the business value of flying a particular flag (brand) on one specific property. The idea is not only to describe and understand current hotel practice and the relationship between brand and business value but also to develop a model for measuring BVAA.

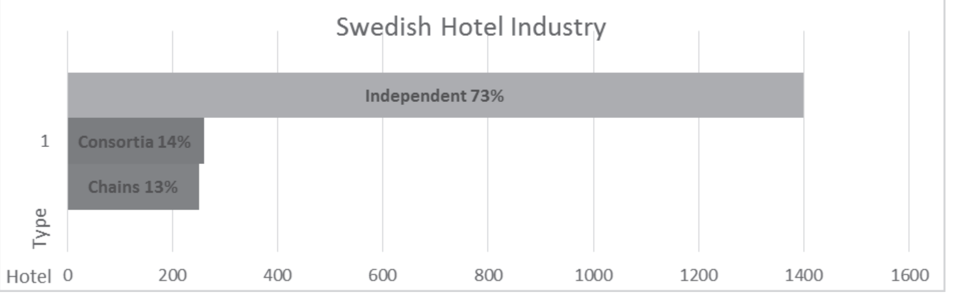
1.3 Research questions

Several studies emphasise the increasingly important role of brands (both independent and affiliation-associated) to hotels, hotel companies, and real estate companies in strategic decision-making processes (Bailey, 2007; Bailey & Ball, 2006; Damonte, Rompf, Domke, & Bahl, 1997; Dev, Brown, & Zhou, 2007; Imrie & Fyall, 2001; Lomanno, 2010; Martorell Cunill, 2006; O'Neill & Mattila, 2004, 2010; O'Neill & Xiao, 2006; Prasad & Dev, 2000; Rivet, 2011). A key strategic issue relates to the long-term development of a business. The question of affiliating or staying independent is currently a key strategic issue for many actors in the hotel industry (Elbanna, 2016). For an independent hotel owner, a key concern is whether to operate independently or conceding some degree of independence to gain a possible competitive advantage by joining a larger organization. A challenge then is to assess the benefits and costs of affiliating *and* compare various affiliation alternatives against each other. A central issue is whether and, if so, how a brand name connected with an affiliation will affect a hotel's business performance. If affiliated hotels perform better, understanding why and how this is achieved would enhance the prospects for both affiliation organisations and hotels contemplating affiliating. If affiliating could lead to better performance in the longer term, this needs to be communicated externally to attract more hotels to this business format. The first research question (RQ1) addresses the current performance of the business formats we have mentioned:

RQ 1 - Does affiliation improve hotel performance?

A global perspective would include emerging and developing markets. Nevertheless, even a highly developed hotel market such as Sweden's, where affiliation organisations have been playing an important role for years, will produce a similar picture, as seen in Table 1 below. Chains are here defined as groups of three or more hotels where the individual properties are owned by the chain company, while consortia are membership organisations made up of independent hotels sharing one brand.

Table 1: The Swedish Hotel Industry 2010



Source: Visita & SCB (2010)

Several factors may contribute to the fact that most hotels in Sweden today are independent, having only a vague understanding of brand value issues. It is possible that, in the case of a company-owned chain, the brand is clearly defined as an asset and valued as such. In a consortium context, however, these elements might be harder to understand. A better understanding of the potential benefits (and costs) of affiliation, both financial and operational, would provide independent hotels with a more solid foundation for decision-making, and also provide affiliation organisations with arguments for attracting new hotel businesses as members. To understand how brand value, primarily for consortia in Sweden, is understood and practiced, the intention is to answer the following research question:

RQ 2 - How is the idea of Brand Value Attributable to Affiliation (BVAA) understood and practiced in the Swedish hotel industry in a consortium context?

The hotel industry is dominated by SMEs, many privately owned, of which many are family-owned properties. For SMEs and family-owned businesses the agenda could be distinctly different from that of more traditional hotels, where growth and shareholder value are the key drivers. There may be other factors to consider, such as the goal of owners to build "something" for their families (Andersson et al. 2002). These authors also found that the top goals for owner–managers were challenge/stimulus, business opportunity, lifestyle, and long-term financial gains. Based on this, it is possible to cautiously draw the conclusion that there are other forces than financial rewards driving independent business owners, such as the desire to create a way of life, a social life, working together as a family, enjoying work, freedom, etc. Andersson et al. (2002) reported that many business owners agreed with the statement that "enjoying the job is more important than making lots of money" (p. 12). A majority of the participants in their study indicated that they would rather keep business at a modest level where it could be controlled by the family than expand by bringing in new owners. Few of the respondents perceived building a large business as a primary goal.

These findings are further emphasized in a study by Getz and Petersen (2005) which concluded that it is important to identify the motivational factors for independent family-owned hospitality owners to understand their behavior. These authors also explain that the literature in general supports the argument that growth is generally not prioritized among family business owners. One explanation for this may be that growth is hard to achieve for independent family-owned firms due to lack of capital. Further growth could lead to higher risks, a more demanding business environment and possibly a heavier debt burden (Getz & Petersen, 2005). This is consistent with Smith's (1967) findings that if business owners are autonomy-oriented, growth could be less valuable than achieving a consistent living and stability. These issues will be addressed in the study's third research question:

RQ3 - What factors influence an independent hotel's decision whether or not to affiliate?

The growing significance of affiliation and the generally complex structure of the hotel industry call for more accurate ways of measuring the financial and non-financial implications of affiliation. Such a development could be beneficial for many actors in the hotel industry, such as hotels, affiliation organisations, banks, investors, and consultants. While the hotel companies tend to concentrate on certain parts of the industry, e.g. real estate, management companies or franchise companies, methods/tools for measuring efficiency, e.g. return on investment (ROI), are needed in each segment—not least in the consortia context.

Financing is also an important element in this context. If a business's value is, to a large extent, linked to the intangible asset component associated with brand value, it would be advantageous to be able to estimate this value when seeking financing for the business, whether to support expansion, a possible takeover or internal use, such as refurbishment. Higher firm value will put an owner/manager in a better position to negotiate loan terms with creditors.

Proper valuation of a firm could also have tax implications. In many hotel operations, the real estate itself is a large part of the value, a value that also could be subject to property taxation. Through the process of being able to more accurately include intangible asset values, such as the BVAA, a proportion of the market value could be shifted from the property itself.

In most business decisions calculating potential ROI would be necessary. Independent hotels appear not to use such methods that are connected to possible affiliation, especially in a consortium context. If the present value of an investment and commitment is unknown, any decisions based on this would be uncertain. To address this problem, the following research question is proposed:

RQ 4 - How can the financial performance effects of affiliating in a consortium context be measured?

1.4 Research objectives

The main objective of this research project is to identify the costs and benefits of joining an affiliation company and identify which aspects connected with affiliating would affect independent hotel owner's decision-making process concerning affiliation. To reach this objective the research project has been broken down into four sub-objectives, each addressed in a separate article:

1. *To analyse whether affiliation affects performance in the hotel industry*. The aim is to develop an understanding of the costs and benefits, both financial and strategic/operational, associated with affiliation.

This could have implications for both future research and strategies implemented by independent hotels and affiliation organisations. Therefore, a clear indication of how affiliated hotels perform as compared with independent hotels would contribute to this knowledge.

2. *To identify and analyse the awareness of and practice with the concept of BVAA among various categories of stakeholders in the Swedish hotel industry and identify possibilities for research and improvement of business practice.*

Increased knowledge pertaining to this issue would, it is hoped, stimulate more research in the area, and also facilitate practical use of relevant measuring methods by industry players as part of their decision-making processes—a better understanding of the factors attracting an independent hotel is needed. If these factors are known, this will produce a better understanding of why this is an option for some hotel owners and not for others.

3. *To identify and evaluate what parts of a brand would attract independent hotels to affiliate in a consortium context, i.e. what factors of a possible affiliation company would attract independent business owners to give up their independence.*

Such knowledge may improve strategic decision-making, not only for independent hotel owners seeking new alternatives but also for affiliation organisations interested in new possibilities. As a hotel owner, in most cases, will not be the only player involved in the decision-making process, other stakeholders would like to have a say, and the picture would not be complete without an understanding of factors adding value to a business, from both operational and financial perspectives.

4. *To measure BVAA created by the brand in a consortium context.*

A better understanding of BVAA should help hotel operators identify value-creation possibilities. A viable measurement method may inspire more research in the area, and, the author hopes, also encourage important industry actors to lead the way. As most decision-making processes rely on numbers or similar indicators, the idea is to provide a relevant method for estimating the financial value of membership in a consortium. In other words, how much profit (value) does this brand add to the value of my business? By providing a method designed for this purpose the decision-making process will be enhanced. It will, the author hopes, also refine future research in the area.

By achieving the four abovementioned sub-objectives, where objectives 1 and 2 focus on the more generic concept of affiliation and objectives 3 and 4 focus on the more specific concept of consortia, the concluding objective is therefore to understand the overall objective. The fundamentals for decision-making regarding such a complex issue as branding and affiliating would be based on several aspects, a number of which are included in this study, even though the ambition is not to be exhaustive. The desire is to have a better understanding of some of these aspects and in that way not only increase our knowledge but also create a better foundation for sound decision-making and a platform on which further research activities could build.

Together, the contribution from each of these parts of the study should create a base on which a more general conclusion related to the overall objective can be drawn. To facilitate such reading and the associated reasoning, the four underlying objectives are presented in the four articles presented in chapter 5, one for each objective.

2. Key concepts

In this section the key concepts used in the study will be presented to facilitate a better understanding of the elements of the whole project, as presented in Figure 1.

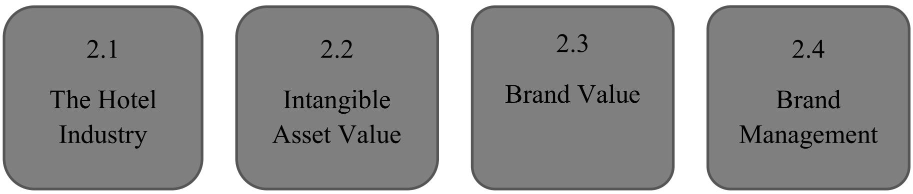


Figure 1. Outline of the Key Concepts

2.1 The hotel industry

The hospitality industry, of which the hotel industry is one part, is one of the largest industries in the world. There is ongoing debate about what to include and what not to include in the definition of the hospitality industry. This thesis uses the definition provided by the *International Council on Hotel, Restaurant and Institutional Education* (ICHRIE). It includes the following segments:

- Lodging services
- Food service
- Recreation services
- Travel-related services
- Convention & Meeting services

While the issues addressed in this thesis apply to several of these industry segments, the main focus will be on the first group—lodging services. The lodging services segment can in turn be divided into sub-segments, such as (ICHRIE):

- Hotels
- Motels
- Hostels
- Hostals
- Bed & Breakfast

- Guest houses
- Vacation rentals
- Campsites

The hotel segment can also be divided into sub-categories (see article 7 for further details) based mainly on operating formats. For example, a hotel can be independent or part of a chain or consortium. The consortium concept is, even though it is not unique for the lodging industry, important at present and envisaged to become more so in the future. Several large consortia are among the biggest companies in the lodging industry, e.g. Best Western.

The differentiated hotel scene, with independent operators, consortia, management companies, real estate companies, and investors, in combination with a drift away from the notion that independently owned and operated hotels are more efficient than alternatives, would indicate a trend towards an industry dominated by affiliated properties. Even if this becomes the norm in the future, it is not the case today. Statistics from Euromonitor (2010) show that only 15% of the world's hotel portfolio falls into the affiliated category, which leaves 85% as independent actors in the industry (Rivet, 2011).

According to the AH&LA (American Hotel & Lodging Association) the figures for the American market, based only on a separation of independent and affiliated hotels—no distinction is made for consortia—shows that 51% of membership hotels are affiliated and 49% are independent.

From a global perspective affiliation still plays a limited role, even if the presence of affiliation organisations is increasing in most markets. Brand penetration (comprising recognized brands with at least three outlets) was over 70% in the "commercial lodging industry" in the US, 40% in Canada, and just under 25% in Europe with an observed upsurge (Rivet, 2011). The figure for Sweden is 27%, as presented in Table 1.

2.2 Intangible assets and value

In the literature, the issue of identification and definition of intangible assets is under debate. Tollington (2002) describes intangibles as being invisible by nature unless a method for making them visible is developed. One central aspect regarding the definition issue is, accordingly, that we should not try to define what an intangible asset *is*; we should instead define what an intangible asset *should be* (Tollington, 2002). This, Tollington (2002) explains, is based on the idea that an intangible asset does not exist until society decides that it should be accepted and defines its boundaries, as all intangible assets are socially dependent assets.

The *Report of the Brookings Task Force on Intangibles* defines intangibles as:

". . . non-physical factors that contribute to or are used in producing goods or providing services, or that are expected to generate future productive benefits for the individuals or firms that control the use of those factors" (Mard et al., 2002, p . 23).

This definition will be used in this thesis, as it is broader than most other definitions. For a more detailed discussion of definitions of intangibles, see article 6.

Various factors could be classified as intangible assets. The list below is not intended to be exhaustive, but can serve as a guideline regarding items in the hotel industry that may vary with by types of brands or affiliations:

- Trademarks, trade names
- Service marks
- Trade dress
- Customer lists
- Customer contracts
- Licensing, royalty
- Advertising
- Lease agreements
- Franchise agreements
- Employment contracts
- Internet domain names
- Trade secrets

2.3 Brand equity

Keller (2003, p. 1) defines brand equity as "the differential effect of brand knowledge on the consumer response to the marketing of the brand in which brand knowledge is conceptualized, based on an associative network memory model in terms of two components, brand awareness and brand image". Aaker (1991, p. 16) defines brand equity as "the set of assets (and liabilities) linked to a brand's name and symbol that adds to the value provided by a product or service to a firm and/or that firm's customers". In the case of the

hospitality industry, brand equity has been defined as "a set of perceptions, knowledge and behaviour on the part of customers that creates demand and possibly a price premium for a branded product—what the brand is worth to a guest" (Tiwari, 2010, p. 63).

2.4 Brand value

A hotel's brand value relates to what its brand means to a prospective member of an affiliation, i.e. what would encourage an individual hotel to join a specific organisation. This notion is supported by several scholars (Berry, 2000b; Brodie et al., 2006; Vargo & Lusch, 2004).

Several attempts have been made to conceptualise brand value associated with affiliations, in a measurable and practical way. Even though the term 'brand' is used and researched extensively in the hotel industry context, the meaning of the concept of brand value connected to the affiliation concept as such is still rather vague and also varies between sources (Bailey 2007), as all the focus has been put on the franchise concept. This concept would also be much more comparable to similar research in other sectors where the franchise concept is accepted and well established, while the affiliation concept is not.

Tiwari (2010) defines brand value as the net present value (NPV) of future cash flows from a branded product minus the NPV of future cash flows from a similar unbranded product—or, in simpler terms, what the brand is worth to owners, management and shareholders (Berry, 2000a; Brodie et al., 2006; Tiwari, 2010), and this is the definition used for this study.

2.5 Brand Value Attributable to Affiliation (BVAA)

Most companies, regardless of industry, will have a brand that represents the business. This brand could be used to various degrees in business-related activities, such as marketing, public relations, and communication. A company would have a brand, irrespective of whether it belongs to a chain or any other form of organisation from which it would acquire a brand name. Any small independent hotel in a rural location has a name. It might be unique to the firm and not well-known outside the local market. On the other hand a firm can acquire a renowned brand or even create its own replicable brand, which could be used on other properties or by other companies in exchange for a fee (royalty). Within the hotel industry there are many examples of brand names with a world-wide reach: Hilton, Marriott, Sheraton, etc. In the hotel industry, the most common way for hotel owners to acquire a brand name other than a specific local or proprietary name would be to enter a franchise agreement and thereby use a known brand name for a fee, or to join a consortium, in which several independent hotels make use of a collective brand name (e.g. Best Western). The brand, for which the hotel owner pays a fee, should carry a value, presumably thereby adding positive value to the firm. This net present value would be based mainly on an increased revenue stream less the costs attributable to using the brand. This brand value would then be directly traceable to the affiliation.

3. Literature review

In the following section, the literature related to brands, branding, brand value, and the measurement of brand value will be discussed, on a general level and in a hotel context as outlined in Figure 2. The aim in this section is to describe relevant parts of what is known in the field of affiliation in the hotel context.

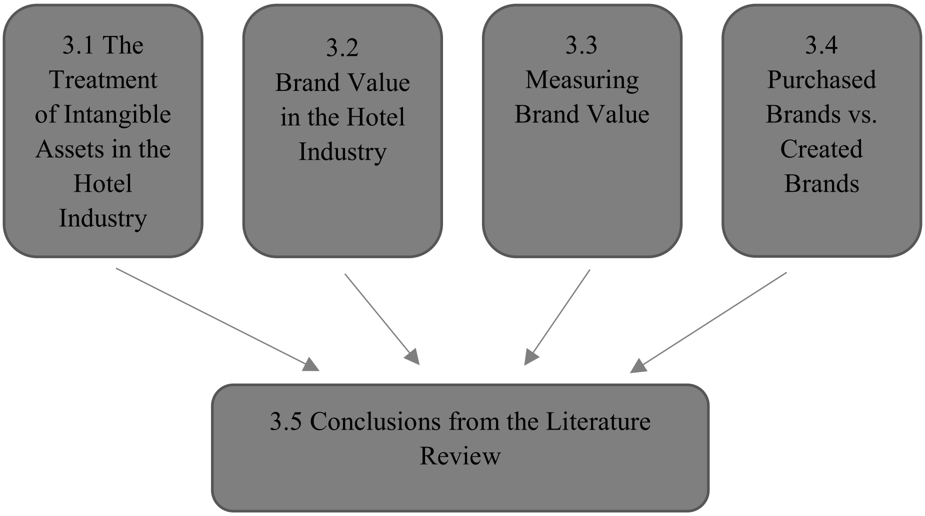


Figure 2. The outline of the literature review

Brand value, as described above, is often a considerable part of any firm's enterprise value. Research has shown that 49% of interviewed executives regard brand value as a primary source of wealth generation (Standfield, 2005). In the same study, 26% of executives indicated that brand value is as important as tangibles for creating wealth, but only 5% of the same sample of executives could trace or measure the very same intangibles. That 80% of executives were unhappy with their brand value adds further doubt to the issue. The study was conducted with executives having no direct relationship to the hotel industry, so the extent to which these results are generalizable to the hotel industry is not known.

3.1 The application of intangible assets in the hospitality industry

The hospitality literature accepts branding and the value it creates as an essential factor for the future, considering the brand concept to be on a par with other major strategies in hospitality organisations. As the development of the hospitality industry is progressing in the direction of brand affiliation, (Baum & Mudambi, 1999), it will be an advantage to be able to differentiate between brands.

Intangible assets, as part of the evaluation-of-value process—i.e. to measure and evaluate the value of the brand name connected to a specific brand for a unique company—have made their way into hospitality research and industry practice, indicating their potential (Cai & Hobson, 2004; O'Neill, 2004). Intangible asset value (IAV) implicates brand value and brand equity in general discussions in the financing, appraising and valuation literature. The general problems mentioned in the literature will apply to the hospitality business as well, including definition, calculation and application (Bailey & Ball, 2006; Palepu et al., 2000; Standfield, 2005; Tollington, 2002).

The definition of IAV, brand value and brand equity for the hospitality industry needs to be more precise and generally accepted. With widely accepted definitions parties with an interest in the industry—owners, potential owners, chains and affiliations, banks, finance companies, accountants, and evaluators—would be able to talk the same language. This would make it possible to utilize existing ways of calculating BVAA in useful and more acceptable ways. The first step in calculating brand value was developed in the U.S. (O'Neill, 2004; O'Neill & Belfrage, 2005), but specific adaptations and justifications in the use of this method are necessary to make it suitable for other contexts.

An actual trade name or affiliation in itself could constitute positive brand value for a business owner. Consequently, an affiliated business would have to be evaluated in a different way compared with an independent. The trademark or affiliation would be a part of the business's value as reported on its balance sheet.

Intangibles could therefore relate to a variety of factors in the hotel business and serve as a starting point for a useful discussion and development of the concept in the hotel business. Here we will focus on brand value as an intangible asset. This focus will allow us to move beyond the definition question.

3.2 Brand value in the hotel industry

As affiliations are gaining momentum as a strategic option not only for the growth and development of a chain (Ivanova & Ivanov, 2015, Martorell Cunill 2006) but also for independent hotel owners, which are often family-owned and -run, the actual functionality of and coherence with the needs of members should be addressed. Insofar as many hotel owners value their independence and would need only some of an affiliation company's offerings, joining a consortium and adopting the relating brand could be the preferred option for many owners, who for various reasons seek out alternative strategic routes (Carlbäck, 2012; Ivanova & Ivanov, 2015). Accordingly, a consortium needs to be more flexible and match their offerings, as a brand, and also ensure the necessary systems are in place.

A substantial body of relevant research has indicated that family-owned firms represent the most efficient way to operate a business (Abdellatif et al. 2010; Astrachan, 2010; Astrachan & Shanker, 2003). Consequently, a recognizable brand will be less valuable to family-owned businesses that work fine without it. An ownership structure based on family ownership is the case for most independent hotels (Martorell Cunill, 2006; Rivet, 2011; So, King, Sparks, & Wang, 2013). One explanation for this is the absence of agency costs and agency-related problems in a family-owned company as opposed to companies where several shareholders are involved and take the majority of strategic decisions (Abdellatif et al., 2010; Astrachan, 2010; Jensen, 1983; Jensen & Meckling, 1976; Ivanova & Ivanov, 2015). While this has been the more generally accepted view for some time, this statement has been challenged, as Schulze et al. (2001) show the presence of agency-related problems, however unique they may be, in some family-owned firms (Schulze et al., 2001). The issue of affiliation will continue to be relevant. Academia has for a long time showed an interest in the subject and the consensus is that affiliating is becoming increasingly important, not least from a strategic perspective (Bailey, 2007; Bailey & Ball, 2006; Cai & Hobson, 2004; Damonte et al., 1997; O'Neill, 2004; O'Neill & Mattila, 2010). The global picture indicates that a large proportion of properties in the global hotel market remains independent, but the importance of affiliating and acquiring a brand is on the increase (Martorell Cunill, 2006; Rivet, 2011).

Line and Runyan (2011) have reviewed the branding literature in the hospitality context and found several notable aspects. Franchising companies, which are only one part of the hospitality industry, attract the lion's share of research, while management companies and consortia are mentioned only to a limited extent. Line and Runyan (2011) found several research articles on multi-branding, co-branding and re-branding. Xu and Chan (2010) compiled many studies in the hotel branding literature and identified several critical research issues to explore in the future (Line & Runyan, 2011). Most notably, Xu and Chan call for more research in the field to better understand how management strategies affect brand equity, i.e. guidelines for use in brand management in the context of all affiliation organisations (Xu & Chan, 2010).

3.3 Measuring the brand value of hotels

Keller and Lehman (2006) studied branding from a more general perspective, but with a clear focus on the importance of measuring the value of a brand. Attempts have been made to calculate brand value to give managers, owners, financiers, evaluators, consultants and other actors a better understanding of the situation and the susceptibility of any business subject to appraisal or evaluation (O'Neill & Belfrage, 2005; O'Neill, 2004; O'Neill & Xiao, 2004).

One of the most accessible approaches to date has been to calculate BVAA to measure revenue over the norm attributable to an affiliation minus the costs attributable to the affiliation (O'Neill & Belfrage, 2005). The NPV of the difference, negative or positive, will be the BVAA. This technique has been developed from previous attempts. Rushmore (2004) argued that brand value is based on management and franchise fees (Rushmore, 2004), a fact that O’Neill and Belfrage (2005) challenge, pointing out that affiliation may create value that is both higher and lower than the costs incurred. O’Neill and Belfrage (2005) have also initiated a second approach wherein the BVAA is calculated based on premiums over market occupancy and average daily rate (O'Neill & Belfrage, 2005). The limitation with this approach, however, is the assumption that the intangibles alone produce such premiums, in contrast to O’Neill’s subsequent research, which indicates that a considerable proportion of such occupancy and average daily rate (ADR) premiums relates to tangibles assets, e.g. real estate (O'Neill & Xiao, 2006). Whatever approach is used, it has been suggested that the concept of brand value should be used as a complement to more traditional methods of calculating the value of a business (O'Neill, 2004). Common to all this research is limited empirical testing and also a bias to use cases from the U.S. Similar studies in other markets based on the proposed methods could lead to different results.

3.4 Internally vs. externally created brands

Closely connected to the above discussion is the actual recognition of an asset, i.e. what an asset is and under what conditions it should be included on financial statements. This question is particularly important in situations where an intangible asset is externally developed, i.e. if one firm is purchasing an intangible asset from another firm. There will then be a transaction and the asset will be recognized (identified). On the other hand when an asset is internally created or generates a “windfall” gain, it will not be recognized within normal accountancy boundaries (Tollington, 2002). Tollington (2002) also brings up the question as to how this issue should be treated in future research. Where should we mark the limits of externally created intangibles? Should they include “harder” values such as trade names, copyrights and patents and exclude “softer” values such as reputation and superior management? As a solution to this issue, Tollington (2002) suggests treating intangibles as artefacts, i.e. making the intangible tangible. Individual hotel owners seeking affiliation are at the same time purchasing an intangible asset as they are joining a membership affiliation. The question is: how aware are they of the purchase of an intangible asset, which then should be included on the balance sheet?

Identifying intangibles, whether internally or externally created, is even more relevant in a service setting, according to Berry (2000), as services lack the tangibility that allows packing, labeling and displaying products, and it is challenging to display an experience or a service offering. The aspect of customer value creation is also a factor that differentiates service companies from goods manufacturers. Berry (2000) illustrates this idea with reference to Starbucks, where the actual company name is the brand. As the development of service brands (companies) is likely to increase in the future, firmer and more solid standards for accounting for intangibles is called for, whether they are internally or externally developed.

3.5 Conclusions of the literature overview

There are several focal areas in the literature that bear further development, where one is the alignment of affiliation organisations with individual hotels to narrow the gap—in knowledge and efficiency—between them and to facilitate cooperation (Carlbäck, 2012). The debate remains rather confusing regarding the necessity of affiliating to succeed in the marketplace—does brand value affect the results positively and, if so, should it be considered an asset? Opinions vary as to whether a brand will facilitate growth and development for individual hotels and, in the process of doing so, create value for the owner, an intangible asset value (BVAA). The literature is clear in this context; it is a matter of ensuring that brand value (as an intangible item) is converted from an off-balance-sheet asset to be an on-balance-sheet asset, i.e. place a value on the brand based on the NPV of future benefits and costs connected to a brand. The hospitality scene appears to be shifting, creating a need for new perspectives. Another issue is whether brand value is externally or internally created. At present this could require special treatment of the intangible in an accountancy context.

Brand value is accepted in the literature, but the conclusion seems to be that practitioners in the hotel industry have not accepted this construct. This could be a case of limited knowledge or a matter of lacking communication between all relevant participants. Even if brand value is broadly accepted, the inclusion of intangible assets on the balance sheet remains controversial, and several scholars pinpoint the uncertainty connected with the inclusion of intangibles on balance sheets (Austin, 2007). The reasons predominantly stated are the difficulty of accurately measuring the value of intangible assets and the possibility of reselling them at the measured value (Johnson & Petrode, 1998).

The research community has focused on brand equity measurement models and tools, and the appraisal of brand value is, at present, mainly in the hands of larger consultants producing value rankings published in business magazines with large audiences. Small businesses and their owners are often left aside.

4. Methodology

The research conducted focuses on several critical aspects of affiliating, which called for the use of multiple research methods in the dissertation's papers. While the main part of the research project was carried out in Sweden, not all data needed were available there, and for this reason data from the US were also used. By collecting data from a large number of hotels, statistical analyses were possible. A large set of data covering a period of 10 years provided a view of hotels' progress over the same period. The availability of operating-income statistics, which is rather unusual, added value to the results produced and the methodology chosen.

Once the performance of an entire industry was analysed, more business-specific data were needed. Insofar as a quantitative method, in this case, would not identify the more specific issues, including the various opinions and perceptions of the concerned firms, an alternative method was used. It was necessary to identify small differences, in many cases based on a hotel representative's opinion or knowledge, rather than statistical indicators. As it also concerns some sensitive information in certain cases, a more personal approach was adopted, not least to be able to identify all nuances in the perceptions and attitudes of the respondents. The respondents needed to exemplify a representative selection of important stakeholders in the hotel industry, not just hotel owners. Intangible assets and financial issues matter equally to banks, evaluators, consultants, and others with a financial interest in the industry. Consequently, respondents for all these groups were selected for the interviews. Semi-structured interviews were used to collect data for analysis.

Based on the outcomes of the first elements of the research project, presented below, a further challenge arose for the last element. A constructive approach was needed for article 7, as a problem was identified from the results above, with both practical and theoretical implications. The constructive approach has previously been used in cases where the focus has been on finding or constructing an applicable solution to a problem (Kasanen et al., 1993). The aim with the final part of the study was to create a solution to the very same problem. The methodology used was in line with a constructive approach, where a problem is identified, and a solution is developed, tried and tested and finally evaluated based on real cases.

4.1 Research Design

In the following section the various designs of each part of the research project will be presented, all in accordance with the constructive approach mentioned above.

4.1.1 Study 1

In this study quantitative analysis was performed on sample data from the U.S. as these data were gathered during a 10-year time period, which made it possible to trace individual hotels' performance over a period in time. The data collected were key performance indicators: occupancy, ADR, revenue per available room (RevPAR) and net operating income (NOI) as well as information indicating whether the hotels were independent or affiliated. Data from 51.000 hotels, in equal proportions independent and affiliated, during a full economic cycle, were statistically analysed and compared to calculate the differences in performance, with the aim of identifying whether performance differed between affiliated and independent hotels. The results derived from this research are presented in article 4.

4.1.2 Study 2

A qualitative method was used to map the current situation in Sweden regarding brand value. The results are based on interviews with 12 hotel owners, representing both affiliated and non-affiliated hotels, five affiliation companies and five representatives from banks, consultancy firms and financiers, who in distinct roles would evaluate hotels and the corresponding hotel performance and value. The questions and measures used to collect data were, where possible, based on previous research. A more detailed description is presented in article 5.

4.1.3 Study 3

Based on the same sample of respondents used in study 2, apart from the representatives from the banks, consultancy firms and financiers, the data for article 6 were collected. The selection process was in both cases based on accessibility. Substantial efforts were made to identify a sample of hotels that would represent various degrees of affiliation, ranging from independent to operating under management contracts, from franchising to joining a consortium. As the number of affiliation organisations, representing several operational concepts, is limited in Sweden, it was again a question of selecting those which allowed accessibility and also represented several forms of affiliation. The research instrument used was developed based on previous research in the area. Again, semi-structured questions were used for owners/senior managers for the hotels and the CEOs or business development directors in the affiliation organisations. For further and more detailed information, see article 6.

4.1.4 Study 4

In the fourth article, a model for measuring BVAA is developed. The methodology used here was the constructive approach. The use of the model was tested/validated using data from financial statements (income statements and general information regarding the number of rooms, star rating, and number of employees) from two hotels affiliated with consortia The BVAA was calculated as revenue over the norm attributable to the affiliation minus the cost attributable to the affiliation—the NPV of the difference, negative or positive, will be the BVAA with the inclusion of the direct investment costs related to the actual affiliation process, i.e. the cost involved in fulfilling the standards set up by the affiliation. A more detailed description is presented in article 7.

5. Articles

In the following section the article comprising the various elements of the research project will be summarized and each paper will correspond to one of the underlying objectives that collectively will contribute to the main objective of the project. The results will be summarized in this introduction, but the full articles are included.[1]

5.1 Article 4

O'Neill, J. W. & Carlbäck, M. (2011). Do Brands Matter? A Comparison of Branded and Independent Hotels' Performance during a Full Economic Cycle. *International Journal of Hospitality Management,* 30, (3), 515–521.

By analyzing longitudinal data gathered from more than 51,000 hotels operating in the United States during a full 10-year economic cycle, it is possible to draw conclusions regarding the performance of affiliated hotels compared with independent operations under various economic conditions. The results of the study indicate that while affiliated properties experience significantly higher occupancy rates over the course of the economic cycle, independent hotels experience significantly higher average daily rates (ADR) and room revenues per available room (RevPAR) during the same time phase. While affiliated hotels are faced with various payments attributable to their brands, such as royalty payments and other membership-related fees, those fees do not have a deleterious effect on net operating income (NOI) compared with NOI for independent hotels, suggesting that independent hotels are unable to bring their ADR and RevPAR premiums to the bottom line despite their savings in affiliation expenses. Instead, the results indicate similar NOI for affiliated hotels and independent hotels during economic expansions, but significantly higher NOI for branded hotels during economic recessions. The conclusion of this study suggests that the intangible asset value of hotel brands may not be a static construct, but may vary over time. Sources of such intangible value of brands attributable to affiliation may

[1] The following published articles were included in the licentiate thesis which is part of the dissertation:
Article 1: Carlbäck, M. (2008). Are the Chain Operations Simply with it? Five Aspects Meal Model as a Development Tool for Chain Operations/Franchise Organizations. *Journal of Foodservic*e, 19, (1), 74-79.
Article 2: Andersson, T. D., & Carlbäck, M. (2009). Experience Accounting: An Accounting System that is Relevant for the Production of Restaurant Experiences. *Service Industries Journal*, 29(10), 1377–1395.
Article 3: Carlbäck, M. (2010). From Cost Accounting to Customer Accounting in the Restaurant Industry. *Int. J. Revenue Management*, Vol. 4, Nos. 3/4, 403–419.

include shared resources, guest loyalty programs, and yield management systems. These results contribute insight into the complex hotel owner decision between affiliating with a brand affiliation and operating independently.

5.2 Article 5

Carlbäck, M. (2014). Brand Value Attributable to Affiliations in the Swedish Hospitality Industry, *submitted to international research journal*

This study of 12 hotels, five affiliation organisations and five financing or valuation companies in Sweden showed that the concepts of BVAA and brand equity are neither used nor measured in the Swedish hotel industry, even though the associated intangible value could make up a considerable percentage of a business's overall value. Furthermore, all participants in the study could see the benefits of using such a concept and would welcome further development in this field. The hotel owners involved in affiliation discussions would in most cases welcome an initiative to make it easier to include BVAA in their planning, strategic development and decision-making as it presently was difficult to evaluate the costs and benefits of joining affiliation organisations and to compare alternatives. As 80% the hotel owners were either affiliated to some degree or were in the process of affiliating, or were at least thinking of joining an affiliation organisation, the results indicated a lack of understanding as to what one should expect from becoming an affiliated hotel. It was a case of seeing affiliation as a cost rather than as an asset.

While the hotel owners desired tools they could use to understand the offerings, representatives of the affiliation organisations were seeking tools with which to explain the value of their offerings to potential members. Again, it was a question of being able to demonstrate the extent to which an affiliation or brand could add value to the new member and also show the difference between brands—explaining not only brand equity but also brand value.

Even if the banks, consultants and investors surveyed did find the topic interesting or valuable, they expressed concern over the feasibility of measuring or evaluating such a concept. At present, BVAA as a concept is largely ignored. The results also indicated a lack of clear definitions as to what intangible assets are and how a brand could be moved from an off-balance-sheet asset (not accounted for) to a substantial part of the balance sheet, i.e. a company's value.

5.3 Article 6

Carlbäck, M. (2012). Strategic Entrepreneurship in the Hotel Industry—the Role of Chain Affiliation, *Scandinavian Journal of Hospitality and Tourism*, 12, (4), 349-372.

The aim with this article is to identify what could make independent hotels give up their independence to affiliate—to identify factors that create brand equity seen from the affiliation members' or prospective members' perspective. This will indicate a meta-equity value insofar as traditional brand equity is based on end consumers' (guests') perception of the brand, not, as in this case, the member hotels' perceptions. Even if independence is important, there are several factors that non-affiliated hotels seek, loyalty cards being the most important, followed by the development of technical solutions, sales and marketing and social media. The results also indicated that consortia, i.e. marketing organisations or referral chains, were the preferred option.

Even agency-related aspects such as control rights affected the entrepreneurs' aspirations to affiliate, even as respondents thought their own way of running their businesses were the most efficient. The results from the research add to the knowledge associated with agency theory, strategic entrepreneurship and the resource-based view of the firm. More practically, it makes it possible for independent hoteliers to assess the current situation and decide what options could be valuable, while the affiliation organisations would be able to better align their offerings to attract new hotels, if they knew what independent hotel owners need to opt in.

5.4 Article 7

Carlbäck, M. (2017) Brand Value Attributable to Affiliation (BVAA)—an Analysis in a Consortium Context, *submitted to international research journal*

The aim with this article is to identify and measure the extent to which the financial value in the hotel industry is affected by the BVAA. Accurately calculating the value of a hotel is important for a number of parties, including hotel owners, operators, brokers, management companies, and financiers. While researchers (O'Neill, 2004; O'Neill & Belfrage, 2005) have suggested methods for appraising intangible assets within hotels and creating new frameworks for hotel valuation, it has yet to be seen if these methods work in a consortium context.

The question is primarily whether affiliation adds any financial advantages, but also the extent to which an intangible asset value is created and how this could be used in taxation, financing and other strategic decisions. Intangibles are per definition difficult both to define and to calculate and the aim with this article is to facilitate such calculations in a consortium context, as this is the least researched affiliation format today while at the same time also the preferred option for independent hotel owners seeking strategic advantages for the future.

This study produces indicative valuations that should be usable in both evaluating the benefits and costs associated with brand affiliation and as a method for separating intangibles (in this case the BVAA) from enterprise value.

6. Contribution and suggestions for further research

6.1 Contribution related to each article

The main objective of this research project (PhD-thesis) is to identify the costs and benefits of joining an affiliation company and to identify which aspects connected with affiliating affect an independent hotel owner's decision-making process concerning affiliation.

By analyzing the performance of 51.000 hotels, it is possible to draw rather firm conclusions: affiliated hotels have higher occupancy and NOI, while independent hotels enjoy better RevPAR and ADR. Apart from the fact that there is value in BVAA, it is also evident that this is not a constant factor, and hence it is treated as fixed. Rather, it will fluctuate with varying economic conditions. The independent hotels in the study were not able to bring the advantage of not paying affiliation-related fees to the bottom line. This could indicate a lack of skills, tools or methods. It could similarly indicate that affiliated hotels are run more efficiently compared with independent hotels. Even if the exact reason for this is unknown, we now know that this will add to the existing literature related to this topic.

The suggested lack of relevant knowledge, tools and models, primarily relating to independent hotels, disproportionately affects the operation of independent hotels. The study presents new knowledge regarding how independent hotel owners view the costs and benefits connected to the concept of affiliation and what financial factors normally would be affected by joining an affiliation. The industry as a whole lacks the necessary tools for taking the right strategic decisions, not least concerning efficiency. But the BVAA-based method developed in the study presents an alternative way to measure brand value to make it relevant to decision-making.

Another contribution of the study, which is less prevalent in the current literature, is the focus on consortia. The study contributes new knowledge concerning the factors affecting the trade-off between remaining independent or affiliating. Future strategic decisions taken by hotel owners, managers, investors, and others parties could draw from the study's findings. The large majority of studies address the franchise concept, giving the impression that affiliations are synonymous with franchises. While franchising will continue to be an important concept, this study shows a distinct preference for other forms of affiliations on the part of independent hotel owners. Apart from bringing consortia into the discussion, the results also provide valuable information regarding factors that interest independent hotel owners, factors that could persuade them to abandon independence and join an affiliation. Agency theory issues are recognized as valuable to the decision-making process, but the idea of permitting other parties to join a business is met with reluctance.

As any growing brand depends on recruiting new properties and members, a more transparent method for showing how membership could add value, now and in the future, could serve as a relevant tool with which to attract new partners (a B2B-perspective). The results presented in this study indicate some of the more important factors for hotel owners to consider.

The issue of definition, identification, and measurement of intangibles is discussed in the literature as a challenge to making progress regarding the treatment of intangibles. Based on the study presented here we can now see that it is possible to add to that knowledge, from a hotel context and with regard to the Swedish market. The literature stresses the vital role of intangibles, and aims to move them onto balance sheets in a constructive manner. The results derived from the study show that this concept has not been defined, identified, measured or used in the Swedish hotel industry. This could indicate the potential for improving the industry's overall ability to prosper by continuing to develop models and methods for including such a vital value in the business model.

It would not have been possible to derive the abovementioned results without a method for measuring brand value, or in this case BVAA. If we cannot measure BVAA, we will not know what benefits affiliation can bring and affiliation will continue to be treated as a cost—a more or less necessary outlay. The contribution made in the last article in this project not only includes a model on which one could base such calculations, but it is also a first step towards identifying and defining the BVAA construct in this context. The method used here was developed from previous attempts. The aspect of investment cost related to the conversion process from independent hotel to affiliated hotel has been included. As this was one of the most important factors distracting the participating hotel owners from contemplating affiliation as an option, it makes sense to include this factor in the equation.

While the model as such may be useful in a practical way, by providing a direct way to evaluate membership in an affiliation, it could also be used as a building block for theoretical developments to further strengthen how academics and practitioners could develop the thoughts and ideas around brand equity and brand value in a service context.

6.2 Specific contributions

Before summarizing this project's overall contribution, a list of specific contributions that illustrates the findings follows:

- This study shows that affiliated hotels in the US perform better at various stages of the economic cycle
- This study shows that profits for affiliated hotels in the US fluctuate less widely than profits for independent hotels under various economic conditions
- This study shows that there is value connected with affiliating
- This study shows that brand value is not static, but will vary in line with stages of the economic cycle
- This study shows that independent hotels operate less efficiently insofar as they fail to bring the advantage of not having to pay fees and royalties to the bottom line
- This study identifies factors that attract independent hotels to consortia
- This study identifies factors that discourage independent hotels from affiliating with consortia
- This study shows that there is a lack of models, tools and theoretical foundations on which hotel owners can base strategic decisions concerning affiliating
- This study shows that branding and affiliating are vital strategic decisions to consider
- This study shows that the concepts of BVAA, brand value and brand equity are rarely used in the Swedish hotel industry by all stakeholders
- This study shows , consistent with the studies on other industries, that definition, identification and measurement of brand value are virtually non-existent in the Swedish hotel industry
- This study shows that a better understanding, clearer definitions and a more accurate way of calculating BVAA could enhance the industry's potential to develop
- This study explains BVAA in a consortium context and analyses the elements of which it consists
- This study shows how to calculate BVAA in a consortium context
- We now have a model on which we can build regarding the identification of brand equity and brand value in an affiliation concept

The project has contributed knowledge regarding branding in the hotel industry in general, and in the consortium context more specifically. Apart from the detailed contributions mentioned above, which in most cases may enhance both strategic business decision-making and knowledge related to the industry, it adduces facts that could be used to develop the industry and future research. Such contributions may be applicable even from a broader perspective. Affiliations comprise all chains and consortia and a substantial portion of the issues relating to consortia would be directly transferable to chains, irrespective of differences in governance and ownership.

The main points in this respect are factors surrounding the performance of affiliated hotels and independent hotels. Even if we now know more about how their respective performance measures compare, ascertaining the full answer depends on learning more about why and how they perform differently under varying conditions.

Another main contribution off the study pertains to factors surrounding the decision to affiliate. These are important from a practical viewpoint, but possibly more important from a theoretical perspective if scholars are to further develop the concepts of brand equity and BVAA and explain how they affect each other and what could be done to control and measure this process.

If we are to see continued progress in theoretical developments, a model such as the one presented in this study for evaluating the BVAA is necessary.

6.3 Sum of the parts

This research project stems from a genuine practical problem in the hospitality world that is illustrated by the overall research question: "What are the advantages and disadvantages of being affiliated in the hotel industry?" The main objective of this research project was to identify the costs and benefits of joining an affiliation and to understand what aspects connected with affiliating would affect an independent hotel owner's decision-making process concerning affiliation. The use of a constructive approach has further developed the framework surrounding this methodology and the results indicate its usefulness in identifying and finding solutions to factual issues. [2] Throughout the research process, a constructive approach has been used as a methodology for scientifically approaching a practical problem.

[2] See licentiate thesis: "From Cost Accounting to Customer Accounting in the Hospitality Industry – a Constructive Approach", for a detailed explanation of the constructive approach.

1. The problem of evaluating the costs and benefits associated with a consortium was identified
2. A review of existing knowledge and theories was conducted to develop both knowledge and methodology
3. A framework was developed based on existing methods and current needs identified in the study
4. Based on empirical data from operating hotels the results were illustrated with the use of actual figures from two participating hotels
5. The illustration of and comparison with previous methods visualises the theoretical connections and the contribution, i.e. a comparison with already existing methods
6. The possible applications of the resulting method is presented above - a method that could be used by academics and practitioners alike

This thesis uses data from the U.S. and Sweden and presents a method for calculating such advantages and disadvantages and even in a consortia context, but the finding may be applicable to the entire hospitality affiliation structure. The findings that affiliated hotels perform better and that affiliation is the preferred option for currently independent hotels and a method of measuring the individual hotels' possible benefits contributes new knowledge that responds to the academic research question and can guide hotel owners.

Moreover, in most cases the main issue is the costs associated with acquiring a brand name, i.e. paying a company to be able to use the brand and enjoy the benefits. Only in a very few business scenarios would such transactions not happen without a clear indication of important discouraging and attracting factors and the benefits and value generated. The use of a constructive approach to address these issues has produced a road map for hoteliers contemplating affiliation and a method for calculating the value created, i.e. the return on investment. The uncertain outlay associated with affiliating can now be treated as a calculated asset, increasing firm value. By finding a standardized and widely accepted method for measuring and evaluating brand value, such as the BVAA method, the industry could initiate the process of making the value widely accepted as an asset and a natural part of the balance sheet. This could then bring visible value to hotel businesses, which then could justify decisions to affiliate or not. As value creation often is fundamental, not least in the long run for every business, its inclusion on the balance sheet is paramount. Having a standardized method available would also facilitate easier acceptance by accountants, accounting standards boards, lawmakers and tax authorities - above all, however, for practitioners in the industry. For this purpose the BVAA, as an immaterial asset, needs to be defined and classified and then generally accepted as such an asset. The BVAA method is one approach that moves scholars and practitioners in this direction.

To be sure, affiliation will not be appropriate for all hotels, every company and individual needs to be able to evaluate this and calculate the consequences.

6.4 Suggestions for further research

Based on the knowledge acquired through this research it is possible to identify new routes to take, new ideas that have been made visible and associated theoretical developments.

Comparing the economic performance of affiliated hotels and independent hotels raises several questions. The study took place in the U.S. and may therefore not represent the global industry. Similar surveys conducted across several regions and in various markets would enhance the picture and identify nuances and variations. Based on the idea that affiliated hotels perform better, an improved understanding of why this is the case could add further insights. Are there certain brands that perform better or certain brands that perform better in specific markets? Cultural factors could also have an impact. A better alignment between the cultural factors associated with affiliating and the cultural environment prevailing in a specific country or in a specific market could result in more efficient expansion. At the same time, it could prevent attempts to expand into markets that are not suitable for a company due to cultural discrepancies.

The findings derived in this study in connection with brand equity in an affiliation organisation that are relevant to both members and potential members call for further theoretical and empirical studies on how to develop a model to better link the brand equity created and projected to the resulting BVAA. Based on the theoretical idea of co-creation and the inclusion of entire marketing and distribution chains and the ideas presented by the respondents in this study, this approach could be developed through a model that is applicable from both a theoretical and a practical perspective. Brand management activities could then be increased on two levels, one directed towards hotel customers (B2C) and one towards affiliation members (B2B). This could also, with more knowledge and a tested model, be used to develop fee structures for members. Brand equity when properly calculated could justify paying the associated fees, and, to the same extent, a better contribution by members to overall brand equity (from a customer perspective) could lead to lower fees insofar as a contributing member builds brand value. The relationship between brand value and equity could benefit from a deeper understanding and better knowledge. It is evident that the two affect each other, but how? How could this knowledge be used to take better business decisions?

These factors could serve as building blocks for a model on the basis of which one could evaluate membership from a brand equity perspective in combination with the measurement of BVAA.

By taking the brand equity concept and adding the brand value concept a foundation for a new construct is developed. This could be used as a model for describing and visualising the various aspects of a brand, from a practical perspective - to encourage stakeholders in the hotel industry to accept the value associated with brand. On the other hand, it would enable more detailed studies into the relevant phenomena by further developing the relationship between brand equity and brand value, as this is an essential but often ignored connection. Such a development would gradually and persistently force the brand concept on hotel industry players and researchers, as definitions, identifications and measurements would have to be in place to facilitate further steps.

Finally, another contribution of this project is a method for extracting and measuring BVAA in a consortium context. The attempt here is illustrated with calculations for two affiliated hotels, providing a better picture of the process and presenting examples of the results that could be produced. A further empirical study on several properties would enable more generalisable conclusions to be made. By including a sample drawn from multiple affiliations it would also be possible to add knowledge about various contexts and the effect of such contexts on BVAA calculations. This would also produce an important part of the above suggested model for measuring the connection between brand equity and brand value. If investments in, or indeed enhancements of, brand equity are made, how would that affect BVAA? Without a way of measuring such value, any conclusions would be hard to make with confidence. Any strategic business decisions would be hard to make, i.e. it would be hard to decide to be or not to be . . .

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Do brands matter? A comparison of branded and independent hotels' performance during a full economic cycle

John W. O'Neill[a,*], Mats Carlbäck[b,1]

[a] School of Hospitality Management, The Pennsylvania State University, 233 Mateer Building, University Park, PA 16802, United States
[b] School of Business, Economics, and Law, University of Gothenburg, Vasagatan 1, P.O. Box 610, SE-405 30 Gothenburg, Sweden

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ABSTRACT

By analyzing longitudinal data of more than 51,000 hotels operating in the United States during the previous economic cycle, it is possible to draw conclusions regarding the performance of branded hotels compared to independent operations under various economic conditions. The results of the study indicate that while branded properties experience significantly higher occupancy rate during the different phases of the economic cycle, independent hotels experience significantly higher average daily rate (ADR) and rooms revenues per available room (RevPAR) during the same time period. While branded hotels are faced with various payments attributable to the brand, such as royalty payments and other franchise fees, those fees do not have a deleterious effect on net operating income (NOI) compared to NOI for independent hotels, suggesting that independent hotels are unable to bring their ADR and RevPAR premiums to the bottom line despite their savings in franchise expenses. Instead, the results indicate similar NOI for branded hotels and independent hotels during economic expansion, but significantly higher NOI for branded hotels during economic recession. The results of this study suggest that the intangible asset value of hotel brands may not be a static construct, but may vary by time. Sources of such intangible value of brands may include shared resources, guest loyalty programs, and yield management systems. These results contribute insight into the complex hotel owner decision of choosing between a brand affiliation and independent operation.

1. Introduction

The question regarding brand affiliation versus independent operation has been discussed and debated in the hotel industry for a long time, but the interest in the issue does not appear to wane (Bailey and Ball, 2006; Lomanno, 2010). In times when performance measurement is becoming increasingly ubiquitous and sophisticated, the need for more knowledge in this field becomes more apparent (Bailey and Ball, 2006; O'Neill and Xiao, 2006). Are affiliated hotels performing better than the independent ones, and if so, is that true in all phases of the economic cycle, i.e., in gloom as well as boom?

The aim of this study is to shed light on this heavily debated issue and to do so by using a large and unique data set to answer research questions. The longitudinal data set used here presents the opportunity to trace different hotels' performance during different economic circumstances and compare brand affiliated versus independent operations. This information should be valuable not only for researchers active in the hospitality field, but also to a large extent to industry practitioners involved in hotel development and performance prognostication. This information may not only be applicable to larger stakeholders, such as international hotel chains, real estate conglomerates, and hotel franchise companies, but also to smaller independent hotel owners or managers in need of information on which to base future strategies and projections. Specifically, hoteliers could be considering the options of remaining/becoming independent, or pursuing affiliation or alternative affiliation.

An objective of this study is to analyze how economic expansion and recession affect the hotel industry at the property level. By using the widely accepted proxies for performance in the hotel industry; occupancy (as percentage), average daily rate (ADR, in U.S. dollars) and rooms revenue per available room (RevPAR, also in U.S. dollars) (Damonte et al., 1997), this study develops a picture regarding the performance of hotel properties under different economic conditions, which based on a large data set, should be fairly representative of the industry as a whole. As the data set used for this study also includes hotel net operating income (NOI), a further dimension is added which considers expenses attributable to belonging to a chain/affiliation.

* Corresponding author. Tel.: +1 814 863 8984.
E-mail addresses: jwo3@psu.edu (J.W. O'Neill), Mats.Carlback@handels.gu.se (M. Carlbäck).
[1] Tel.: +46 031 7866187.

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The question regarding affiliation is more complex than that; and by analyzing the data covering an economic expansion as well as an economic contraction, more interesting facts should be revealed. Presenting results regarding how sensitive occupancy, ADR, RevPAR and NOI are to economic changes will bring valuable knowledge to academia and practitioners with an interest in the hospitality business.

This research should be able to pinpoint under what economic conditions hotel brand affiliation may be most important. Would branded properties perform better in prosperous times or would they hold their own better during a recession? A natural continuation of this analysis would be to identify if there are economic conditions under which brand affiliation is less important, or not important, and to establish when such economic conditions would occur. If brand affiliation is relatively less important during certain period(s) in the economic cycle, it would be beneficial to establish what drives hotel performance during those times.

2. Background

As the hospitality industry is growing, not only in size, but also in terms of sophistication and expectations of return on investment (ROI), the scene has shifted from the more traditional dominance of independent privately owned small outlets to larger multinationals and multiple brand affiliations (Bailey, 2007; Bailey and Ball, 2006; Cai and Hobson, 2004; Lomanno, 2010). Where it used to be a matter of small owner-run outlets operating in the same fashion for generations, it is now an industry where investors seek return on their invested capital, and the larger hospitality corporations now count as important and influential companies in most countries (Bailey, 2007; Imrie and Fyall, 2001; Martorell Cunill, 2006).

The independent or privately owned business has been researched extensively and it has been argued that this business format is the most efficient, due to limited effects relating to agency problems or costs (Jensen, 1983; Jensen and Meckling, 1976). More recent research has indicated that this situation might not be the case – the independent business could actually be a less effective business format as decision-making, the employee selection process, and managerial incentives are hindered by the fact that most of the power and knowledge lie within a small ownership structure (Schulze et al., 2001).

Since there appear to be differences in business practices between chain-affiliated hotels and independent operators, this study focuses on how those different business practices affect operating performance of independent versus branded hotels. Regardless, the major hotel companies are making their presence known in most markets and in most segments of the hotel industry. That puts the other party, the independent operator, in the delicate situation of having to decide whether to stay independent or to affiliate. The same question will face any new entry into the market (business owner or investor).

Hotel affiliations bring a package of useful tools for any aspiring business operator in the hotel industry. The large operations develop and maintain central reservations systems, yield/revenue management programs, cumulative purchasing power, loyalty programs, global distribution systems, brand awareness, and sales and marketing activities that independent business operators may not be able to match. These benefits come at a cost, and this cost can be considerable (Rushmore, 2001b). To operate independently presents advantages in addition to money saved on franchise royalty and marketing fees, such as giving the owner freedom to operate differently and to promote the hotel property based on its uniqueness.

It is therefore important to be aware of what a hotel affiliation yields in terms of occupancy, ADR, RevPAR and NOI and to compare those figures to the costs associated with that same affiliation. This topic has been studied previously, though the effects of economic conditions on these important performance metrics have not been previously considered (O'Neill, 2004; O'Neill and Belfrage, 2005), and the results from this study should bring some more substantial information that could be used for further theory development.

3. Theoretical framework and hypotheses development

Branding is becoming more and more important (O'Neill and Mattila, 2004), not just in the hospitality business. It has been argued that Statler's old axiom "location, location, location" could now be replaced by "flag, flag, flag" as the three most important factors for a successful hospitality operation (Taylor, 1995). The expansion and importance of brands and branding is evident in all segments of hospitality, from small take-out food and beverage outlets to large multinational hospitality organizations. The increased importance of branding is also notable in the academic literature, where research has been presented from several disciplines which may be valid in other industries or contexts. In the marketing literature, for example, branding and related questions are heavenly debated and researched and a lot of the knowledge gleaned from that research could be applied to the hospitality industry, as well. Brand is being treated more and more as an asset (Tollington, 2002), and there is now an issue regarding how to define brand in the correct accounting manner (Standfield, 2005).

In the hospitality literature, research has been carried out to attempt to identify the value of the brand, which would be a part of the firm's intangible asset value (IAV) (Mard et al., 2002; Anson, 2001; O'Neill, 2004; O'Neill and Belfrage, 2005). This research stream has dealt with the issue of actually measuring the value of the brand while subtracting brand-attributable expenses from brand-attributable revenue. It is important for many stakeholders in the hospitality industry to be able to define and calculate brand value. The calculation of hotel brand value constitutes a foundation for decision-making between different hotel brands. However, it is also important to be able to estimate whether hotel affiliation is warranted, during different economic circumstances. Hotel brands are expected to add value to individual hotel properties due to their global distribution systems, loyalty programs, and name recognition, all resulting in relatively higher operating volume for the individual hotels affiliated with the brand. Such benefits should accrue to branded hotels during both economic expansion and recession because previous research has concluded that, in general, branded products and services capture a larger market share than unbranded ones (Szymanski and Busch, 1987). Therefore, we make the following hypothesis:

Hypothesis 1. Branded hotels will have significantly higher occupancy levels than independent hotels under all economic conditions.

Hotels with certain attributes, such as unique locations or historic value potentially could manage well on their own without brand affiliation (Rushmore, 2004), and particularly may be able to generate rate premiums due to their uniqueness. It is therefore important for every owner/manager to evaluate the expense of affiliation because it can be quite costly at times (Rushmore, 2001a,b). It is also a question of whether the affiliation fulfils the need of the individual business owner (Carlbäck, 2008). Previous research regarding national versus store branded products concluded that consumers are willing to pay more for products they perceive as being unique and having a distinct personality (Beldona and Wysong, 2007). Due to the relative perceived uniqueness and personality of independent hotels, they should be able to drive both average daily rate (ADR) and rooms revenues per available room (RevPAR), and we make the following hypothesis:

Hypothesis 2. Independent hotels will have significantly higher ADR and RevPAR levels than branded hotels under all economic conditions.

Some research indicates that affiliated properties perform better than unaffiliated ones, and that the size of the property will influence its performance, as well (Damonte et al., 1997). Contradicting research suggests that independent hotels may perform better (Mieyal Higgins, 2006). This contradiction makes the question regarding how the two different groups actually perform even more paramount, a topic to which this study is able to contribute. We believe that such studies may reach different conclusions based on the time period of study. Previous research regarding national versus private branded products concluded that the state of the economy affects consumer decisions regarding whether to purchase national versus private label brands, with consumers switching to private label brands relatively rapidly after the end of economic recessions (Lamey et al., 2007). This previous research also concluded that the intensity of organizational marketing can have a significant effect on such consumer decisions (Lamey et al., 2007). We believe that during periods of economic recession, when travel and lodging demand decline, the support systems in place at brands, including their global marketing programs, distribution systems and guest loyalty programs, will be particularly beneficial to branded hotels, resulting in relatively greater profitability for those properties during those times. Therefore, we make the following hypothesis:

Hypothesis 3. Branded hotels will have significantly higher NOI levels than independent hotels during economic recessions.

Consistent with the previous hypothesis, we believe that one way to account for the contradictory conclusions in previous research regarding branded versus independent operations is based on economic conditions. That is the reason, as previously discussed, that we have focused our research on a full economic cycle. We believe that, in general, due to the previously discussed uniqueness and variability in independent hotels, they are relatively riskier business enterprises that should be expected to have greater variability in their revenue and profitability indicators during all economic conditions, but that such variability will be most noticeable during periods of economic recession when independent hotels are not benefiting from the consistency of hotel brand managerial, distribution, and promotional systems. Earlier research has shown that branded hotel properties are superior in terms of producing higher sales revenue and gross operating profit which is explained by a powerful combination of brand name and professional management services (Brown and Dev, 1999, 2000), something that is more important during a recession, when strategies and management are more crucial. A brand with excellent customer loyalty should be able to ensure a smoother transition in between different economic conditions (O'Neill and Mattila, 2004). Therefore, we make this final hypothesis:

Hypothesis 4. Independent hotels will have greater variation in occupancy, ADR, RevPAR, and NOI than branded hotels during economic recessions.

4. Method

4.1. Proxies for performance

To be able to make valuable analyses regarding each hotel's performance throughout the economic cycle, the following key indicators have been selected as proxies for performance: Occupancy percentage, average daily rate (ADR), rooms revenue per available room (RevPAR) and net operating income (NOI). The first three variables are widely accepted as important in previous research in this context (Brown and Dev, 1999; Damonte et al., 1997). With the addition of NOI, this set of data will provide a more complete picture regarding hotel performance, including profitability, during a relatively long time span.

4.2. Economic cycles

To define the different phases during the economic cycle, this study relies on economic indicators from the B.E.A. (Bureau of Economic Analysis – U.S. Department of Commerce) and B.L.S. (Bureau of Labor Statistics – U.S. Department of Labor), obtained for the same time span as the data regarding hotel performance. The following key indices have been selected to identify the fluctuations in the economic cycle:

- GDP (Gross Domestic Product) – the output of goods and services produced by labor and property located in the United States (BEA, 2009).
- Personal Income and Outlays (BEA, 2009).
- Employment (BLS, 2009).

These same variables have been used to evaluate economic trends in several previous economic analyses and reports regarding the historical and anticipated macro nature of the U.S. hotel industry (PricewaterhouseCoopers, 2009).

The widely used definition from U.S. National Bureau of Economic Research (NBER) defines an economic recession as: "a significant decline in economic activity spread across the country, lasting more than a few months, normally visible in real GDP, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales."

This definition is widely accepted by economists in most countries as a valid way of defining a recession. Attempts have been made to combine several of these indicators to one single forecasting tool for the hospitality industry (Choi, 2003). However, we believe that although it is beneficial to consider the relevant economic statistics in aggregate, it is also worthwhile to consider each statistic individually.

4.3. Sample

The sample for this research project included a data set regarding 51,991 hotels located in all 50 United States and Washington, DC. The data were graciously provided to us by *Smith Travel Research* and included performance data for the full economic cycle of 2002 through 2008. There were between 125 (Rhode Island) and 5505 (California) hotel properties from each state, and 115 hotels from Washington, DC. A total of 29,418 of the hotels were chain affiliated (56.6%) and 22,572 were independent (43.4%) operations.

Chains were defined according to the *American Hotel & Lodging Association* as three or more hotels operated under a single brand name (Bailey and Ball, 2006; Rushmore, 1992).

Chains were represented by between one (because all data were not provided for all chain-affiliated hotels) and 2039 hotel properties for each chain. Due to the confidential nature of the data, the actual brand names of the individual hotels were not revealed to us, but rather were coded with unique numbers for each brand. Hotel operating data represented the years 2002 through 2008. Therefore, we analyzed economic data for the same time period. Specifically, we obtained economic indicators from the *United States Bureau of Labor Statistics* (for employment data) and the *United States Bureau of Economic Analysis* for other data. Those data, presented as Table 1, indicate the years 2002 and 2008 as being recessionary years. Notably, those are the only 2 years during our study period that overall U.S. gross domestic product (GDP) increased less than 2%, average personal income increased less than

Table 1
Economic indicators.

Year	Gross domestic product (GDP) (billions)	GDP change (%)	Average personal income	Personal income change (%)	Average personal outlays	Personal outlay change (%)	Employment (thousands)	Employment change (%)
2001	$11,347.2	–	$8,883.3	–	$7,443.5	–	136,933	–
2002	$11,553.0	1.8%	$9,060.1	2.0%	$7,727.5	3.8%	136,485	-0.3%
2003	$11,840.7	2.5%	$9,378.1	3.5%	$8,088.0	4.7%	137,736	0.9%
2004	$12,263.8	3.6%	$9,937.2	6.0%	$8,585.7	6.2%	139,252	1.1%
2005	$12,638.4	3.1%	$10,485.9	5.5%	$9,149.6	6.6%	141,730	1.8%
2006	$12,976.2	2.7%	$11,268.1	7.5%	$9,680.7	5.8%	144,427	1.9%
2007	$13,254.1	2.1%	$11,894.1	5.6%	$10,224.3	5.6%	146,047	1.1%
2008	$13,312.2	0.4%	$12,238.8	2.9%	$10,520.0	2.9%	145,362	-0.5%

Sources: United States Bureau of Labor Statistics for employment data; United States Bureau of Economic Analysis for other data.

3%, average personal outlays increased less than 4%, and employment levels declined.

In summary, we conclude that 2002 and 2008 were economic recession years, and 2003 through 2007 were expansion years. We evaluate those years as such in our subsequent analyses. Specifically, to analyze differences between the performance of branded and independent hotels during each of those years, we applied t-tests evaluating the equality of the means.

4.4. Data and analysis

This study made use of raw data and not survey scales. Data were provided to us by *Smith Travel Research*. Operating data, including occupancy percentage, average daily rate (ADR), and rooms revenue per available room (RevPAR) were provided for 51,991 hotels for 2002 through 2008. In addition, we were able to obtain profitability data, i.e., net operating income (NOI) regarding 5827 of the hotels. Hotels had an average of 92.5 guest rooms and 6436 of the hotels (12.4%) were all-suite properties, 2817 (5.4%) were extended-stay properties, and 12,088 (23.3%) operated full-service food and beverage facilities. For 2008, hotel properties reported a mean occupancy of 58.9%, ADR of $91.88, and RevPAR of $55.97. Also, properties reported mean NOI of $2,524,991 for 2008. We found branded hotels, on average, to be larger than independent hotels in terms of number of guest rooms ($F = 38.643$, $p < 0.01$). We found no significant differences between branded and independent hotels based on hotel type or service level. Data were analyzed and hypotheses were tested using t-tests as described in detail in the following section.

5. Results

Branded hotels operated with significantly higher occupancy rates than independent hotels during all years of study, 2002 through 2008, as expected. Therefore, Hypothesis 1 was supported.

Independent hotel operated with significantly higher average daily rate (ADR) and room revenues per available room (RevPAR) than branded hotels during all years of study. Thus, Hypothesis 2 was supported.

There was no significant difference in net operating income (NOI) between branded and independent hotels between 2003 and 2007, i.e., each hotel type performed similarly in terms of profitability during years of economic expansion. However, in 2002 and 2008, the years of economic recession, branded hotels had significantly higher NOI, as expected. Therefore, Hypothesis 3 was supported.

These results are summarized in Table 2.

We analyzed Hypothesis 4 using Levene's test. Levene's test is an inferential statistic used to assess the homogeneity of variances in different samples. It tests the null hypothesis that the variances are equal. If the resulting p-value of Levene's test is less than some critical amount (typically 0.05 or 0.01), then the differences in sample variances are unlikely to have occurred at random. Thus, the null hypothesis of equal variances is rejected and it is concluded that there is a significant difference between the variances in the population. Independent hotels had significantly greater variances than branded hotels in occupancy, ADR, RevPAR and NOI in all years (2002 through 2008), as presented in Table 3.

Independent hotels had higher standard deviations than branded hotels in occupancy in all years (2002 through 2008), ADR in all years, and RevPAR in all years, indicating greater variability in all revenue indicators for independent hotels during all economic time periods. However, independent hotels had a higher standard deviation in NOI than branded hotels in 2008 only (a recessionary year). In all other years, 2002 through 2007, branded hotels had a higher standard deviation in NOI. The differences in the standard deviations in 2008 were as expected, while the differences in 2002 were not as expected. Therefore, because our hypothesis predicted only the most recent recession and did so only for profitability (NOI), Hypothesis 4 was only partially supported.

We conducted regression analyses to evaluate whether certain brands provided a more acute financial benefit to their hotel properties than other brands during the most recent year of data, 2008. We found that within branded hotels, the individual brand was a significant predictor of occupancy ($F[1,25185] = 12.452$, $p < 0.001$), ADR ($F[1,25185] = 18.270$, $p < 0.001$), and NOI ($F[1,5340] = 51.299$, $p < 0.001$), and that brand had a trend effect on RevPAR ($F[1,25185] = 3.777$, $p < 0.10$). In other words, in addition to whether or not an individual hotel is brand affiliated, the actual brand affiliation itself is one of the factors that predict the financial success of hotels.

6. Discussion

The results of this study suggest that the intangible asset value of a hotel brand may not be a static construct, but may vary by time. In particular, our research appears to indicate that hotel brands may be most valuable to hotel properties during periods of economic recession and the actual brand may create a relatively high intangible asset value for the particular hotel. This conclusion is consistent with previous research indicating that the power within the hotel brand and the organization behind the brand would bring advantages to the business (Damonte et al., 1997), but the results presented here indicate that this advantage may vary within the economic cycle and is possibly most notable when the economic climate is relatively harsh. Different explanations could exist regarding exactly how hotel brands may create this value for their member properties. One explanation could be that hotels under the same brand umbrella may share resources providing them with economies of scale and superior cost control compared to independent properties.

Table 2
Summary of results by year.

Year	Variable	All hotels	Branded hotels	Independent hotels	Significant difference
2002	Occupancy	57.4%	58.2%	52.4%	*
2003	Occupancy	57.3%	58.1%	52.2%	*
2004	Occupancy	60.0%	60.7%	54.3%	*
2005	Occupancy	61.9%	62.5%	56.3%	*
2006	Occupancy	62.2%	62.8%	57.1%	*
2007	Occupancy	61.8%	62.2%	57.8%	*
2008	Occupancy	58.9%	59.1%	56.2%	*
2002	ADR	$71.77	$69.44	$86.39	*
2003	ADR	$72.16	$69.56	$89.75	*
2004	ADR	$73.58	$70.76	$96.50	*
2005	ADR	$78.32	$75.18	$105.58	*
2006	ADR	$84.12	$80.52	$117.78	*
2007	ADR	$89.47	$85.45	$129.39	*
2008	ADR	$91.88	$87.63	$139.36	*
2002	RevPAR	$42.38	$41.47	$48.13	*
2003	RevPAR	$42.61	$41.53	$49.91	*
2004	RevPAR	$45.54	$44.26	$55.95	*
2005	RevPAR	$49.99	$48.48	$63.15	*
2006	RevPAR	$53.99	$52.16	$71.11	*
2007	RevPAR	$57.16	$54.91	$79.58	*
2008	RevPAR	$55.97	$53.59	$82.51	*
2002	NOI	$2,001,888	$2,070,979	$1,305,267	*
2003	NOI	$1,729,521	$1,754,234	$1,500,964	
2004	NOI	$1,802,547	$1,820,775	$1,584,909	
2005	NOI	$2,175,745	$2,192,124	$1,976,732	
2006	NOI	$2,512,873	$2,540,689	$2,163,657	
2007	NOI	$2,759,977	$2,754,747	$2,819,842	
2008	NOI	$2,524,991	$2,528,029	$2,491,519	*

* $p < 0.01$.

The guest loyalty associated with hotel brands, including the brand loyalty programs, also could be important to consider regarding how hotel brands create value for their member properties. The loyalty programs in combination with the possibility of more commercial accounts negotiated at the corporate level could ensure a relatively more consistent occupancy for the branded properties during recessionary time periods when both business and government customers are seeking value and consistency.

The results for branded hotels could be a function of more effective yield management on their part, a tool which could be more sophisticated in branded operations, as the parent companies/franchisors possess greater resources and power to develop and implement such technologies. With a well-designed yield management system, branded properties may be better positioned to handle fluctuations in the demand curve and may be quicker to identify opportunities to enhance the rate structure in order to maintain occupancy at an acceptable level. This could possibly explain the fact that the independent hotels are experiencing higher ADR and RevPAR than branded hotels, as their management systems may allow lesser flexibility in adapting their pricing structure to prevailing demand and trends, i.e., they do not have the mechanisms or tools to quickly change their pricing structure in accordance with fluctuations in demand. While branded organizations present their members with sophisticated revenue management tools that allow them to align room rates with demand in the market, independent operations may remain more static in terms of prices offered, even if the demand is low. By this, the branded operations could ensure a better flow of guests if the market is slow, and hence a relatively higher occupancy level at all times.

Table 3
Test of homogeneity of variances.

Year	Variable	Levene Statistic	df1	df2	Significant Variance
2002	Occ.	76.257	1	18,716	*
2008	Occ.	70.158	1	27,440	*
2002	ADR	1,025.385	1	18,716	*
2008	ADR	1,895.866	1	27,440	*
2002	RevPAR	684.228	1	18,716	*
2008	RevPAR	1,447.322	1	27,440	*
2002	NOI	8.956	1	3,755	*
2008	NOI	4.921	1	5,825	*

* $p < 0.01$.

A higher occupancy, albeit at lower room rates could be beneficial to properties offering an array of auxiliary services, increasing the possibility of additional income, such as F&B, spa, entertainment, etc. Branded hotels will then have the possibility to earn extra revenue in the other departments, by promoting those other services, thereby supplementing the reduced income from guest rooms. This supplemental income could affect NOI in a positive fashion during recessions. An operational challenge with such ancillary revenue is that it tends to be relatively less profitable than room revenue, requiring operators to generate significantly more ancillary revenue than room revenue to generate the same NOI.

One important issue in a scenario as the one described above could be that while independent hotels are maintaining higher rates relative to branded hotels (as indicated by their ADR and RevPAR) during recessions, this situation could present a problem for branded hotels when the economic indicators become more favorable, as branded hotels will have relatively more ground to make up to increase rates (and consequently ADR and RevPAR) to pre-recessionary levels without negatively affecting occupancy (Lomanno, 2008). Certain leisure travellers and the business sector with contracted rates could be relatively price-sensitive and inflexible demand segments.

We found evidence that branded hotels are not only relatively more profitable during economic recessions, but that the variability of their profit, i.e., risk, may be lower during recessions, as well. A branded hotel would therefore be a less risky investment, as its business plan may be relatively easier to develop, due to lesser fluctuations in operating performance during economic recessions. In the quest for attracting equity investment, these results present support for the importance of having a brand name to buttress the application for new or additional funds for acquisition, expansion, or possible affiliation.

At the same time, it is entirely possible that independent hotels could be a satisfactory or even superior investment to branded properties if they operated with effective cost control systems, particularly during economic downturns. Perhaps the average independent hotel operation is relatively slow to forecast and react to declines in lodging demand, and to adopt retrenchment tactics during recessions, such as by reducing labor costs. This situation may be typical of family firms.

We also found that while brand affiliation matters in general, the individual brand matters, as well. This finding is consistent with previous research which found differential performance by hotel brand (O'Neill and Mattila, 2004), where the corporate strategies for the brand play an important part in the development, growth, and success of the brand. Previous research has suggested there to be a trade off in terms of hotel brand corporations focusing on rapid growth in number of hotels versus brands focusing more on guest satisfaction (O'Neill and Mattila, 2004). Even though the aim of this study was not specifically to differentiate between various brands in terms of hotel unit operating performance, the results suggest that actual brand affiliation affects individual hotel unit performance.

7. Managerial applications

Our research discovered very few potential downsides to hotel brand affiliation. Although independent hotels, in general, achieve higher ADRs and RevPARs than branded ones, we found no evidence that typical independent hotels are able to bring this revenue advantage to their bottom line. Even though branded hotels have extraordinary expenses in terms of franchise fees, royalty fees, reservation fees, marketing fees, guest loyalty program fees, and possibly other fees associated with their brand affiliations, it appears that such fees result in no significantly deleterious effects on their bottom line. On the other hand, typical independent hotels may operate with relatively higher expenditures in some areas at the property level, such as for sales, marketing, and promotional activities. As a result, there appears to be no significant difference in NOI for branded versus independent hotels, except during recessions, when it appears that branded hotels are more profitable.

The relatively limited fluctuations in the operating performance of branded hotel properties, especially during recessions, should improve planning, budgeting and cash flow projections, but also be an advantage when it comes to financing, as the operation would appear less risky to the potential investor. From a strategic viewpoint, it would be beneficial for any manager or owner of an independent hotel to be aware of the findings presented here as a basis for future decisions. An affiliation could lead to lower ADR and RevPAR, but may also smooth out operating performance during recessions. It would be important to consider both the potential for enhanced operating performance and the royalty payments and other fees for the brand affiliation to fully evaluate the potential benefit of brand affiliation. These quantitative analyses would then have to be weighed against other aspects of being affiliated, such as potential loss of independence and flexibility. Rushmore (2004) pointed out several attributes that could make independent operations preferable for a given hotel, including unique locations or special features. This research project should add another perspective to the complexity of owners and managers choosing between operating a hotel as an independent property or to affiliate with a brand.

8. Limitations and suggestions for future research

As with any research, the results of this study should be interpreted with caution. First, this study used Smith Travel Research data which are confidential. Therefore, it is not possible for us to know the actual brand names that are represented. However, Smith Travel Research possesses the most complete data regarding U.S. hotel operating performance. Virtually all hotel chains with U.S. operations (including all of the major chains), as well as a significant number of independent hotels (as evidenced herein), provide revenue data to Smith Travel Research. In addition, many of these properties provide profitability data on an annual basis, as well. The sample presented here represents the most complete data set available for this type of research. In this case, we have sacrificed knowing the individual hotel identities for having completeness of data.

This study is limited to the United States. While it is beyond the scope of this study, future research regarding hotel branding should include non-American locations and could compare the results in different countries. As the issue of brand affiliation in the international hospitality industry stems from the U.S. to a large extent, and most of the brand-related research in the hospitality field has been conducted with American data, future research should identify whether other geographic markets, notably markets where U.S. brands have a large influence, are experiencing similar results and trends. One aspect could be to identify whether brands from different cultural environments (such as different countries/cultural heritages) would show similar results in a study of markets with a large presence of international brands. For example, one future research question could be: Would the brand's country of origin affect the brand affiliates' performance in markets outside the country of origin and would this performance vary under different economic conditions? Could it be, for example, that brands of a certain national origin are better suited for a particular market than others such as to produce relatively strong performance in all phases of the economic cycle?

9. Conclusions

Our research illustrates the importance of hotel brands in general, and particularly during periods of economic recession. While independent hotels generally appear to operate with higher ADR and RevPAR than branded ones, branded hotels typically operate with higher occupancy levels. More importantly, while there does not appear to be any significant differences in NOI between branded and independent hotels during periods of economic growth, branded hotels appear to achieve significantly higher NOI than independent hotels during periods of economic recession. Further, independent hotels may be relatively riskier business ventures because in general, they have greater variance in all revenue indicators, and also, they may have greater variance in NOI during recessions. Though the Smith Travel Research data do not allow researchers to draw definitive conclusions regarding the potential for independent hotels to operate more profitably, it is plausible that with improved cost controls, they could do so.

It appears that branded hotels, perhaps based on more sophisticated managerial tools, can sacrifice higher room rates during recessions to achieve higher occupancy and profitability. Brand matters, and brand seems to matter more when times are bad because brands may reduce the volatility of the business and present a less risky investment. Brand also matters as a driver of the business value itself, as the intangible asset value in terms of the brand name may be evident through this research. It appears that the intangible asset value may not be static, and this knowledge should further add to the already complex discussion of identification and assessment of intangible asset value in the hospitality industry.

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Strategic Entrepreneurship in the Hotel Industry: The Role of Chain Affiliation

MATS CARLBÄCK

School of Business, Economics and Law, University of Gothenburg, Gothenburg, Sweden

ABSTRACT *The aim of this paper is to identify why independent hotels decide to affiliate and give up their highly valued independence. Based on interviews with 12 independently owned hotels and five affiliations active on the Swedish market, it became evident that independence is important, but factors such as development with technical solutions, internet, the use of smart phones, social media, sales and marketing, central purchasing and loyalty cards are difficult to pursue as an independent hotel. The results also showed that marketing organisations and referral chains are the preferred options, as their offerings are more in line with the view of strategic entrepreneurship that the hoteliers expressed. Even agency-related aspects such as control rights affected the entrepreneurs' aspiration to affiliate, at the same time as the respondents thought their way of running the business was the most efficient. The results from the research add to the knowledge associated with agency theory, strategic entrepreneurship and resource-based view of the firm. More practically, it gives the independent hoteliers a possibility to assess the current situation and decide what options could be valuable, while the affiliations would be able to better align their offerings to attract new hotels.*

KEY WORDS: hospitality industry, strategic entrepreneurship, affiliations, growth, hotels, Sweden

Introduction

To be or not to be affiliated is a much discussed and debated topic in today's hospitality industry. Both for restaurants and hotels, the presence of chains, affiliations and franchise operations, both smaller and larger, are becoming increasingly dominant. While the industry for centuries has been dominated by small-scale businesses, often run by a family, it is today evident that this trend is changing (Rushmore, 2001a, 2001b). With the growing importance of different types of affiliations, the market is developing as independent family firms are being incorporated in these larger organisations for reasons such as growth and development, or just to survive in times when the competition is becoming fiercer. As the trend to affiliate in the hospitality sector is increasing, it creates a contradicting situation. On the one hand, the independent

Correspondence Address: Mats Carlbäck, School of Business, Economics and Law, University of Gothenburg, Vasagatan 1, PO Box 610, SE-405 30 Gothenburg, Sweden. E-mail: mats.carlback@handels.gu.se

family firms are supposed to be the most efficient form of running a company (Abdel-latif, Amann, & Jaussaud, 2010; Astrachan, 2010; Jensen & Meckling, 1976) and on the other hand, a large part is affiliating to enhance the performance potential for the future. Why is that? Why are the family firms in the hospitality sector affiliating, and what exactly are they looking for when they choose to give up their freedom and independence to become a part of something much bigger?

Growth is one aspect, development could be another. In many advanced economies, the affiliations are taking a larger part of the market, while many independent businesses find it hard not only to grow and develop, but also just to survive (Scoviak, 2007). Statistical data from the Swedish Hotel and Restaurant Owner's Association (SHR) available at www.shr.se indicate an increase in affiliated hotels at the same time as the affiliated hotels show better key performance indicators such as occupancy, average daily rate (ADR) and revenue per available room (RevPAR) (SHR, 2010). O'Neill and Carlbäck (2011) find that affiliated hotels experienced better occupancy and net operating income than the independent hotels during a full economic cycle (O'Neill & Carlbäck, 2011). The affiliations could then be seen as growth and development triggers for hotels with a growth perspective.

On the other hand, if one sees the family-owned hotel as an efficient business format and the owners perceive the business as a lifestyle, the inclusion of affiliations could be more complicated. Different types of entrepreneurs would pursue different things resulting in various strategies. Getz and Petersen (2005) identify different types of entrepreneurs, like "craftsmen", "lifestyle entrepreneurs" and "growth and profit-oriented entrepreneurship" (Getz & Petersen, 2005).

The issue of affiliation could in many ways relate to the mindset of the entrepreneur, based on whether the business owner is a lifestyle entrepreneur or a profit and growth-oriented entrepreneur. Webb, Ketchen, and Ireland (2010) describe the process as a balancing act for the entrepreneur. An act of exploiting the opportunities at hand or exploring new possibilities (Webb et al., 2010).

The objective of this paper is to examine the reasons why independent family owned-firms in the hospitality industry would affiliate and give up the freedom and independence that is often perceived as being so important for entrepreneurs. The aim is also to identify if the chains and affiliations are offering what the hotels want. The theoretical contribution is to develop the ideas around the concepts of strategic entrepreneurship, lifestyle entrepreneurs, agency theory and resource-based views of the firm in a hospitality context. The more practical knowledge is better understanding of growth and development possibilities for the individual hotel. Can I do it myself or, based on my situation, would I be better off in an affiliation? And, in the opposite perspective, how could the affiliations enhance the membership to attract new members and create a better product for current members and therefore strengthen the brand name?

Background

In the literature relating to development and growth in the hospitality industry, the importance of affiliations is a key issue (Anson, 2001; Bailey, 2007; Bailey & Ball, 2006; Damonte, Rompf, Domke, & Bahl, 1997; Imrie & Fyall, 2001). Hence, it could be identified as an important aspect in the discussion of strategic choices for anyone in the business, not only independent hotels, it could also be a pertinent question for affiliated hotels looking to re-brand. In either way, it will be a trade-off between different values important to the owner/manager and the possibilities offered.

As the impact of affiliations is gaining momentum globally, this is also the case in Sweden, where both the restaurant and the hotel industry are experiencing new companies, both globally famous multinationals and more local chains, all growing organically in the domestic market. As this study is focusing on the Swedish hospitality industry the current situation is best projected by using statistical data from the SHR (Visita) (SHR, 2010). Table 1 illustrates the situation in Sweden, where the chains are grouped together in three groups, while the marketing organisations or referral chains are presented individually.

As a comparison, Table 2 shows the independent hotels for the same period, and it is evident that the chains and affiliations produce better occupancy, ADR and RevPAR in most cases. This factor could partly be explained by the performance, but it could also be due to the fact that most of the chains are established in the major cities and tourist destinations where the possibilities are better – with higher demand and a generally higher price level (Damonte et al., 1997). At the same time, the independent hotels, often under family management, will dominate the market in smaller towns and villages, where the potential is considered too limited or the challenges too demanding for larger firms to invest in. While the RevPAR for the smaller hotels (up to 25 rooms) is EUR 25, the chains can report a RevPAR which is exceeding EUR 55 for the same period. The independent hotels have an occupancy level of 39.2% for 2009, compared with just over 60% for the chains and 41% for the marketing organisations and referral chains. As an example, an international name like Best Western reports occupancy for their hotels of 49.3%, substantially above several of the other organisations.

For various reasons, the affiliated hotels appear to be doing better on the Swedish market. This is in line with the results O'Neill and Carlbäck (2011) found in a study of more than 50,000 hotels in the USA. Still, according to statistical figures from Visita (SHR, 2010), the independent hotel segment is by far the biggest in Sweden, even if we combined the chain hotels and the entities belonging to marketing organisations/referral chains.

The affiliated hotels produce better results compared with independent hotels, not only in Sweden, but still a large part remains independent, without brand names and the benefits and obligations associated with such. Is this a choice made by the owners/managers based on other values or are there other factors behind it?

Theoretical Framework

Figure 1 gives an overview of the theoretical discussion that will follow. The questions of affiliation in the hospitality business can be discussed based on several aspects and from various perspectives. In this theoretical review, some of the more common ones are reviewed, but the content is not intended to be exhaustive.

There is obviously a cost perspective imbedded in the selection process associated with affiliation. The cost could make the prospects less attractive. Rushmore (2004) has, in his detailed study of the phenomena on the American market, compared the

Table 1. Characteristics of hotels in affiliations in Sweden, adapted from SHR (2010) (amounts in Euro).

Affiliation	Hotels	Rooms sold	Occupancy % 2009	Occupancy % 2008	ADR 2009	ADR 2008	RevPAR 2009	RevPAR 2008
Group 1[a]	63	3,659,781	59.1	61.6	115	121	68	73
Group 2[b]	80	5,412,887	65.9	67.0	103	108	67	70
Group 3[c]	108	4,637,806	56.1	58.2	91	93	51	54
Ditt Hotell	54	777,060	44.8	46.5	81	80	35	36
Sweden Hotels	28	393,397	42.0	38.3	88	84	37	32
Best Western	68	205,3231	49.3	51.1	94	95	46	23
Svenska Möten	101	258,7285	37.2	40.5	126	128	46	51
Countryside Hotels	44	643,985	38.3	40.8	128	122	48	48
Norrhotell	6	129,387	34.5	37.9	92	88	31	32

[a]First Hotels, Rezidor SAS, Grand Hotel Holdings, Nordic Hotels (with partners), Elites.
[b]Scandic Hotels, Sheraton, Rica Hotels (with partner hotel).
[c]Norlandia, Choice Hotels, Accor Hotels, Amica Konferens, Sodexho.

Table 2. Characteristics of independent (non-affiliated) hotels in Sweden (Adapted from SHR, 2010) (amounts in Euro).

No. of rooms	Hotels	Rooms sold	Occupancy % 2009	Occupancy % 2008	ADR 2009	ADR 2008	RevPAR 2009	RevPAR 2008
0–25	815	3,295,498	31.2	33.1	82	80	25	26
26–50	350	3,835,231	36.4	37.5	87	87	31	32
51–100	185	4,233,715	41.1	43.1	90	90	37	39
>100	843	4,696,317	48.1	50.5	99	101	47	50

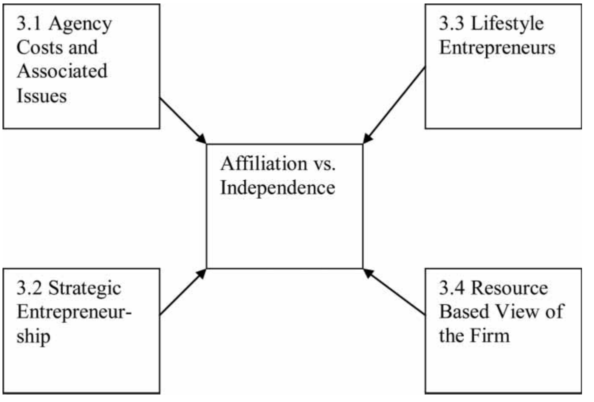

Figure 1. Illustration of the theoretical overview used in the research project.

fees applicable in comparison to the cash flow generated and concluded that great caution must be taken and careful calculations must be done in order to establish the feasibility of joining an affiliation, as this is not just a ticket to success. The non-monetary costs (loss of freedom, increased control and administration) could be outweighing the benefits.

Agency Theory and Associated Issues

In the hospitality industry, most of the independent firms are family owned, and family-owned firms are often perceived as the most efficient form of enterprise set-up, and will under normal circumstances perform better than non-family businesses (Abdellatif et al., 2010; Astrachan, 2010; Astrachan & Shanker, 2003; Jensen & Meckling, 1976). One valid explanation for this is the agency perspective (Jensen, 1983; Jensen & Meckling, 1976) as the constellation for a family-owned firm per definition will lack many of the issues relating to agency cost and agency problems. Schulze, Lubatkin, Dino, and Buchholtz (2001) challenge this theory as the family business will face other problems and issues that could make it less efficient than non-family firms. The agency costs arise when the interests of the firm's manager are not aligned with those of the firm's owner(s). It could be perks, shrinking and making self-interested decisions (Ang, Cole, & Wuh Lin, 2000). These costs are limited by how well the owner can control the costs and/or delegate to a third party, such as banks or affiliations, to monitor the spending and decision making of hired managers/external parties.

The agency-related issues could explain several of the reasons behind an establishment's decision to remain independent. In many cases, it could cause conflicting situations when an independent company, possibly family owned, is letting other parties into the business. It could be financing, where the entrepreneur has ideas, or a venture that already exists and the investors have money but no ideas (Hart, 2001). As the venture capitalists and other investors always look for opportunities in fast growing businesses, the hospitality business could be far more attractive to this type of financing in the days to come. Studies in America show an increasing activity in this kind of developments (Scoviak, 2007). Consequently, the financing part and its related agency problems could be one reason to stay independent, as the mode to affiliation in several cases could be dependent on investments to fulfil the requirements set by the affiliations. By avoiding this scenario, the business owners will retain full control and not let parts of their business into the hands of others.

Even though affiliating could be a step towards growth/development, other important aspects could surface, more or less all based on the principal agency theory (Astrachan, 2010; Eisenhardt, 1989; Jensen, 1983; Jensen & Meckling, 1976). With all affiliations, this problem will occur, regardless of set-up. The affiliations would require access to information from the member, even in the case of marketing organisations. Franchise chains, on the other hand, will ensure a complete control of most business aspects and in all cases the owner will have to let go of some of the control (Axberg, 1996). This could cause problems, not only for the business owner, but also for the affiliation, as the flow of information could be asymmetric and decisions based on such information could be biased.

The affiliation options will invariably involve agency costs, which could affect the value of the firm (Jensen & Meckling, 1976), even though affiliations also could add value to the firm, intangible asset value, according to American research (O'Neill & Xiao, 2006). The agency cost should in this case be offset by increased value, created by flying the flag of a well-known brand. American research has pointed this out in several cases, although it is not widely used in other markets (Damonte et al., 1997; O'Neill & Carlbäck, 2011). As the flag in itself is becoming more important, this relationship becomes more of a focal point. But the more research shows that the previous notion that no agency costs exist in a private, family-run firm has been challenged and therefore must be taken into consideration (Schulze et al., 2001). They argue that a family-run business may incur agency costs, often comparable to those of non-family firms. The family firm could be affected by cost associated with adverse selection, hiring the wrong staff and with recruitment taking place within the family, poor access to information and other factors affecting the performance.

In relation to agency theory, it is also important to mention the stewardship theory (Astrachan, 2010); while the agency theory assumes individualism, the stewardship theory assumes collectivism. Independent hotels with a business culture more biased to the individualistic approach would view affiliation different from a firm with a more collective culture.

Strategic Entrepreneurship

The term strategic entrepreneurship has been described as: exploring future business domains while exploiting current domains (Webb et al., 2010). This presents a vital and difficult question to most business owners and entrepreneurs. The trade-off between focusing on what one has got, exploiting, and potential possibilities, exploring would be part of any business owner's agenda. Obviously, the question of affiliation would be part of the equation – to exploit the possibilities and remain independent or to explore new domains with the help from an association.

This would be relevant in the hotel owner's evaluation of strategies for the future. By using strategic entrepreneurship, i.e. to find out the mix between exploration and exploitation, the strategies could be more well-grounded. While most of the research associated with strategic entrepreneurship has been based on publicly traded firms (Ireland & Hitt, 1999; Ireland & Webb, 2007), Webb et al. (2010) apply the discussion to family-owned firms, like the situation would be in the hospitality industry, and suggests the following approach to ensure strategic entrepreneurship: (1) developing an appropriate mindset for the firm; (2) finding balance between exploitation and exploration; and (3) continuous innovation.

The first point refers to developing a mindset that will allow a balance between short- and long-term objectives (Webb et al., 2010), i.e. where the independent hotel owner will have to decide what way to go, both in the near future and in the long run. The actual decision of affiliation will be part of the process, as this would entail growth, development and strategic decisions of similar magnitude. As parts of this, Webb et al. (2010) also propose to find a balance between exploitation and exploration. Would the firm have enough competitive advantage to build on in their current situation or would it be necessary to take new measures to be able to keep this in the future, short and long term? The competitive advantage is an important factor in the hospitality industry and something to build strategies on (Oh & Kim, 2004).

Part of the above-mentioned process would be, for the independent firm, to identify four important dimensions, in order to find out suitable strategies (Webb et al., 2010). It will be important to establish the *identity* of the firm, i.e. values and tradition, which could hinder any affiliation plans. The question of *justice*, based on the outcome, will have to be analysed. Are the efforts put in equal to any outcomes? This could be a difficult task for an independent hotel with external staff. Thirdly, *nepotism* is related to the above and also part of the discussion earlier regarding adverse selection. If the independent hotel is family owned, it could lead to a certain aspect of nepotism in the company, where the family members are treated differently when it comes to promotions and hiring. Finally, *conflict*, or conflicting situations that could occur in the firm need to be addressed. While an independent hotel could be used to conflict handling within its own sphere, new constellations, such as affiliation, could put this issue under new strains. All these dimensions need to be identified in order to develop the mindset and find the balance between exploitation and exploration. The last part of Webb et al.'s (2010) description of strategic entrepreneurship is continuous innovation, something very applicable to the fast moving hospitality business. Not least on the technological front, there seems to be a great evolution closely connected to the use of social media, smart phones and the internet. In this case, it is easy to anticipate that the large, multinational firms have an advantage in the development of innovations, backed by financial muscles and with departments dedicated to such tasks.

A study by Siguaw, Enz, and Namasivayam (2000) shows different adoption of technology with a comparison between chains and independents, where the chains are quicker and more efficient to adopt (Dittman, Hesford, & Potter, 2009; Siguaw et al., 2000). On the other hand, there was no significant difference between chains and independent hotels regarding guest and service strategy priority; thus, both affiliated hotels and independent hotels apply the same efforts and techniques as far as service to the guests go (Siguaw et al., 2000). The chains focus a lot more on the issue of employee efficiency, compared with the independent (Ottenbacher & Gnoth, 2005). This is also noted in a British study where focus was put on the fact that independent mid-market hotels are set to face considerable competitive pressures, especially in the UK, where both corporately owned branded hotels and branded budget hotels are strong (Imrie & Fyall, 2001). Imrie and Fyall (2001, p. 64) also conclude that

> . . . pressure within the wider hotel industry are such that some commentators recommend that operators of independent mid-market hotels either sell to a hotel chain, alter the portfolio characteristics of their product, manufacture economies of scale or simply do nothing and wait for the inevitable.

On the other hand, to do it alone demands adapting to an ever-changing world and business climate with propriety development of know-how, technology and efficiency. In comparison to other industries, the tourism and hospitality industries have traditionally been relatively slow on the uptake of new information technologies (Christian, 2001). It is even harder for small to medium-sized independent companies to stay on top of the developments. This will not only be limited to these issues, because as the strategic decisions are already made for the independent hotels, i.e. size, number of rooms, etc., the independent business owners need to aggressively search for new markets and services (Brown & Dev, 1999).

Lifestyle Entrepreneurs

A study in the USA showed that individual hotels produced better profit than did the outlets belonging to various chains (Mieyal Higgins, 2006). According to the survey, the individuals could hold their own business and did not, to the same extent, depend on ups and downs in the economy. A more recent study of more than 50,000 hotels in the USA indicated that affiliated hotels presented better occupancy and profit under economic prosperity as well as in a recession (O'Neill & Carlbäck, 2011), while the independent showed higher ADR and RevPAR. Based on these findings, it is fair to ask: would there then be any reasons to join an affiliation, or would it be like paying money to give up freedom and independence?

It would all depend on the reason behind every independent business. It could be the goal of building something for the family, which in a study of family businesses was ranked highly (Andersson, Carlsen, & Getz, 2002). The same study also concluded that the top goals for owner-managers were challenge/stimulus, business opportunity, lifestyle and long-term financial gains (Andersson et al., 2002). Hence, there could be stronger forces driving the independent business owner than just money, such as way of life, social life, working together as a family, enjoying work, freedom, etc., which cannot be neglected in this discussion. In the study by Andersson et al., several of the business owners agreed with the statement that "enjoying the job is more important than making lots of money" and they would rather keep the business modest and under control, than too big.

Getz and Petersen (2005) write that it is important to find the motivational factors for independent business owners, in the study based on family-owned firms in the hospitality industry (Getz & Petersen, 2005). The literature, they argue, supports the argument that growth is frequently not desired, nor achieved, among family business owners. It could be that growth is hard to achieve, due to lack of capital, and might be avoided due to higher risks, more work and more debt (Getz & Petersen, 2005). If business owners are autonomy-oriented, growth could be less valuable than achieving a consistent living (Smith, 1967).

Researchers continuously divide the entrepreneurs or independent business owners in the hospitality industry into different categories like "non-entrepreneurs", "constrained entrepreneurs" or "true entrepreneurs" (Getz & Petersen, 2005; Shaw & Williams, 1990). The first two enter the business scene for reasons like lifestyle or semi-retirement, while true entrepreneurs can find finance outside the family and have innovative management skills.

Resource-based View of the Firm

The decision of affiliation will depend on many factors, of which several have been discussed above. It is also paramount to take a closer look at the resource-based view of the firm (Astrachan, 2010; Astrachan & Shanker, 2003), which argues that firms achieve and maintain a competitive advantage based on a combination of tangible and intangible recourses (Moores, 2009). This is again pertinent to the research about the question of independence versus affiliation. What are the resources that exist in the independent hotels today and what resources could be difficult to muster within this environment?

If the independent hotel would like to retain its competitive advantage or find opportunities to create such an advantage, an internal due diligence process would be required to identify what resources are at hand, what resources could be developed inside the firm or what resources would come with affiliation (Oh & Kim, 2004).

It is possible for the independent hotel to add resources to the current ones, but the question is if this would be feasible, in a financial perspective, or if the prospect of affiliation better would solve such an issue. Another option in the hotel industry, for the firm with limited resources, could be outsourcing (Espino-Rodríguez & Padrón-Robaina, 2004; Lamminmaki, 2006). If the hotel owner thinks that the hotel does not have the capabilities to develop a competitive advantage with, for example, F and B, then such an option could be an alternative (Lamminmaki, 2011).

Method

The study was done in two parts – interviews with 12 privately owned hotels, representing different sizes and degree of affiliations, from the completely independent hotels to affiliated hotels (Table 3). These hotels were all located in the southern part of Sweden, based on logistical reasons, and the interviews were performed during winter 2010. The other part consisted of interviews with the other part – the affiliations – to establish what they had to offer and what level of restrictions and control they would impose on the affiliated businesses. Five organisations were included in the interview and again ranging from the fully fledged chains all the way to the more liberal organisations (Table 3).

The sample selection process for the privately owned hotel was based on the intention of having a clear representation of outlets from various cities, regions, categories

Table 3. Distribution of hotels in the research project and of type of organisation and affiliation.

Participants				
Affiliation	Type of affiliation			
1	Sales and Marketing affiliation			
2	Sales and Marketing affiliation			
3	Chain with Lease, Franchise, Management Contracts and Own units			
4	Chain with Lease, Franchise, Management Contracts and Own units			
5	Chain with Lease, Franchise, Management Contracts and Own units			
Hotels	Rooms	Affiliation	Location	Rating
A	100–150 rooms	A	Town centre	4 stars
B	150–200 rooms	A	Town centre	4 stars
C	50–100 rooms	M	Town centre	3 stars
D	50–100 rooms	M	Town centre	4 stars
E	<50 rooms	I	Town centre	3 stars
F	<50 rooms	I	Seaside, village	3 stars
G	100–150 rooms	M	City centre	4 stars
H	100–150 rooms	M	City centre	4 stars
I	100–150 rooms	I	Town centre	3 stars
J	100–150 rooms	M	City centre	4 stars
K	50–100 rooms	I	Town centre	3 stars
L	50–100 rooms	I	City centre	4 stars

Note: I, independent; M, marketing and sales organisation; A, affiliated.

and star rating in the southern region in Sweden, where the majority of the population lives. This was in many ways restricted due to the reluctance of several business owners to participate in a survey like this, based on "lack of time", "this information is only intended for me and my company". Eventually, the sample was distributed in such a way that it fulfilled the author's ambition of a good selection of representing hotels that could reflect the hotel industry in Sweden. The hotels that opted to participate in the survey did so with the intention of participating fully; hence, a complete set of answers were obtained from the hotel owners and consequently all interviews were valid and could be analysed and constitute part of the results. The respondents were either the owners of the hotels or direct representatives of the owners, i.e. family members.

As for the organisation, seven major players on the Swedish hospitality scene were identified as representing various degrees of rigidity, i.e. from marketing organisations to more or less full franchise organisations. Two of the organisations declined to participate in the survey, stating reasons such as "secret business strategies" and "lack of time" as reasons. The remaining five organisations represented a satisfactory selection, based on some of the most important and dominating players in the market, regarding each and every segment of the affiliation aspect. Therefore, no further approaches were made in order to increase or alternate the selection process. All respondents from the organisations were officers in a position to give proper and well-grounded answers – two CEO's and three sales and marketing directors/business developing directors.

The initial contacts were made via telephone, followed up by a formal e-mail, stating the objectives and goals of the survey. In a second step, every participant was presented with structured questions based on positivism interviews to be able to gather facts for standardised interpretation. The questionnaires were controlled and did not really allow too much of a deviation from the subject and questions at hand. The questions were sent out before the actual interview and, where applicable, saved both time and effort for the interviewee as well as the researcher. By this method, the interviews should then present easily comparable results and hence scrutinised for validity and reliability. The interviews were mainly conducted in the respective hotel or in the head office/ sales offices of the participating organisations. Each interview took around 1 h for the hotel owners and 1.5 h for the chains/organisations, and was always done with the author and one representative for the organisation/business. The questionnaires were filled out during the interview and additional notes duly taken and all interviews transcribed after each and every interview.

Results

A majority of the participating hotels were actually belonging to some kind of organisation, with the less controlled marketing organisations like Countryside Hotels and Sweden Hotels as the most frequent options. There were also two instances in the survey where the hotels actually had left similar organisations, due to inefficiency and "The affiliations do not offer enough activity" as one hotelier put it (hotel E).

The results showed that the marketing organisations or referral chains are the preferred alternative for privately owned hotels. The answers from the owners were here aligned: "I would very much like to keep my individuality, my independence and still be able to run my own business", "I do want the regular guest to recognize themselves and not feel lost because my staff has the same uniform as the staff in the hotel they stayed in last month".

Three of the 12 participating hotels considered the ongoing cost of affiliation, fees and royalties to be the most important issue, rather than the initial cost to fulfil the standards set by the chain or organisation.

> If I was looking to affiliate I would probably not be doing as well financially as I expected, but then I would never be able to afford the costs imposed by the bigger chains or franchise organisations to fulfil their requirements. This would clearly break me financially. It is a bit of a catch 22 situation,

said hotelier C, who, in financially difficult times, had looked for alternatives to improve business. The majority of the hotels (10 out of 12), on the other side, thought that royalties and fees were less of an issue, even if either the affiliated or the chain hotels not really measured or calculated the actual benefit of being part of a larger organisation.

The individuality and independence were the two predominant factors, and the reason to affiliate was much dominated by one issue: the sales and marketing channels. More or less every hotel in the survey considered the physically added guest, i.e. guest booked in by the chain's central reservation system or via the organisation's loyalty scheme, as the main reason to affiliate. This was also used by organisation 1 as the main point of attracting new member hotels to the organisation.

> As we always are on the look-out for new members and the few potential ones we can find are often rather hesitant about the prospect of belonging to a chain or organisation, we try to emphasise on the improved sales and marketing channels,

said the president for this organisation, who also stressed that it is rather difficult to find prospective new members due to the fact that "they do not want to be controlled or subjected to at lot of management control systems". A long-term increase in the number of guests staying as a result of the affiliation was of a lesser importance. Partly because it was very hard to measure and partly as it was very hard to establish this fact in relation to other activities that were taking place within the firm.

"The loyalty card is very, very important and the single most important factor in choosing affiliation. It is not something an independent hotel can create on its own and a very important factor, especially for guests travelling on business", was the comment from the owner of hotel D, who only took part in the affiliation's loyalty scheme, not the rest of the activities. The representative for organisation 4 indicated that potential new hotels always put issues like the loyalty card on top of the agenda and

> this is something that we easily can offer and put in place for any new hotel. It is also impossible for an individual hotel to develop a loyalty card on its own. This is one benefit with the chain that we can communicate to the hotel owner with ease, while the other tools and control systems are a lot more difficult to sell.

Other factors that could be of importance for an independent hotel owner's decisions to join an affiliation are outlined in Table 4.

To remain independent, in terms of decision making, was undoubtedly the most important factor for the hotel owners in the survey who did not affiliate or had chosen the less rigid options via referral chains or marketing organisations.

Quotes like

> Money is important, but this is more a way of life, I have to do it my way, or rather in the family way, otherwise it is not worth it. I would not give up my freedom for the possibility to join a chain and make some more money (F).

A common factor for all participants in the survey, for both the independent hotels and the organisations and chains, is the notion of efficient development of management and administration tools for future progress. The chains and organisations use this as a marketing and selling proposition, apart from the more tangible factors like loyalty card

Table 4. Rating of important factors for individual hotel owners when considering affiliation.

	Not important	Important	Very important
Increased efficiency	12		
Management control	12		
Finance	12		
Marketing	10	2	
Sales			12
Loyalty card			12
Brand value	2	8	2
Know how	12		

and brand name. As mentioned above, the hospitality industry is facing a challenging future, but also very promising prospects if one can adapt to the development, i.e. be aware of and make use of the ongoing development. The representative for organisation 1 said that

> The management tools and control systems are sensitive issues when talking membership/affiliation as the hoteliers want growth/efficiency/control but not necessarily in the way that the chains and organisations offer them. On the other hand, they cannot develop the versatile and efficient systems themselves, so here we clearly have a conflict in the way we think.

Every single unit in the survey concluded that the difficultly in remaining independent and free from any ties lies in the possibility or rather lack of possibility in following and developing tools and systems for more efficient and more "tuned in" management in the future. The cost of developing and maintaining systems is daunting, but the pure know-how is also a challenge for the individual hoteliers. The most important factors pointed out by the participants are outlined in Table 5.

One of the hotel owners (hotel H) in the survey concluded that

> The development of systems and tools is crucial and will be even more so in the future as the trends are certainly changing, with more people booking via the internet and the fact that more destinations will be part of more exciting destination packages in the future. The businesses that fail to be part of these emerging trends will face a very hard future indeed.

The same owner also stressed the importance of central purchasing as vital for "being able to keep the profit margins in the future".

Representative of organisation 4 indicated,

> The tool and systems are being more and more efficient and sophisticated and the difference between those who are using and developing it (chain hotels) and the

Table 5. The importance of tools and information for owners of independent hotels.

	Important	Not important
Efficient and up-to-date IT systems	4	8
Revenue and yield management systems	1	11
Control systems	3	9
Trends and industry analysis	2	10
Difficulties to become part of a package	4	8
Central purchasing	10	2
Sales and marketing activities on a larger scale	5	7
Strategic alliances	6	6

> ones who are not using or developing it (independent hotels) could lead to greater discrepancies in efficiency and performance over the years to come.

The general public's increased travelling has made the guests more conscious and demanding and the acceptance of less professional solutions and offerings will decrease. One of the hotel owners (hotel G) expressed this well, "We would like to offer a homely feeling, without giving the impression that we are home made". "The whole process from the web site, via reservation and all the way to the control systems needs to be efficient, well developed, and easy controllable", said the representative for organisation 3.

A major issue for any business, with the intention to grow or expand, is financing and the means of doing this. All 12 participating hotels did not see equity finance as an option. Any financing for expansion or development should derive from own capital or debt financing. The reason for this was having to give up the control rights of the family or privately owned firm to external investors. This would contradict the idea of running a family business – possibly this could be depending on the culture or mentality in each and every country. Equity financing was not viewed as an alternative among the participants in the survey. "I want to keep the control over my business and I do not want anyone else telling me what to do", was the view of one of the hotel owners. Another one stated, "To work in partnership or in a constellation with different owners would only lead to trouble and internal disagreements". Structural business models and long-term plans as a base for financing were also something scarce in the community of private hotel owners. The decisions, even important strategic business decisions, were more based on a gut feeling (Alma, 2007) than facts and relevant business calculations.

> I like to do things my way, and I always see external interference as a route to problems in the future. I cannot have someone from the outside telling me what to do with my business, it just would not work,

said the owner of hotel D, a family business with two hotels in the portfolio and with some plans for expansion. "Expansion and growth will have to be done with money generated within the company, normal debt financing or not at all". Organisations 1 and 2 were not so involved in the finance part for the individual hotels, but the answer from the three other organisations was very much in line with organisation 3's statement: "We can consider all types of financing, i.e. the best possible one for every single transaction. We are not stuck at all to one standardised formula or solution". Consequently, the type of financing options the affiliations would offer to new members in order to upgrade to required standards is a less favoured option.

One important factor for several of the hoteliers for not expanding or not even contemplating expansion or growth was the time restrictions. On the question if employing a manager would incur unacceptable and unjustifiable costs, the response was almost "No, costs attributable to hiring an external manager is not an issue". The problem perceived by the hoteliers was much more focused on the "This is my business, only mine and I do not want too much interference in what I do" issue.

One of the participants (hotel H), who had passed the first crucial step and let the control go, as the company had several outlets, did not perceive diminishing control as a problem. The hotelier, who had passed this step, did not view the issue of agency cost when employing managers as a relevant factor.

A major role in the process of choosing a business partner and business form will be based on the notion of agency cost. Very few (2/12) of the participants in the survey recognised any agency cost at present, mainly due to the fact that the interviewees run the businesses themselves and hence did not incur any such cost. On the other hand, 10 out of the 12 identified the potential of the cost, even though it was more attributable to a less efficient running of the business in the hands of an agent than anything else.

> I know exactly how to run this business and I know what to buy, what to charge and the number of staff to have on every shift and that is efficiency. It would take an employee many years to develop such a feel for the business as I have gathered over the years,

as the owner of hotel F said. This very much summarises the comments from all the participants with the exception of the one hotelier who managed to grow and now was running three hotels.

Concerning shrinking, all the participants agreed that this was not on the agenda and no decisions would be based on this. Hardly any of the hoteliers would see this as an issue of importance. "Shrinking could obviously happen, but that would not go unnoticed for a longer period of time", was the comment from one of the owners (hotel L). Another described the situation like this (hotel K): "I, as the owner, have good control of the business, and any issues of shrinking could only be very limited and with limited effect on the result". Two of the five organisations were aware of this issue, but did not put any weight on the problem. "There might be cases of shrinking and other similar issues, referred to as agency cost, but they are probably negligible or very minor", said the representative of organisation 3. And the representative for number 5 indicated: "The control systems and other tools are effectively sorting this out".

The question of adverse selection for the family business was considered neither a problem nor a relevant issue. Nine of the respondents thought that the family members hired for the managerial duties were the best for the task and more qualified or better suited persons were not, generally speaking, to be found externally.

"I think the best suited one will come from within the company. Family members that have grown up with the business, know the business and the culture of the firm", said one of the hoteliers (I), who had members of the family in key positions. Another respondent (C) answered in a similar fashion and added: "If the family member is not the best suited, or indeed is not ready, there would not be a problem to go externally to find that employee".

In this survey, it became very evident that the notion of BVAA (brand value attributable to the affiliation) was neither used nor very well known in the industry. Very few of the chains used this measurement, and those who did, did so to a very limited extent. For the individual hotels, this measurement was more or less non-existing. But equally interesting was that the interest for, and the perceived need for a formula or possible way to calculate and compare this value was great. "It would be of great value to be able to compute the BVAA in decision making if the alternatives could be evaluated in a more common and broadly used way", said 11 of the 12 hoteliers. One of the representatives of the chains commented (C): "It would be great to be able to put an actual value on the flag we are trying to sell to individual hoteliers".

This leads to the question if the family firms actually are run most efficiently with a family member or if the hoteliers are biased and hence affected by this mentality. This question, raised by Schulze et al., goes beyond the scope of this paper, but it would be worthwhile looking into this issue in further studies. However, in this study, 10 of the 12 participants indicated that they could see no disadvantages with being run as a private, individual or family company, rather the opposite. The notion was accepted by the owners, as they all answered that "their" way of running the business was the most efficient. "Nothing can beat the fact that the owner runs the place", said the owner of hotel C. As this answer was aligned between all interviewees, it clearly marks an interesting situation. The owners of private hotels, and indeed other firms in different branches, see the family-run business as the ultimate business format and that has to be compared against the other sides' (organisations and other interested parties) perspective – that more is needed to produce growth, efficiency and productivity.

Discussion

The results from the study presented above identifies several aspects affecting the decisions to affiliate or not, and also various alternatives if the prospect of affiliating seems to be the preferred option. For clarification, the points will be presented in the same order as above.

Agency Theory and Associated Issues

Agency cost was one of the perspectives identified as factors behind decisions like affiliation or independence. While the respondents did not naturally accept such problems, the results indicated their existence. The main issue that surfaced was the independent hoteliers' focus on control rights – as the participants did not want to give up their control of the company to another party. Not even if this could lead to growth and increased profit potential. Any financing required, besides normal operating activities, such as refurbishment or maintenance, would have to come from the company's own coffers or possibly debt financing arranged by a bank or other financial institution. The independent hotel owners/managers would not accept financial solutions from affiliations as this would imply decreased control rights (Tollington, 2002).

Also related to agency issues, the hoteliers were reluctant to let other professionals into the business, such as area managers and affiliation representatives. As they expressed an opinion that they knew the business inside-out, they did not regard external intrusion as something positive, neither for the firm, nor for the owners themselves. This could again make affiliating more difficult, as any chain or organisation accepting a hotel into its organisation and granting them use of the brand name would have a certain degree of control and a say in strategic decisions. The participants in the research did not accept, as suggested by some researchers (Schulze et al., 2001), that family-owned, independent firms would be subject to unique agency costs – such as adverse selection and problems to keep track with more general developments. On the contrary, they had a unanimous view that the business format they operated under was the most efficient, as the control was more or less total, much in line with earlier findings (Jensen, 1983; Jensen & Meckling, 1976).

Affiliations were in most cases described as a costly option, mainly based on investments needed to fulfil all requirements and less based on the royalty payments, the latter something Rushmore (2001a, 2001b, 2004) identified as a major obstacle. Any decision to affiliate would be scrutinised in terms of cost and possible benefits associated with such an affiliation. The notion that the brand name or flag could add value was not known and generally accepted among the hoteliers in the study. On the other hand, the affiliations seem to, in most cases, create a BVAA that most of the hoteliers are not aware of. Here is obviously a gap that clearly, if solved, could be advantageous for both the affiliations, the affiliated hotels and the individual hotels.

Strategic Entrepreneurship

Also, the results indicated a clear presence of strategic entrepreneurship among the Swedish hoteliers, similar to what Webb et al. (2010) suggested. The majority had a clear picture of what to exploit from the current situation at the same time as a lot of thought was applied in finding ways of exploring new domains, new ways and new methods. Usually, this was expressed as finding new alternatives for marketing and sales efforts or more technical innovations, or explorations of currently available systems, mainly related to the use of the internet, social media or smart phones. The prevailing mindset among most of the owners was to focus on exploitation of the current unique situation, and enhancing this by adding a certain level of exploration, again in sales and technical development. As most hoteliers expressed a desire to remain free from too exhaustive ties, imposing control and transparency, the issue of marketing organisations and referral chains surfaced as the preferred option for most of the respondents.

The hotel owners in Sweden seem to be very clear of their identity of their firm, both present and future. As most of the hotels were family owned, this was the identity that dominated and was expressed as something to build on for the future – as a contrast to all mainstream, corporate chain hotels dominating several sectors of the market. Even regarding justice, the owners/managers had a clear perception – justice is important, primarily to guests and employees. This could probably be explained to a certain extent by the fact that most of the hotels were run by families and the clientele was to a degree regulars and more or less known by the staff/family. It would also be natural to apply the justice concept within the organisation as the people employed are family dominated and the atmosphere is more family style than corporate. Nepotism, on the other hand, appears to be frequently occurring among the hotels, again based on the large family involvement. As the respondents did not view adverse selection as a problem and preferred to recruit within the family, one could cautiously draw the conclusions that hotels similar to the ones in the survey, often family run, are favouring the family, something that could lead to a conflicting situation in association with affiliation.

The chains would require a more open recruitment process and demand "the best man/woman for the job". This could in many cases be an obstacle for hotels looking to affiliate, as the family dominance would diminish, something the respondents in the survey did not view as an option. This will go hand-in-hand with the dimension of conflict. While, much like families at home, the hotels have clear ways of sorting out conflicts in a family-oriented manner, the issue of having an area manager from an affiliation bringing in new situations with potential conflicts could dramatically upset this situation – developed conflict-solving methods could be worth very little when new forces would come in to the equation. The main issue with the strategic entrepreneurship discussion for the hotels in the survey was maintaining innovations. Not only did the respondents stress this as a very difficult task for independent hotels to muster, it also became clear that this is where the chains fill an important gap. The technical innovations are moving fast, so is the use of internet, social media and smart phones, and we have only seen the beginning of Customer Relationship Management (Wu & Li, 2010), Environmental Management Systems (Chan, 2011) and Corporate Social Responsibility (Bohdanowicz & Zientara, 2008).

The international chains can also draw from intelligence gathered on other markets and implement these trends and factors early on in participating outlets, while the independent hotel will often have to follow suit once it is already in place in the market (O'Neill & Mattila, 2010). As the chains and organisations are offering all the above solutions and tools in neat packages, it will be more and more difficult for hotels without unique features (Rushmore, 2001a) to try to cope with these demanding challenges.

With the loyalty card, the respondents in the survey unanimously stated that this is one area where affiliation is almost the only option, and this could be enough to sacrifice all other important issues, such as independence and individuality. It is, as they say, hard to develop a loyalty card based on one hotel or a couple of hotels. Likewise, it is hard to drive more sophisticated solutions. If the current development with social media, internet, loyalty issues and technical innovations continues, a majority of the hotels will indicate a possible move to affiliation, in one form or another.

Lifestyle Entrepreneurs

Further, as Rushmore (2004) states, an individually owned outlet, which is affiliating, might lose some, if not all, of its independence, and this could be devastating for a family-owned business, where the business is more "a way of life" than just a money spinner (Rushmore, 2004). Rushmore (2004) suggests other ways to improve business, if that is necessary, without giving up so much independence, where hiring consultants could be one example. However, most of the respondents stated loss of independence as one important issue in the decision process.

The study shows that while the participants are entrepreneurs and looking for growth opportunities, an equally important aspect is the lifestyle, way of life and the possibilities to look after the family, financially and by means of offering employment. This is also in line with previous research where the goals for family-dominated tourism firms are presented (Andersson et al., 2002).

The results also support Andersson et al.'s (2002) findings that running these hotels is about so much more than money. The participants would not give up their independence and work satisfaction to make much more money. A possible affiliation must not compromise on this and again, this could hinder any potential affiliation, at least with the more regular chains. Some of the marketing organisations could partly offer independence to a more or a lesser degree, while still offering some of the advantages sought after by the growth-striving hoteliers.

As Getz and Petersen (2005) write, it is important to find the motivational factors for independent business owners, and in this study limited growth is desired, but not easily achieved. Consistently with that, the hoteliers in the survey find growth difficult to achieve, mainly due to lack of capital, but they do not avoid it due to higher risks, more work and more debt (Getz & Petersen, 2005), as growth is on the agenda. This growth should on the other hand be achieved with own finance or regular debt finance, not equity finance as will be described later. The hoteliers in the survey could best be described as autonomy-oriented, as growth came second to independence at the same time as they fit the definition of "true entrepreneurs" and not the other groups associated with relaxed lifestyle and semi-retirement.

Resource-Based View of the Firm

Finally, a majority of the respondents in the survey stated that they possessed the resources within the company, necessary to achieve profitability and also growth and development, mentioned in previous research (Astrachan, 2010; Astrachan & Shanker, 2003). But in two distinct cases, innovation and sales and marketing (mainly electronically), they appeared to lack enough internal resources to keep phase with the branch in general.

Even if they consider themselves to have a competitive advantage based on the fact that they are independent, and not mainstreamed, they accept that several factors could be hard to tackle for a small, often family-run company. Then the competitive advantage could be turned into a competitive disadvantage – when the independent firm lacking basic functions often related to development within social media, internet marketing and the use of smart phones.

The independent hotel also finds it very difficult to stay on top of more traditional sales and marketing activities such as driving loyalty through the use of loyalty cards and the possibilities associated with the data bases collected from such cards. Even management control systems and efficient strategic decision making could be a challenge for the smaller, independent hotel, but such tools were less sought after.

Limitations and Suggestions for Further Research

The results from the study should, like all research, be interpreted with caution. Although some of the major theoretical perspectives have been empirically tested, the results are based on hotels in one country. And even if the results clearly point in certain directions, it could only be anticipated that the findings here are applicable in other markets, even if an educated guess would be that the results could be used with good results on similar markets, i.e. smaller, advance economies. The results become more interesting, based on the fact that the part of the Swedish hotel sector that is affiliated is, percentage wise, relatively large, compared with other European markets, even though the results indicate a reluctance to affiliate. A similar study in other advanced markets could therefore indicate an even stronger reluctance under current circumstances.

The results present a foundational building block, both in theory and in practical application, which could be used to further build the knowledge base associated with these theoretical perspectives in a hotel context and its effect of affiliating. In this study, the important factors associated with affiliating were identified on the Swedish market, which is an important market, but not representing the global hotel market. Further similar studies, with focus on other markets and regions, would produce more valid results for different markets or regions.

It could also be the case that different affiliations would work better on certain markets, while others would not be successful in some markets, due to various circumstances. Would the cultural values associated with the affiliation and the brand it is representing affect the performance and should these factors be taken into consideration when selecting an affiliation? A study into the transparent and hidden values of the different affiliations and their suitability to various markets could add valuable knowledge and enhance the strategic decision making. A longitudinal study of hotels that have made the transformation from independence to affiliation could further strengthen the argumentation related to what alternatives would be the best in different cases.

Based on the results from this study and with the intention to further develop the knowledge about strategic entrepreneurship associated with affiliations, it would be advantageous to, in more detail, study the role of consortium, marketing organisations and referral chains, as they seem to be the preferred option for independent hotels seeking possibilities for competitive advantage. One aspect would be to look at to what extent the fees and royalties payable to a marketing organisation matches the benefits offered. Another would be the question as to what extent all members in a marketing organisation are pulling their weight, or is it a case of some "locomotives" moving the brand forward and a lot of "wagons" simply following and ripping the benefits produced? Further, it would be advantageous to analyse more extensively the factors driving the value of the brand for the affiliation, in terms of attributes that create a stronger and more valuable brand name and consequently affiliation.

As affiliations are, and probably will be, an important part of the business strategies in the hospitality business, it could be beneficial to measure and be able to communicate the actual BVAA, in a straightforward and presentable way. The current perception that privately owned family firms may be the most efficient way to run a business could be tested empirically. The result of this research clearly shows that the perception among the business owners themselves supports earlier research that it is one of the most efficient ways: Therefore, it would be very interesting to challenge this, based on the more resent American research (Schulze et al., 2001).

Conclusions and Managerial Applications

The results from this study have advanced the knowledge on how various theoretical ideas are affecting the hospitality business in an affiliation context. The agency-related issues are affecting the decision to affiliate, in a sublime way – independence and control rights are of paramount importance. And both strategic entrepreneurship and resource-based view of the firm are closely connected to the individual hotelier's ability to take the right strategic decision. It is clearly evident that all these theoretical ideas are, and will, affect the hotel industry.

Even though independence is more important than growth, the question of affiliation is always on the agenda for independent hoteliers in Sweden – to join, leave or possibly change flags. By using the findings presented here, the implications associated with affiliation are easier to understand and consequently to deal with. The factor of independence versus the benefits of affiliating would have to be dealt with on an individual hotel owner basis, where the importance of agency issues, financing, available resources, preferred strategies and personal or family-related issues will have to be evaluated for their own merits. It is a matter of finding the right balance between personal values and more business-related strategies. As the results indicate a preference for independences, the individual hotel owner with ambitions must go through the factors presented here and draw conclusions based on the findings. As most of the current literature and research point in a direction where the larger companies will grow in importance, it will be even more important for any hotel owner to know and act on issues related to this factor. Large organisations with muscles have an advantage to develop a loyalty card, sales and marketing channels, managerial tools and systems, something the independent hotelier will not be able to do. But this will come at a price – less independence and a fee and royalty structure that will not be acceptable for all, and in many cases rather complex and complicated to compute and understand in advance. The results show that the entrepreneur must identify ambitions and mind set and then choose strategies based on this analysis. What is the preferred option for one, might not suit the next one.

The results show that the solution might be marketing organisations and referral chains, where they could get assistance with some of these factors, without losing too much of their sought after independence. Most of them are after all in the business for other reasons than growth, development and money. With a better understanding, based on the results presented herein, the strategic decision-making process could be enhanced and lead to better decisions being taken. To what extent are we exploiting our current competitive advantage and what would be the best way to explore new alternatives? This could possibly be achieved with affiliation, but then some of the independence could be lost, which is perceived as important, and control rights could be jeopardised.

From the affiliation's perspective, it would be advantageous to understand what the independent hotels want – i.e. to keep the independence and control, at the same time as they need help in many aspects of development. It is therefore paramount that current affiliations pay attention to these facts, otherwise new and innovative affiliations will take the opportunity to enter the market based on this information. With a deeper understanding of the underlying factors affecting the hotel owners' decisions to affiliate or not, and with whom, the affiliations can tune in their offerings to suit a broader range of business owners. One way could be to reduce certain aspects, such as control, and strengthen others, such as the loyalty card offered.

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III

"Brand Value Attributable to Affiliation in the Swedish Hospitality Industry – an Explorative Study"

Mats Carlbäck

ABSTRACT

A large proportion of any business' value is made up of the intangible assets and a considerable part of this is attributable to the brand or flag. But the extent to which brand value attributable to affiliation (BVAA) as a concept is used, known or measured in the hospitality industry is very limited. Based on the growing importance of affiliations and brand in the industry, it would be beneficial for all senior managers/owners to be aware of the implications and use of brand value as part of the brand management.

This paper is an attempt to analyse the current situation in the Swedish hospitality industry, and different ways of applying brand value to the industry in order to give better opportunities for strategic decision, brand management and more efficient business methods

To deploy brand value (an intangible asset value) as a valuable tool and strategic measurement, it seems appropriate to look at the possible implications for the hospitality business. The inclusion of brand value in a hospitality context could not only improve the valuation techniques, but also be of advantage in taxation, financing, mergers & acquisitions, joint-ventures, etc.

The inclusion of brand value attributable to affiliation is not an issue at present in Sweden, according to the results in this study. Even if many executives in the industry accept the value of and the benefits with a better understanding, a very limited number are aware of the fact, even less using it.

KEY WORDS: Brand, Brand Value, Brand Equity, Intangible Asset Value, Hospitality industry, Hotels, Sweden

INTRODUCTION & BACKGROUND

The hospitality business is a fast growing industry globally, and the development of new business methods and tools to improve the strategic decisions is moving at a greater speed than before to keep up with this progression. An industry that for several decades has been dominated by small, independent firms, often run by the owner or the owner-family, is now influenced by large scale operations, chains, affiliations and multinationals (Carlbäck, 2008; Damonte, Rompf, Domke, & Bahl, 1997; Imrie & Fyall, 2001; Lomanno, 2010; Martorell Cunill, 2006; O'Neill & Carlbäck, 2011). Many businesses that previously were started based on creating social benefits, and regarded as a "way of life" are now more dependent on creating economic benefits for the owner or the stakeholders financing the venture. The capital invested often needs to increase the wealth of the owner(s)/stockholders and the investors. This process is changing the way the industry stakeholders do business in all aspects, including accounting, budgeting, financing, staffing, strategy development, and affiliation. As the business environment is becoming more sophisticated and focused on better key figures such as ROI (return on investment), NOI (net operating income), etc. and better utilization of resources at hand, it will be of increasing importance to be a part of, or at least knowledgeable about, new managerial accounting tools in order not to fall behind in terms of competitiveness, efficiency and strategies. This dynamic process will obviously be most pertinent for firms that remain independent in the future, but will by no means be limited to them - even the larger groups or multinationals will have to stay informed and astute in regards to the development of business-related methods and systems to maintain competitive advantage. There is an array of issues that would influence growth, efficiency and strategies, but financing and value creation will obviously be one of the most important, as it lays the foundation for growth, expansion, mergers and acquisitions and investments to improve efficiency or competitive advantage (Bailey, 2007; O'Neill & Xiao, 2006).

One important aspect to include in the above discussion is brand value attributable to affiliation (BVAA). But, in what way(s) could the use of brand value (value of the flag) in the hospitality business benefit the stakeholders? By accepting the brand value as a part of the balance sheet, many businesses may be worth more to their owners or stakeholders, i.e. the actual enterprise value would increase. This situation would foremost apply to intangibles such as trademark and trade names (Cai & Hobson, 2004; O'Neill, 2004; O'Neill & Xiao, 2006; Rushmore, 2001a, 2001b), but could also apply to intellectual intangibles and other intangibles described in the next section. The actual trade name or the affiliation in itself could constitute positive brand equity for the business owner (or negative, as will be described later on). Consequently, an affiliated business would have to be evaluated in a different way to an independent. The trademark or affiliation would be a part of the business' value in its balance sheet.

These different valuations could alter the financing possibilities and the price tag in the case of disposition of the business. For taxation purposes the possibility to identify the BVAA would also be advantageous as it could limit the property tax if the owner could identify that a certain part of the business value is attributable to the brand name and not the building. For affiliations, chains or franchise businesses, the brand value is a way to present the advantages to potential members as to what they actually receive for their franchise fees and royalty payments. All potential lenders and creditors, such as banks and venture capital companies, would be able to see a clearer picture of the business they are going to invest money in, or divest from. The way forward could then be a clear definition and a straightforward way to measure BVAA in way that is both appealing and understandable for business people in the hospitality sector – a brand value that is measurable and interpretable from multiple perspectives.

In several studies, the importance of the brand value has been identified in the hospitality industry. O'Neill and Carlbäck (2011) showed that affiliated hotels in the U.S. perform better than independent hotels in terms of occupancy and NOI (net operating income). According to the study these results were even stronger in times of economic downturn. Based on this one could argue that brands matter and the IAV (intangible asset value) exists, even though it by no means is static – it would actually vary in line with the general economic environment.

Why then is such a potentially useful component of a business ignored and left out? There is no single answer to this, but this paper will discuss and evaluate certain issues that could be of hindrance for meaningful use. The definition issue (Harris, 2000; Mard, Hitchner, Hyden, & Zyla, 2002) is one major aspect that is, and has been, debated among scholars and practitioners for a long time. The definition difficulties may discourage the use of such a concept by the users who would be less informed and knowledgeable about such a complex subject.

The main reason behind the rather limited knowledge could be the many aspects surrounding the brand are intangible, something which adds to complexity as it makes it harder to define, analyse and measure. Intangible assets are per definition accepted as being rather difficult to handle in a more precise and concrete way, both in academia and in the more practical world (Tollington, 2002). Naturally, something that is problematic to define and characterise would then be even harder to measure and ultimately use in a constructive manner. On the other hand, something that could make up to 70% of a business' total value, in all industries and not specifically the hospitality industry, needs to be dealt with (Standfield, 2005).

The most important issue could be to get the intangible asset (which in this paper mainly will relate to the brand name of an affiliation) to be identified as an asset and not only a cost (Tiwari, 2010).

The intention of this paper is to look at the brand as a value in the hospitality industry, or more specifically the brand value for hotels and restaurants, the brand name and trademark relating to an association such as a chain or marketing organisation. This paper is based on the Swedish market, but the discussion will be applicable and valid for most markets, as the phenomena exist in all markets, to a greater or lesser extent. A study in the UK indicated an increased interest in the concept, albeit still unheard of in large parts of the industry, not least the practical part of the industry (Bailey, 2007).

The aim of this study is to find out if and if so, why it is ignored and left out in most firms in the hospitality industry. Another aim is also to identify if it could be beneficial to include it more in the future, mainly from a strategic standpoint, i.e. what implications a better understanding of the issue have for development terms for the industry – to identify the reason behind the possible complexity. It is also an attempt to move the knowledge base within the field further a head and pave the way for more research relating to the topic of intangible asset value, brand and brand value in a hospitality context.

THEORETICAL FRAMEWORK

As mentioned above, brand and branding is and will be an important factor in the hospitality business. But brand is a complex issue. At the same time as the brand could entail various factors, the word brand itself could also imply different things to different people. Just take the issue of brand value and brand equity. The fact is that brand value and brand equity are two different, yet closely linked, concepts. Tiwari (2010) is explaining the differences as while brand value is the net present value of future cash flows from a branded product minus the net present value of future cash flows from a similar unbranded product - or, in simpler terms, what the brand is worth to management and shareholders (Tiwari, 2010). On the other hand brand equity is a set of perceptions, knowledge and behaviour on the part of customers that creates demand and possibly a price premium for a branded product - what the brand is worth to a customer (Tiwari, 2010), in this case in the hospitality industry.

As the focus in this research paper is on brand value attributable to affiliation (BVAA), we will leave the brand equity aside. And to analyze the concept of brand value, we have to start with the more general accounting literature because the concept has not fully made its way into the more specific hospitality and managerial accounting literature and the availability of empirical studies is limited. An issue for both bodies of literature is the fact that it is both difficult and heavily debated how to actually define brand value, and what aspects to include in a calculation or evaluation of the same.

Even though the discussion in this paper will touch on multiple aspects of intangible asset value (IAV), it will focus on the brand name, trademark, affiliation and franchise and the operational effect this will have on brand value. Any deviation from that would be needlessly complex and outside of the scope of this paper. To limit the discussion to a concept that could be used as a valuable tool in the hospitality business, based on the comments made above, certain aspects of IAV, such as goodwill associated with the name (Marriott, Best Western, etc.), will be left out, without attempting to simplify the complexity of IAV.

Definition

In more general management accounting theory, the issue of identification or definition of intangible assets, is debated and several articles focus on this dilemma. Tollington (2002) describes intangibles as by nature being invisible unless a method for making it visible is developed, which leads us back to the definition issue. If we do not know what we are looking for, we cannot develop a method to make it visible. One important aspect presented regarding this matter is the issue that we should not try to identify what an intangible asset is, we should instead define what an intangible asset should be (Tollington, 2002). This, Tollington (2002) explains, is based on the idea that it does not exist until society decides that it should be accepted and defines the boundaries for it, as all intangible assets are socially dependent asset. Mard et al. (2002) describe the problem as most people seem to know what an intangible asset is until they have to write it down on a piece of paper in a concise way.

The following definitions are used among others to provide a clearer picture of what we are looking for:

The *Report of the Brookings Task Force* on Intangibles defines it as:

...non physical factors that contribute to or are used in producing goods or providing services, or that are expected to generate future productive benefits for the individuals or firms that control the use of those factors (Mard et al., 2002).

A slightly different definition is provided by the *International Standards Committee*:

...assets that manifest themselves by their economic properties, they do not have physical substance, they grant rights and privileges to their owner; and usually generate income for their owner. Intangible Assets can be categorized as arising from Rights, Relationships, Grouped Intangibles, or Intellectual Property (Mard et al., 2002).

The briefest definition was presented by *FASB*:

...assets (not including financial assets) that lack physical substance (Mard et al., 2002).

Stanfield (2005) argues that intangibles are extremely important for senior managers to manage, despite the fact that they are difficult to identify, classify, measure, value, report and manage because intangibles include such things as knowledge, emotions, quality, service and expectations (Standfield, 2005). Another interesting point is that intangibles in the UK are defined as "non-financial fixed assets that do not have physical substance, but are defined and are controlled by the entity through custody or legal rights" (Tollington, 2002). A problem with this definition is that if intangibles are non-financial, that suggests they carry no value, in which case they are not assets at all.

Intangibles could therefore relate to a variety of factors in the hospitality business, but we will here limit the focus to brand value as an intangible asset. This focus will allow us to move forward, and move beyond the definition question. Hopefully, as the foundations for intangible assets are in place, it would be easier to advance to include other aspects (as mentioned above) into the equation. If brands provide value to consumers, loyalty will be created and consumers may be willing to pay a price premium for the brand. The brand asset has been viewed from both the consumer perspective (e.g., perceptions that consumers have of brands, and how this influences behaviour), and from the company viewpoint (e.g., the financial value created by the brand) (Bailey, 2007).

For simplicity the definition provided the *Report of the Brookings Task Force* (see above) will be used in this paper.

The brand, as an intangible asset, as will be described below, would draw from several of the subcategories related to intangible assets. The issue here is that the IAV in the hospitality business could be the difference between enterprise value for the firm that could relate to the brand name (or affiliation) and the cost of maintaining that brand name.

Classification

To be able to continue the discussion after the definition issue described previously, it will be necessary to determine the intangibles relating to the brand value and the classification of these intangibles. Mard et al. (2002) classified intangibles assets into the following primary categories, from which it is possible to classify branding in the hospitality industry (Mard et al., 2002).

1. Marketing-related intangible assets
2. Customer-related intangible assets
3. Artistic-related intangible assets
4. Contract-related intangible assets
5. Technology-related intangible assets

Each and every type of affiliation and related branding will include different parts of the above groups. Where a marketing association only will provide certain benefits, a franchising organisation will include more, as the franchisee will be more linked, via contracts and purchasing systems and so forth.

From the list and sub-groups above, the following items have, for the purpose of this research, been identified as being part of the intangibles relating to brands in the hospitality industry. The list is not intended to be exhaustive, but a guideline regarding items that may vary with different types of brands or affiliations:

- Trade marks, trade names
- Service marks
- Trade dress
- Customer lists
- Customer contracts
- Licensing, royalty
- Advertising
- Lease agreements
- Franchise agreements
- Employment contracts
- Computer software
- Internet domain names
- Databases
- Trade secrets

All of the above, or a selection of some of the above items, could be part of the BVAA (flag) and the value implied by such a brand, which could possibly create a competitive advantage for the user of the brand associated with an affiliation.

Most of the literature regarding intangible asset value in the hospitality business deals with brand value or affiliation value – the asset associated with the flag. Brand is one critical part of IAV, as brand value is often regarded as among the most visible and important of all intangibles. Stanfield (2005) states that productivity is a proxy for competitive advantage and brand value on a daily basis. And in today's competitive hospitality market, branding is not only more common, but also a very much debated and discussed issue. Taylor (1995) writes that a flag, and what flag, i.e. the brand name, now is more important than location (Taylor, 1995), and Rushmore has pointed out this fact in several articles (Rushmore, 2001a, 2001b, 2004). It could therefore be said that branding could lead to a change in performance. A brand could affect the future performance of a business, either in a positive way or in a negative by adding a competitive advantage or reduce the competitive advantage. This development could result in a change of the brand value. In the hospitality sector, common forms of branding include franchising, joining an established chain, or joining a sales, marketing or referral organisation, and each alternative would or could produce different BVAA. Increased productivity could be a result of enhanced intangible effectiveness and vice versa (Standfield, 2005). An important issue here is that if a brand is not recognised as an asset, it will only be recognized as an expense, something that should always be minimised, according to sound management (Tollington, 2002). Higher expenses may in this case be a factor which should have been posted as an asset, would reduce the company's reported result and indicate a worse result than the actual one. If intangibles are left out of the balance sheet, and consequently from any valuations, attempts to calculate ROI or other key indicators will fall short of their target (Tollington, 2002).

Calculation

By accepting that most of the above factors would be included, to a greater or lesser extent, in the brand attributable to affiliation, and by acknowledging the notion that brands could create brand value, we are left with the issue of calculating the brand value. As mentioned previously, the enterprise value for a business is often higher than the value of the tangible assets of the firm; hence, there is an intangible asset value. We have in this paper limited this intangible asset value to the BVAA – the value of the flag. This is no coincidence, as the largest part of a hotel's intangible value is based on the brand name (O'Neill & Belfrage, 2005). One approach that has been suggested to calculate brand value is to measure revenue over the norm attributable to the affiliation compared to the cost attributable to the affiliation (O'Neill & Belfrage, 2005), with the difference being brand value. If little or marginal difference is found, this would indicate a small or non-existing brand value. This calculation is based on identifying all revenue deriving from the affiliation (i.e. percentage of reservations, etc.) which is used to calculate the revenue connected to the brand. From this revenue, the expenses attributable to the brand (royalty fees, reservation fees, etc.) are deducted to find a net revenue (or loss) from the brand. This value is the IAV expressed in a monetary value. By dividing this value with the total market value of total assets of business (MVTAB) the IAV related to the brand is expressed as a percentage (O'Neill & Belfrage, 2005).

This technique is a step further than previous techniques. Rushmore (2004) argued that the brand value is based on the capitalization of the management fees and franchise fees (Rushmore, 2004). A problem regarding this approach is that it would not include the fact that the market would expect the affiliation and management to create greater value than the costs incurred (O'Neill & Belfrage, 2005). A second approach that has been used previously asserts that intangible value is calculated on premiums over market RevPAR, occupancy and average daily rate (O'Neill & Belfrage, 2005), but this approach assumes that it is only the intangibles that produce such premiums. Quite contradictory, O'Neill's research indicates that a considerable proportion of such occupancy and average daily rate premiums relate to tangibles, i.e., real estate (O'Neill & Xiao, 2006).

Whatever approach is being used, it has been suggested that the concept of brand value attributable of an affiliation should be used as a complement to more traditional methods of calculating the value of a business (O'Neill, 2004).

Previous research has also touched on the aspect of bringing guest satisfaction and similar values into the brand value equation. Research has shown that brands with relatively high levels of guest satisfaction can achieve both higher average daily rates but also higher percentage increase in average daily rates over time (O'Neill & Mattila, 2004; Prasav & Dev, 2000). By bringing this in, BVAA evaluations could be even more accurate and reliable, as softer values like guest satisfaction guest retention and loyalty are becoming more important factors to consider in brand management.

BVAA in the context of the Hospitality Industry

Brand value, as described previously, is often a considerable part of any firm's enterprise value (market value). Research has shown that 49% of interviewed executives regard brand value as a primary source of wealth generation (Standfield, 2005). In the same study, 26% of executives indicated that brand value is as important as tangibles in wealth creation, but only 5% of the same executives could trace or measure the very same intangibles (Standfield, 2005). Making it even more interesting is that 80% of executive were unhappy with their brand value. This study was conducted with executives having no direct relation to the hospitality industry, so the extent to which these results are generalizable to the hospitality industry is not known. Hence, little is known about the use and applicability in the hospitality. This could be interpreted as a paradox, given the growing importance of branding in the hospitality context.

As it is important for the individual business owner to attract investment (i.e., financing), it may be important to effectively analyze the brand value to be able to attract financing which will stimulate innovations and create jobs and wealth (Palepu, Healy, & Bernard, 2000). It is therefore important for potential investors to be able to differentiate a good business from a bad one, and the financial reporting of businesses plays a vital role (Palepu et al., 2000). In other words, it is critical to be able to demonstrate the whole value of the business, not just the tangible part. The difference between the tangible part and the entire business could be great when the brand is a large part of the business enterprise value, and could imply a completely different scenario with negotiations for financing or selling. If the brand value is neglected or indeed not used as a part of the valuation, the financing could be more difficult (O'Neill & Xiao, 2006).

Hospitality literature accepts branding and the value it could create as an important factor for the future, and it is considered at par with other major strategies in hospitality organisations, such as demand forecasting (Baum & Mudambi, 1999). As the development of the hospitality industry is going more in the direction of brand affiliation, (Baum & Mudambi, 1999), it will be even more important to be able to differentiate between different affiliations due to the great transaction costs involved and the long-term implications of branding decisions.

Apart from the literature described previously, there is very little material concerning BVAA when it relates to evaluating businesses in the hospitality sector. In fact, very often the inclusion of BVAA valuations is omitted in the description of hospitality valuation techniques (Verginis & Wood, 1999). Verginis & Wood (1999) describe the most common approaches to evaluation of firms in the hospitality business as follows (Verginis & Wood, 1999):

- Depreciated replacement cost
- Discounted cash flow
- Physical inspection

- Market overview
- Hotel market
- Property details
- Financial analysis
- Sales comparison
- Income capitalization
- Earnings multiple method

Discounted cash flow and income capitalization could both be considered to be options within the income approach.

To summarize, most managers, executives and investors consider brand value to be very important for the value of the business and that branding is the single most important part of the intangible asset, but a very limited amount use, or even know how to use or evaluate intangible value.

METHODOLOGY

In order to analyse the present situation in the Swedish hospitality industry based on the discussion above, a three-phase approach was used. In the first phase initial interviews with hotel owners and managers from a selection of the Swedish hotel business were conducted. Both affiliated and independent hotels were selected to get the broader picture, i.e. the views from hotels owners within contractual agreements with affiliations and owners who opted to stay independent. In cases were it was possible the owner of the firm was interviewed, but if the owner or a direct representative for the owner was not available, the manager was interviewed. It could be argued that managers and representatives for the owner would not be, or do not need to be, fully aware of the concept brand value. But, managers were only interviewed in cases where the firms were affiliated, and in those cases it would be fair to assume a GM (General Manager) would be familiar with the affiliation, its costs and benefits and the reason behind it. This is not to say that a manager should be able to calculate brand value, nor understand or use the full concept, but be aware of the implications associated with affiliation and be able. Every hotel owner/manager was interviewed in a semi-structured way with a limited scope for too much deviation from the questions at hand. The questions were sent out to the participants before the actual interview, which in most cases took place in the actual hotel. See the full selection of hotels in Table 1.

In the second phase, representatives for the affiliations/organisations were interviewed in either the head office or a hotel belonging to the affiliation/organisations. Every representative was interviewed during between 1.5 - 2 hours, where the questions were presented in advance of the actual interview. In two cases the CEO for the affiliation were not available for the interview, but in one case the marketing manager represented the affiliation and in the other the business development director represented the affiliation.

In the third and last phase, other stakeholders in the hospitality sector, bankers, consultants, governmental agencies and investors, were interviewed as to get the whole picture of the present conditions. As the concept of brand value could be used in taxation, financing and acquisitions, some leading representatives for this part of the business were selected and interviewed, either on telephone or asked to fill out a questionnaire via e-mail. To be able to cover the whole spectrum the following selection was made:

Bank AAA	Manager responsible for financing
Governmental Financing BBB	Manager financing/valuation
Estate Agent (business) CCC	Manager responsible for taxation/valuation
Accountant DDD	Responsible for several Hospitality accounts
Consultancy EEE	Manager responsible for Hospitality

The focus was firmly on hospitality and the interviews/questionnaires were only conducted with representatives for that particular business segment. All answers from the interviews were recorded and the analysis gave the results presented in the next part.

RESULTS

The results will be presented according to the three groups outlined above (hotel owners, affiliation, other stakeholders), while the comparisons will be presented in the following section.

Hotel Owners

As part of a study of independent hotels, affiliated hotels, and chain organisations in Sweden, the concept and use of BVAA was researched. The analysis very much confirms the previous discussion – brand value as a measurement tool is not on the Swedish radar, at least not in the hospitality business, see table 1:

Table 1.Use of BVAA among individual hotels in Sweden

Hotels	Rooms	Location	Rating	Use of brand value
A.	100 -150 rooms	Town centre	4 stars	No
B.	150 – 200 rooms	Town centre	4 stars	No
C.	50 – 100 rooms	Town centre	3 stars	No
D.	50 – 100 rooms	Town centre	4 stars	No
E.	< 50 rooms	Town centre	3 stars	No
F.	< 50 rooms	Seaside, village	3 stars	No
G.	100 - 150 rooms	City centre	4 stars	No
H.	100 -150 rooms	City centre	4 stars	No
I.	100 – 150 rooms	Town centre	3 stars	No
J.	100 – 150 rooms	City centre	4 stars	No
K.	50 – 100 rooms	Town centre	3 stars	No
L.	50 – 100 rooms	City centre	4 stars	No

Not one single individual hotel used BVAA as a measurement of the cost/benefit of the affiliation.

Table 2. Hotel's use of BVAA

Hotel	Usability of brand value for financing	For measure of affiliation success
A.	Yes	Yes
B	Yes	Yes
C	Yes	Yes
D	Yes	Yes
E	Yes	No
F	Yes	No
G	No	No
H	Yes	Yes
I	Yes	Yes
J	Yes	Yes
K	Yes	No
L	Yes	Yes

The majority of hotels in the survey could see advantages and benefits with a possibility to define and measure BVAA. 11 of the 12 firms were positive to the use of brand value for financing purposes, i.e. a possibility to separate and measure the brand name could enhance the possibilities for affiliated companies to raise finance for expansion, refurbishment or other strategic activities. *"It had never occurred to me that the brand could have a value which could be used in different ways",* said one hotel owner with an interest in growth, but restricted in financial capacity. But owner of hotel G expressed a concern; *"How would it be possible to differentiate a value for the brand from the overall value?"*

Even the aspect of using brand value as way of measuring the brands success was viewed in a favourable way by 8 of the 12 surveyed businesses. The business owners/managers thought a way of measuring the possible brand value with regards to an affiliation would help the individual and independent companies to select a suitable partner if affiliation is an option for growth. Another growth-interested hotel owner (hotel J) commented:

> *"Any tool or method that would help us, as independent, often small hotel-owners to initiate expansion or growth would be a tremendous advantage".*

The hotel owner continued: "*It often seems that the value is based on the owner/manager and very little on other factors, where brand could be one."*

"I would look at other factors, as what they include in their offering, as a proxy for success, I do not think the brand value could illustrate this", commented one of the hotel owners who would not use brand value as a measurement for success. Similar expressions were mentioned by the other owners with the same opinions.

Affiliations

Table 3. Use of BVAA - affiliations

AA	Marketing organisation	- International	No
BB	Marketing organisation	- Domestic	No
CC	Management Contracts/Franchise	- International	No
DD	Own properties/Franchise	- International	No
EE	Management Contracts / Franchise	- International	No

None of the five organisations/affiliations were using BVAA as a measurement or as a tool, neither as a way of attracting new members/franchisees or as a way of measuring success and for comparison, or as one business development manager said:

> *"It had never occurred to me that the brand value could be included in this way. It is not something we normally talk about or perceive as an alternative."*

The same person continued*:*

> *"It would, if properly defined and calculated, give us new possibilities in our contacts with independent hotels. We would then have something to lure them with, something more substantial and more down to the actual facts – money!"*

A CEO for a large marketing organisation could see barriers:

> *"It will be a case of us and the independent hotel owners talking the same language and measuring the same things. If not, we will probably be standing still on square one. I can see the concept and the use within larger organisations like the one I am representing, but it could be more difficult to ensure it is filtering down to all people in decision making positions."*

The business development executive for a large company, mainly in management contracts and franchising concluded:

> *"It is kind of surprising that the notion of brand value has not come further. It will, no doubt, be very important in the future, not least from a perspective where the large organisations gain in importance."*

Table 4. Potential with brand value - affiliations

AA	Marketing organisation	- International	Yes
BB	Marketing organisation	- Domestic	Yes
CC	Management Contracts/Franchise	- International	Yes
DD	Own properties/Franchise	- International	Yes
EE	Management Contracts / Franchise	- International	Yes

Other Stakeholder

All five representatives for the organisations could see great benefits with the use of BVAA, both as a way of presenting the chain/affiliation to prospective new members/franchisees and as a way of measuring the performance of the brand.

Table 5. Use of BVAA – banks, financiers, consultants

AAA.	Bank	No
BBB	Government Financing Agency	No
CCC	Estate Agent (Business)	Partly
DDD	Accountant	No
EEE	Consultant	Partly

Three of the five respondents representing the financing and valuation side did not use BVAA value when evaluating or valuating a business' enterprise value or potential performance. Two of the representatives used it in very specific cases, but not in a context where a brand name could create a different scenario for financing, taxation or valuation.

Table 6. Possibility with BVAA – banks, financiers, consultants

AAA.	Bank	No
BBB	Government Financing Agency	Yes
CCC	Estate Agent (Business)	Yes
DDD	Accountant	Yes
EEE	Consultant	Yes

Four of the respondents could see enhanced possibilities with an improved use of BVAA in activities relating to their line of business and would greatly appreciate a simple formula or method to deal with the issue. The bank representative could not see the brand as a factor for valuation, as the performance *"was purely based on the management, not the affiliation"*.
It was a common factor for all five respondents that at present brand value or brand name are not being separated and measure in its own right, even though four of them agreed that the brand could or should generate more revenue. *"It would normally generate more revenue, but it is very hard to calculate how much"*, said the representative for the consultancy firm, and continued*:"The accounting does seldom present the variables necessary to identify and calculate this"*.
The estate agent was also positive to the use of BVAA:

> *"It is in principle very hard to calculate the brand value or brand name separately from the rest of the assets. But a brand name very often enhances the possible return and should consequently increase the sale price"*.

Not surprisingly is the type of brand imperative for these types of calculations. The representative for the governmental agency expressed it like this: "*A well-known and* *successful chain is better than the opposite and could therefore play an important role."* He added: *"It would only be valid for valuation and financing purposes, not when we talk about consultations."*

According to the answers from all five respondents, the presence of BVAA is known, but used to a limited extent and not a part of any direct applicable methods and systems. It seems to be hiding under the surface and the overall consensus is that it will be of more importance in the future and most certainly will constitute a larger proportion of any valuation procedures in the future.

The participants also agree unanimously that a simplified model or formula for defining and calculating BVAA would be advantageous. *"Yes, it would have been a great tool to use as a foundation and then add other factors to get the whole picture of any business",* said the estate agent representative, and added*: "The location would always be of importance and must be added to the calculation."*

The representative for the governmental agency had the following view:

> *"It is never wrong with a method to do calculations. Based on experience I think it is hard with templates for valuations as the discrepancies between different business deals could be great and every transaction must be seen in its own context."*

DISCUSSION & CONCLUSION

According to the above the question why BVAA is largely ignored is valid. This is based on the Swedish hotel market, but it becomes very clear that the brand value, here the affiliation name, is an important and growing part of the industry, albeit not used to any larger extent. The main reason for this is based on limited knowledge and a reluctance to enter such a complex field. Problems with defining, describing and calculating intangible values are the main factors behind this situation. This part will be described in the three perspectives outlined above; hotel owners, affiliations and other stakeholders.

Hotel Owners

The individual hotel owners had very limited knowledge of the concept or terminology even though the interviews were conducted with owners or in certain cases, with senior managers. Several of the properties were affiliated, or were in the process of joining some form of organisation without really knowing if this large and often rather costly step would add anything to the business in terms of surplus revenue or added value to the business. Important strategic decisions are based on facts that seem to be ignoring the most important aspect – the cost versus the revenue created and consequently the wealth creation for the owner. The owners/managers seem to be willing to pay a rather large percentage of existing revenue flow in fees, royalties and other affiliation related expenses to an organisation without a clear picture of what they will get in return, in money terms. It is clear they will get a well-known brand name and distribution channels and the rest that will follow with a chain or organisation, but will it cost more than it pays?

Several of the hotel owners were also in the process of making strategic decisions, such as expansion, renovations and possibly acquisitions. In most of the cases these plans would require financing in different forms. As the hotel owners/managers did not perceive the current brand or future brand as an asset, the finance issue could be disadvantageous for these firms, as no value would be put on any possible BVAA. The enterprise value of the firm could therefore be lower than the actual value, where all aspects, like the flag, are included. This issue would not only be apparent in cases of financing, but also if the hotel is in the process of re-branding or similar rather complex processes. In any negotiation it would, seen from the individual business owner's perspective, be paramount to be able to demonstrate the best or highest possible value.

One exception from this would be taxation. This has been a question in the US for some time, where the business owners are trying to demonstrate that a certain proportion of the actual market value of the hotel property is attributable to the brand name, i.e. brand value (O'Neill, 2004; O'Neill & Belfrage, 2005). By demonstrating that a proportion of the total value is brand value, the owner will be able to lower the property tax in the U.S. This has become a debated issue as the definitions and calculations are vague and the tax authority interprets the measurements in one way and the business community in another.

There are therefore several reasons why the business community, in this case in the hospitality industry, should be aware of and have the ability to define and calculate BVAA. It is obviously important to choose the flag based on the current situation and future need, i.e. what the different affiliations are able to offer in terms of trade name, loyalty card, central reservation system, central purchasing power, sales and marketing and possibly know-how. But it would be equally important to be able to, in a simple way, estimate the net contribution of such an affiliation and in what ways it will affect the value of the firm.

Affiliations

The representatives from the affiliation's head quarters had more knowledge of the issue of BVAA, even though they did not use it to any large extent. At least when it comes to the recruitment of new members to the referral chains and marketing organisations it could be used as a valuable tool and a possibility to demonstrate the value of joining the chain or organisation in monetary terms. To join chain Y would cost the hotel owner X USD in fees, royalties and other related expenses, but it would generate a surplus revenue flow of Z USD and enhance the value of the business with P USD with the addition of the BVAA. It would also help the brand managers to explain the advantages of the brand seen from the brand managers perspective as that would differ from the perspective of the customer or potential member (Baum & Mudambi, 1999).

For larger operations with several outlets, either owned or franchised, the issue would be important as the BVAA, would constitute a substantial part of the whole business value, and also lay as a foundation for possible expansion and stronger market presence. A standard calculation method for BVAA for individual hotels, based on attributable revenue and attributable costs, would also present new possibilities for the organisation to align the offer to what it is worth for the individual business interested in joining. Royalties for single properties may create a negative brand value, based on excessive fee and royalty payments and limited added revenue.

Other Stakeholders

The third group, the valuators, banks, financiers and consultants, were also aware of the BVAA, but showed a limited use of the possibility it presents, at least in the hospitality industry. Contrary to the US, little weight was put on brand value in terms on brand name, i.e. the brand in itself was not perceived to create any real value. In the hospitality business, “old & traditional” values as location and the owner’s effect on the performance are perceived as more important than the brand. The fact that banks and other finance institute with activity in the hospitality industry are neglecting the brand in valuation activities is rather surprising. In times when the hospitality industry is getting more and more international (Altinay, 2007) and the brand and affiliation issues have become major parts of the industry, the individual, independent business is valued in the same manner as a firm belonging to an international or national chain with a well-known brand name and the financial muscle that could come with the affiliation. Brand names that in several cases are worth millions of dollars, are here ignored and would basically be a liability as an affiliation would incur additional costs, such as royalty payments and the initial cost of ensuring that the standard of the affiliation is met and maintained.

For the consultants it would be beneficial to be able to estimate the brand value of a chain or affiliation, as in today’s consulting task, the issue of consulting a hotel owner/manager of best possibilities for the future, the question of affiliation would also be high up on the agenda. To be able to but the alternatives, in monetary terms, to the growth minded hotel owner, would clearly make the decision task easier and also more accurate.

Limitations and Suggestions for Further Research

As with any research, the results of this study should be interpreted with limitations. First, this study is based on Swedish hotels, affiliations and professionals and therefore the results will foremost be applicable on the Swedish market. But, as most hotel markets, except the US, where the affiliation issue has been researched and debated for some time, are in a very similar position, and the context from the findings should be possible to apply to most markets and least in the developed world. Several studies are bringing up the importance (Dittman, Hesford, & Potter, 2009; Madden, Fehle, & Fournier, 2006; Martorell Cunill, 2006; Mason, Tideswell, & Roberts, 2006; O'Neill & Carlbäck, 2011; O'Neill & Mattila, 2010; O'Neill & Xiao, 2006).

This paper is intended to move the knowledge base in this direction by analysing the current situation and identify possibilities for the future, both academically and practically.

There are several routes to take from here, and one would be to actually identify if the brand is creating any advantage in terms of performance and business value. A statistical study of the hotel performance in various markets over a longer period with emphasis on performance factors such as occupancy and revenue should shed light on this. By looking at the transaction figures for affiliated and independent hotel during a similar time frame should help us to understand and identify to what extent the brand value will affect the value of the business.

Attempts have been made in the US to identify and calculate brand value in the hotel business (O'Neill, 2004) and this could be tested and possibly adopted to suit other markets. Further, it would be advantageous to analyse more extensively the factors driving the value of the brand in terms of attributes that create a stronger and more valuable brand name and consequently brand value. From a brand management perspective it would also be valid to, not only look at the value drivers, but also the properties within the brand that are affecting the value the most. Are some hotels pulling all the weight while others are free riders and ripping all the benefits associated with the BVAA?

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IV

”Brand Value Attributable to Affiliation (BVAA) – a Method for Measurement in a Consortium Context”

Mats Carlbäck

Abstract

Hotel affiliation is a debated issue in the hospitality industry. The question is primarily if it adds any financial advantages, and secondly to what extent an intangible asset value is created. Intangibles are per definition difficult both to define and to calculate and the aim with this article is to develop a method, based on earlier studies, to facilitate calculations in a consortium context. This is the least researched affiliation format, but at the same time the preferred option for independent hotel owners seeking strategic advantages for the future.

By identifying the contribution associated with an affiliation as well as incremental costs and including the investment for adapting the property in accordance with the stipulated standards for the affiliation, a method to compute the brand value attributable to affiliation (BVAA) is developed. This study, by using a constructive approach, produces an indicative valuation method (the BVAA calculation method) usable both to assess the financial effect of the brand value associated with a specific brand and for separating intangibles (in this case the BVAA) from the market value.

Key Words: Brand Value, Affiliations, Hotels, Consortium, Appraisals

Introduction

In the hotel industry, the concept of brand value is becoming increasingly important in the marketing and strategy contexts. The well-established axiom “location, location, location” is to an increasing extent being replaced by the axiom “flag, flag, flag” (Taylor, 1995) as an answer to the question; “What are the three most important factors for a successful hotel operation?” During the last quarter of a century, the flag (brand) associated with hotel affiliation companies has become one of the most important strategic issues in the hotel industry (O'Neill & Mattila, 2010). A more complete understanding of, for example the nature, the determinants, the measurement, and the valuation of brand value, would be useful in various context, such as taxation (O'Neill & Xiao, 2006), strategic decision making (Bailey, 2007; Cai & Hobson, 2004; Carlbäck, 2013; O'Neill & Belfrage, 2005; Rushmore, O'Neill, & Rushmore, 2013), marketing (Dev, Brown, & Zhou, 2007; O'Neill & Mattila, 2010), and brand management (Prasad & Dev, 2000), and of importance to several categories of users such as owners of hotel properties, management companies, investors, and managers at executive levels in hotel companies.

The vast majority of extant research on hotel and hospitality focuses on affiliation arrangements, such as company owned brands, managements companies, hotel property companies, and franchise companies, with limited focus on the consortium arrangement. Consortium companies currently have a significant market share in the hotel and hospitality market, which is expected to increase even more in the future (Martorell Cunill, 2006; Rivet, 2011). The world’s largest hotel chain, Best Western, is likely the most well-known consortium company (see http://www.bestwestern.com). A consortium company is a group of independent hotels, often referred to as marketing organisations or referral chains, joined together to improve certain aspects of operations. It could be the development of a loyalty card system, a central reservation system, a central purchasing system, or pooled marketing and sales activities. In this arrangement, the independent hotels will retain their operational freedom, while at the same time enhance their presence on the market by the added strength associated with collective resources, knowledge, know-how etc. Another characteristic of the consortium arrangement is that its affiliated members are not required to adhere to standardised operating procedures in the same ways as the business format of franchising.

An important task of hotel management is to assess the financial value associated with consortium company affiliation. However, a literature review showed that there is a lack of methods for evaluating the financial value in this context. The objective and contribution of this study is - drawing on principles of financial management - to develop a method for calculating the financial value of belonging to a consortium company for an individual hotel.

The remainder of the paper is organised as follows. The next section discusses the framework/principles used for developing the method. The research method is described in the third section. The fourth section explains the practical usability of the method developed. In the concluding section the results are discussed, highlight the research contribution and practical relevance, and present suggestions for further research.

Framework for method development

This section presents the framework the study uses to develop a method, which draws on the financial management literature, for calculating the financial value of belonging to a consortium company for an individual hotel.

Hotel affiliation in the consortium context and motivational factors

With the growing importance of different types of affiliations, there is a trend in the hotel market in that independent hotels are being incorporated in larger organisations. From the individual hotel's perspective, the motivations for this trend is linked to factors such as growth and strategic development, or just to cope with increasing competitive pressure.

In many advanced economies, affiliations are taking a larger part of the hotel market. Statistics from Euromonitor (2010) show that only 15% of the world's hotels are considered to be affiliated (owner-operated, management companies, franchise organisations), leaving 85% as independent hotels. The 15% does, however, not include hotels affiliated with consortium companies. Surveys have shown that there are major differences in affiliation between geographical regions. The U.S. market, where the affiliation process appears to have developed most, is according to AH&LA (American Hotel & Lodging Association, 2011) split between 51% affiliated and 49% independent hotels of the hotels registered with AH&LA. These figures only make a distinction between chain hotels or independent hotels, while hotels affiliated to consortium companies are treated as chain hotels in these reports.

As the consortium company offers a less rigid form of affiliation, where the hotel owner retains much of the control, it suits many entrepreneurs and family owned hotels who value the quality of being independent (Carlbäck, 2012). The degree of involvement varies between the different consortium companies, but often the focal point is the sales and marketing efforts, such as central reservations systems, brand related advertising, and loyalty cards. According to earlier studies (Carlbäck 2012), this is the essence of what the independent hotel owners are seeking, but they are at the same time not willing to give up their independence to be controlled by a remote head office. That would contradict their main objectives with their business ventures, like building something for the family or "a way of life" (Andersson et al. 2002).

Foundations for method development

Most hotels have a brand, whether the hotel is affiliated or not. The small, completely independent family hotel will have a brand to nourish in the same way as the Waldorf Astoria in New York. As this paper is focusing on consortium companies, the perspective here will be on the financial value directly linkable to brand affiliation or not, i.e. the financial benefits a hotel will gain from affiliate with a specific brand, in terms of both added market value and performance boosting.A method for assessing the financial value should use a net present value (NPV) approach to determine the present value of affiliation (brand) by the discounted (net) sum of cash inflows and cash outflows directly linked to affiliation (brand).

Previous attempts to measure this value have typically ignored the initial investment required for an individual hotel to become affiliation ready. Rushmore (2001) touches on this issue when he highlights the often substantial initial fee payable to the organisation as an entrance fee. This fee could be significant, but is typically discussed only in the context of management contracts and franchise organisations. In the case of a consortium company, there is seldom an initial membership fee payable to the affiliation and therefore this is of no concern for the hotel owner interested in affiliating. Carlbäck (2012) found that the yearly payments payable to the affiliation for the membership not were a major concern for the hotel owners. More important were the initial cash-outlays to fulfil the requirements set out by the consortium company, i.e. to live up to the standards necessary to become a member. Two hotels in Carlbäck's study opted to stay independent based on too high investments to get the property "affiliation-ready". Any attempts to calculate the financial value attributable to the affiliation ought to include initial investments, such as (Martorell Cunill, 2006; Rushmore, 2001b):

- Adapting the property, i.e. increase standards, size of rooms, standard of bath rooms, etc.
- Addition of facilities and functions, i.e. bar, restaurant, spa, etc.
- Signage and postage
- Contracts, legal works, lawyers' fees
- Uniforms
- Stationary
- Contracts with suppliers
- Systems and applications, i.e. new computer systems, new management control system, etc.

Several of these investments fall outside the ongoing cash outlays (i.e. cash flows related to already existing operations) and should therefore be treated as investments directly attributable to the membership in the consortium company.

Characteristics of existing methods in the area

Within the field of measuring and evaluating the financial value of affiliation there are a limited number of existing methods available, mainly developed within academia. The inclusion criteria here will be a focus on measuring the value of belonging to an affiliation from a hotel perspective. Most studies of hotel or brand related valuations indicate that apart from the real estate - the building in which the hotel is operating – the brand represents a significant part of the remaining value (Bailey & Ball, 2006; O'Neill & Belfrage, 2005; Tiwari, 2010; Tollington, 2002). The Rushmore method (Häggström, 2012; O'Neill & Belfrage, 2005; Rushmore, 2004) is based on the assumption that the cost of belonging to an affiliation reflects the market value of that specific affiliation. From the individual hotel owner's perspective this will not suffice, as the affiliation should generate higher revenues than costs, as this is the reason to affiliate and pay fees. In some cases the value associated with the affiliation could be negative, as the costs associated with the affiliation is exceeding the revenues received. This may be due to improper contracts, wrong affiliation for a particular property or other similar erroneous managerial decisions. A negative value associated with the brand is equally important to measure in order to be able to take corrective decisions.

O'Neill & Belfrage (2005) identified and calculated the financial value of affiliating based on the notion of incremental revenues attributable to affiliating should exceed attributable incremental costs related to the membership in an affiliation. By identifying all incremental revenue, such as rooms sold through central reservation systems, online booking systems, loyalty cards, etc. and deducting all affiliation associated incremental costs (variable cost such as management fees, royalties, and reservation fees) they were able to calculate the financial value of the affiliation. However O'Neill & Belfrage (2005) do not include the affiliation imposed adaptation cost (adapt the hotel to the standards required by the affiliation), and this method may therefore be less suitable in a consortium company context, as the adaptation cost could be substantial for the individual hotel seeking the option of affiliating.

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A method introduced by Ailawadi, Lehman & Neslin (2003) measures brand value as brand equity. Their method measures the brand value for a large group of primarily products using the revenue premium approach, i.e. the idea that the brand should produce superior revenue compared to an unbranded product or service. The same approach could then be transferable to services, and also to organisations and affiliations. Ailawadi et al (2003) argue that the revenue premium approach is better than other approaches as it includes future potential and excludes customer surveys. This concept has a lot of bearing for the attempts to create a method for the hotel industry as the revenue premium approach is developed to a contribution premium approach, where the cost behaviour is included as well. A useful method for the aim with this project needs to contain a premium concept, i.e. the contribution attributable to the affiliation and also, as this is seen as important, the outlay connected to the adaptation of the affiliation standards for the hotel.

Comparison of requirements of relevant method and existing methods

The definition of the concept of financial value associated with a brand varies between sources (Bailey 2007, Dev et al., 2007; O'Neill & Mattila, 2004). Brand value, i.e. the financial value attributable to the brand, and brand equity are two different, yet closely linked, concepts. Tiwari (2010) explains the differences as follows: brand value is the net present value of future cash flows from a branded product minus the net present value of future cash flows from a similar unbranded product - or, in simpler terms, what the brand is worth to management and shareholders (Tiwari, 2010), while brand equity is a set of perceptions, knowledge and behaviour on the part of customers that creates demand and possibly a price premium for a branded product - i.e. what the brand is worth to the company based on the customer's perception (Tiwari, 2010).

The current study uses Tiwari's definition above and focuses on the financial value of the brand, i.e. the affiliation – the financial value for the hotel owner and for other stakeholders calculated on a NPV basis (Tollington, 2002).

It is uncommon to measure the financial value of the actual brand (as sales or replacement value) in an affiliation or chain situation, i.e. try to establish the value of the brand for a business owner or manager – primarily as a strategic tool. It could stem from the issue of not clearly defining brand vs. equity, as the two concepts are used to describe more or less the same functions. Attempts made are often associated with the hotel industry, where chains, consortium companies, and affiliations are important and noticeable factors.

As noted above, the main issue is to calculate the financial value attributable to the affiliation from the individual hotel's perspective, i.e. the discounted (net) sum of cash inflows and cash outflows directly linked to affiliation (brand). It is important to separate the brand value linked to the affiliation from the market value in a consortium company context, as this will be the vital point for consortium company management and for independent hotel owners.

Any hotel contemplating to join an affiliation would anticipate additional incremental revenue flow as a result. An incremental revenue flow that would exceed any incremental costs traceable to the membership, consequently produce a positive value related to the affiliation membership. The possibility of additional incremental revenue leading to financial value creation would be the core concern for the hotel owner, who would be less interested in separating the financial value associated with the affiliation from the property.

By O'Neill and Belfrage´s method, which is focused on calculating the intangible asset value with the inclusion of attributable incremental revenue and costs, the intended method is developed further, where the financial value attributable to the affiliation is calculated from a contribution attributable to the affiliation. But as previous research has indicated, the initial investment related to the adaptation process (to become affiliation ready) is a major concern and needs to be included in the method in order to fulfil its purpose. If not, it becomes less usable in a consortium company context where the initial investment to fulfil the standards is of great importance, even if the contribution aspect is similar to the method developed by O'Neill and Belfrage.

By integrating elements from the Rushmore method and the O'Neill and Belfrage method, with support from Tiwari's´ definition of brand value, a method could be developed. Extraction of values and illustrations of the calculations will be presented below.

Method

Based on the nature of this work, which falls within management accounting – a constructive approach is used.
Kasanen, Lukka & Siitonen (1993) describe the process of a constructive approach as follows:

1. Find a practical relevant problem which also has a research potential.
2. Obtain a general and comprehensive understanding of the topic.
3. Innovate, i.e. construct a solution idea.
4. Demonstrate that the solution works.
5. Show the theoretical connections and the research contribution of the solution concept.
6. Examine the scope of applicability of the solution.

The development of the method follows all the points above and can be classified as constructive research as it is a combination of problem solving and demonstration of a theoretical connection.
A practical and relevant problem was identified – the lack of a method to measure BVAA in the hotel industry.

This research project is divided into two parts; a construction of the method based on existing methods and influences from the literature, and an illustrative test, constructed on actual figures from income statements from two hotels in Sweden. The two parts are performed simultaneously in order to identify and extract the necessary information and valid parameters.

Data

Two hotels in Sweden were selected to participate and contribute with income statement data to demonstrate that the solution works. The selection was based on finding properties of considerable size and with a strong market presence on different locations. Selection criteria also included membership in one of the larger or more well-known sales and marketing organisations in the region. It was also important to ensure full compliance from the hotel owners, as the project requires full transparency, i.e. all figures and reports need to be available for the researcher. This could create a barrier for many hotel owners, as some of this information is considered sensitive. The participants in this project complied fully.

The data gathering process presented larger obstacles than initially envisaged, which should be taken into consideration for any future studies. Even though all accounting and paper work were up to standard and the owners were fully engaged in their businesses, the identification of incremental revenue and incremental cost associated with the affiliation proved a challenge to identify and extract. For a more detailed description of the participating hotels see Table 1.

Table 1. Participating hotels and general facts

	Hotel A	**Hotel B**
Rooms	51	74
Built	1971	1983
Rating	3*	3*
Employees	12	19
Affiliated/year	2009	2005
Location	City centre	Outskirts of city
F&B Facilities*	1,2,3,4	1,2,3,4
NOI/room/year	6,045	20,249
ADR**	608	919
Occupancy %	63%	58%
RevPAR***	383	583

* F&B facilities = *1= breakfast, 2 = lunch, 3 = dinner, 4 = bar
**ADR = Average Daily Rate in SEK (average for 3-year period Year 1 -Year 3)
*** RevPAR = Revenue per Available Room in SEK (average for 3-year period Year 1-Year 3)

BVAA – the method

The BVAA method has been developed from factors identified above with the addition of previously studied factor of importance relating to the specific challenges facing hoteliers contemplating the affiliation format consortium, i.e. the cost associated with adapting affiliation standards.

Consequently, the BVAA (brand value attributable to affiliation) method was developed based on the following factors and input data:

(Gross profit attributable to affiliation – Incremental cost attributable to affiliation) / Cap rate – Present Value of Investments attributable to affiliation = B V A A

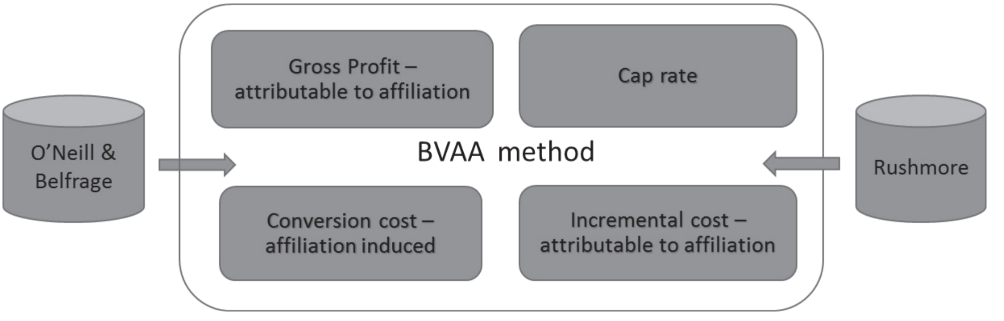

Figure 1. The development of the BVAA-method

The incremental revenue and cost directly attributable to each hotel's affiliation on an ongoing basis were identified and summarized to a gross profit figure attributable to the affiliation. Detailed income statements for each site were used to identify related incremental revenue and cost. Each post was analysed and evaluated by the manager and the researcher as to its relevance and connection to the affiliation. Any questions or uncertainties were analysed and discussed with respective manager in order to establish if the post should be treated as an incremental revenue or cost related to affiliation. Income statements for three consecutive years were used for each hotel.

For illustrative purposes the key performance indicators (KPI's) for the hotels were also collected as presented in Table 1. The key performance indicators could in this context be used to analyse the reasons to variation in BVAA and possibly to identify corrective actions.

The incremental revenue attributable to affiliating is the gross profit which could be directly traceable to the affiliation belonging, i.e. it would not exist without the flag related to the brand. This could be both the additional revenue relating to the increased flow of business thanks to the increased market presence due to increased and pooled sales and marketing activities and the premium rates resulting from representing a well-known brand. By representing a nationally or internationally known brand the rate structure could be enhanced as the potential guests' willingness to pay would increase. The central reservation systems and negotiation power connected to consortium companies should also affect the incremental revenue stream in a positive way.

Incremental cost attributable to affiliation was identified and calculated based on the gross profit (GP) attributable to the affiliation. As the affiliation revenue streams in consortium are logged independently, it forms a base for fees paid to the affiliation as a fee per booking or reservation made through their channels. The incremental cost is made up of all related incremental costs attributable to the brand, i.e. fees and royalties, but also for reservation systems, marketing material, PR, use of central reservation systems and commission on bookings made. By subtracting the direct costs attributable from the gross profit attributable to the brand, the result produced is an annual gross profit attributable to the affiliation.

The investment associated with the adaption process was identified. The hotel owners were asked to present a summary of estimated posts relevant for the adaptation process at the time of the actual adaptation. The summaries presented were detailed and in the process each item was evaluated as to its direct link to the affiliation. Direct traceable items such as new signage, uniforms, stationary, menus, marketing material were singled out directly as relevant. The same process was carried out for hardware and software necessary for the adaptation in a straight forward manner. In cases where the initial investments were less uniquely related to the affiliation and could carry a residual value even without or after an affiliation period, the sums were evaluated on its individual merit and based on economic life cycle. This could include upgrading of amenities, rooms, bathrooms and other vital parts of a hotel operation and in cases of doubt, the economic life cycle has been evaluated to find out if a residual value will exist after a possible termination of the contract with the affiliation creating a value regardless of the site being affiliated or not. See Table 4 for detailed information regarding factors included herein.

Results

Calculations of the net contribution attributable to the affiliations are displayed in Table 3, where the gross profit and cost attributable to the affiliation are used. These figures derive directly from the income statement for each hotel respectively and as a part of the rules and regulations associated with the affiliation process, all items directly related to the affiliation are presented as individual items in the statement. The affiliation related gross profit is presented as coming from the affiliation and the affiliation related incremental costs are itemised in the same manner – albeit under different topics based on affiliation.

Reservation fees are posted only for directly related reservations and loyalty night are posted as “free rooms” given to the affiliation in order to be provided to guests who have earned points within the affiliation to qualify for complimentary accommodation. These two are posted on different accounts.

Direct, variable costs (cleaning, laundry, etc.) connected to the “sale” of redeemed loyalty rooms, is deducted from the amount presented in Table 2, to produce a gross profit figure attributable to the affiliation.

Table 2. Calculation of net contribution attributable to the affiliation for hotel A & B Year 1 – Year 3

	Hotel A			Hotel B		
	Yr1	Yr2	Yr3	Yr1	Yr2	Yr3
GP attributable to affiliation (revenue – direct cost)	177,940	82,705	142,88	1,219,191	1,153,986	1,570,710
F&B (revenue – directs costs)	10,332	5,004	8,460	134,558	178,729	182,769
Total GP attributable to aff	**188,272**	**87,709**	**151,34**	**1,353,749**	**1,332,715**	**1,753,479**
Incremental cost attributable to affiliation						
Royalties	20,000	24,000	24,000			
Marketing	42,000	35,000	42,000			
Fees				274,000	307,000	303,000
Reservation fees*	18,831	11,148	20,734	584,000	566,000	550,000
Loyalty nights**	92,900	54,021	57,267	32,184	33,592	24,672
Total cost attributable to aff	**173,731**	**124,169**	**144,001**	**890,238**	**906,66**	**877,72**
Contribution attributable to affiliation	**14,541**	**-36,460**	**7,339**	**463,511**	**426,055**	**875,759**
Contribution attributable to affiliation/room	**251**	**-629**	**127**	**6,264**	**5,758**	**11,835**

Values in SEK
* Fees or commission payable to affiliation for reservations made through organisation
** Free rooms provided free of charge to affiliation. Used by guests who have earned loyalty points through participation in loyalty schemes. Limited offer during periods of high occupancy. Priced at average daily rate (ADR).

Based on the fact that the participating hotels are members of different affiliations, the indicated fees and costs associated with the affiliations are presented differently, mainly due to the agreements signed with the affiliations. The costs presented in Table 2 are all variable from a zero base, and the cost drivers are amounts of rooms sold, bookings achieved, etc.

In Table 2 it is possible to identify the figures used in the Rushmore-method, i.e. the costs associated with the affiliation. Grouped together they average SEK 147,000 (173 731, 124 169 and 144 000 respectively) per year for hotel A during the three years and SEK 891,000 per year for Hotel B. The actual ongoing cost for the membership varies significantly. In the Rushmore-method, these figures would represent the value of affiliation (which will never be negative) and be deducted from the operating cash flow in order to extract the value of the real estate.

Notable is the negative contribution attributable to the affiliation for Hotel A for Yr2, where the contribution dropped considerably from Yr1. This is partly explained by a slow demand on a regional level in combination with limited response from the affiliation to react to these problems. Still, the amount of loyalty nights given away is high, which increases the costs attributable to the affiliation even if the revenue decreases.

The results produced in Table 2 are contribution attributable to affiliation for each hotel for the three years respectively. In order to calculate the BVAA, a further step is necessary. The contribution attributable to affiliation needs to be divided by the prevailing capitalization rate (cap rates), based on similar investment grades (O'Neill & Belfrage, 2005). This presents an obstacle as cap rates for intangibles (as BVAA) are not available to the same extent as cap rates for real estate, where these figures are presented in various reports and statistical information (O'Neill & Belfrage, 2005). We will use O'Neill and Belfrage's (2005) extraction of intangible asset cap rate, based on figures presented in Lloyd-Jones' (2010) report on cap rates in the hotel industry (Lloyd-Jones, 2010).

Cap rate (capitalization rate) is commonly used when calculating property prices and property values. A widely used definition for cap rate is presented by Lloyd-Jones (2010) "An income rate for a total real property interest that reflects the relationship between a single year's net operating income expectancy and the total property price or value; used to convert net operating income into an indication of overall property value." Lloyd-Jones uses historical (previous years) operating income figures to establish the cap rate (Lloyd-Jones, 2010). The equation for deriving at property value is expressed as follows:

Cap rate = Net profit/Property value $\Longrightarrow$ Property value = Net profit/Cap rate

Cap rates are primarily based and used on real estate, but for this purpose the Yr2 figures from the hospitality consulting firm HVS's (see www.hvs.com) data base will be used, grounded on figures for hotels of similar investment grade. Lloyd-Jones (2010) makes a distinction between major transaction, i.e. hotels with value in excess of 10 MUSD and all transactions. As the two hotels in this study are smaller than the threshold, the cap rate for all transactions will be used. The report (Lloyd-Jones, 2010) indicates a decline in cap rate during the last decade and the comparable figure is 9.9% (this could be compared to a cap rate of 7.5% for major transactions).

The calculation is based on previous research indicating the following breakdown of a hotel's enterprise value (O'Neill & Belfrage, 2005), with the inclusion of the latest available cap rate from Lloyd-Jones survey (2010), both for real estate (8.5%) and personal property (15.0%):

Position	Percent of value	Cap rate
Real Estate	70%	8.5%
Personal Property	10%	15.0%
Intangibles	20%	X
Total	100%	9.9%

The following calculation is used:

X = (9.9% – 8.5% x 70% – 15% x 10%) /20% $\Longrightarrow$ X = 12% (rounded)

We can then calculate the gross BVAA from the contribution attributable to affiliation for both hotels:

BVAA (gross) = Contribution/Cap rate = Contribution/0.12

Table 3. Calculation of BVAA (gross) based contribution attributable to affiliation. In SEK.

	Hotel A			*Hotel B*		
	Yr1	Yr2	Yr3	Yr1	Yr2	Yr3
Contribution attributable to affiliation	14,541	-36,460	7,339	463,511	426,055	875,759
Cap rate	0.12	0.12	0.12	0.12	0.12	0.12
BVAA (gross)	121,175	-303,833	61,158	3,862,591	3,550,458	7,297,991

Table 3 presents the brand value in the same manner to O'Neill & Belfrage's (2005) calculation of an intangible asset value for company-operated hotels. We find significant variations between the two brands. While the brand connected to Hotel A in this case is merely worth SEK 61,158 based on contribution Yr3, the brand used by Hotel B is worth over MSEK 7 based on contribution Yr3. This would constitute a substantial part of the hotels market value, even if such a valuation is outside the scope of this paper.

These calculations do not include the initial investments. The limitation with O'Neill & Belfrage's technique in a consortium context is the omission of costs associated with the initial investment in the calculations. And as this clearly is affecting the decisions making for the hotel owners it could add further to the usability.

Table 4 Affiliation induced adaptation factors in SEK (investment according to affiliation requirements)

	Hotel A	Hotel B
Signage	26 000	72 000
Uniforms	18 000	22 000
Stationary	35 000	8 000
Computer systems	44 000	72 000
Printing matters	35 000	2 000
Marketing material	17 000	27 000
Refurbishment lobby	102 000	12 000
Uppgrading rooms	83 000	210 000
Uppgrading hall ways	0	87 000
Uppgrading bar	0	32 000
Uppgrading kitchen	0	47 000
Uppgrading conferen.	0	72 000
IT installations		7 000
Total	360 000	670 000

To include the actual initial investment in the calculation of the BVAA in order to establish the feasibility of affiliation, the initial investment directly attributable to the membership needs to be computed. The discount rate used is the 9.9% from Lloyds and Jones (2012) statistic mentioned previously.

The above initial investments, Table 4, have been identified for the participating hotels related to the adaptation and consequently presented as discounted value to facilitate a calculation at present values, Table 5.

Table 5. Discounted value of initial investment (at 12%) to fulfil affiliation standard as a one-off sum in SEK.

	Hotel A		**Hotel B**	
Initial investment	**(2009)**	**360,000**	**(2005)**	**670,000**
NPV 2005				670,000
NPV 2006				736,330
NPV 2007				809,227
NPV 2008				889,340
NPV 2009		360,000		977,384
NPV 2010		395,640		1,074,145
NPV 2011		434,808		1,180,486

By then deducting the discounted value of the initial investment from the previously computed BVAA (gross), it is possible to calculate BVAA for each hotel, i.e. how much the brand is worth in total at a specific year.

Table 6. BVAA computed including discounted value of the initial investment. In SEK.

	Hotel A			**Hotel B**		
	Yr1	**Yr2**	**Yr3**	**Yr1**	**Yr2**	**Yr3**
BVAA (gross)	121,175	-303,833	61,158	3,862,591	3,550,458	7,297,991
Investment(discounted)	-360,000	-395,640	-477,854	-977,384	- 1,074,145	- 1,180,486
Total BVAA	-238,825	-699,473	-416,606	2,885,207	2,476,313	6,117,505

From the previously calculated BVAA (gross) the discounted value of the initial investment is deducted to produce the BVAA for each brand respectively, which is presented in Table 6 as Total BVAA. It is worth observing here that the discounted value is computed for each year, and is only valid for that year and should not be summarized for the whole time period. The BVAA (gross and total) value is consequently measured for individual years and the value would only be valid for that specific year in a similar manner as a balance statement.

The results, presented as illustrative examples, clearly indicate substantial differences, as Hotel A presents a negative BVAA for all three years, while Hotel B could report a substantial BVAA for the same three years. The initial investment in the case of Hotel A is resulting in a negative BVAA, even if the gross BVAA excluding this figure is positive in Yr1 and Yr3. Consequently, the inclusion of the initial investment produces quite different results.

Discussion

The complexity of calculating the brand value in relation to the market value has stopped several managers and owners from trying to calculate the value of affiliating. This would not only be the case in the selection process of potential partner, but also in circumstances of taxation (separating real estate from intangible assets), financing, mergers, and acquisitions. In all these conditions a method of separating the intangible asset value from the real estate would affect the business, something which could be done with the BVAA-method.

The results from the BVAA method will here be compared to previously used methods. Since the investment costs associated with the adaptation are of importance in a consortium context, the BVAA-method will give more comprehensive information regarding the financial issues connected to affiliating into a consortium. In Table 7 below, the different results for the two hotels for the three years are presented. The variation between the computed values is substantial. As the Rushmore-method primarily is used to extract the real estate value from the enterprise value, the intentions with the method is not the same as the O'Neill-method and the BVAA calculation method. The Rushmore method is based on the assumption that the fees reflect the value of affiliation. Thus the value of affiliation will always be positive (as long as the fees are positive) according to the Rushmore method.

All valuations in Table 7 are annual, i.e. they are based on figures relating to one specific year and consequently valid for that specific moment in time. For the O'Neill-method and the BVAA- calculation method the values are calculated with use of the cap rate. The overall value for the Rushmore-method has be computed using the cap rate as shown in Table 7.

Table 7. Differences between three methods, based on separating the brand affiliation value from the market value (in SEK)

	Hotel A			Hotel B		
Year	Yr1	Yr2	Yr3	Yr1	Yr2	Yr3
Method						
Rushmore (per year)	173,371	124,169	144,001	890,238	906,66	877,72
Rushmore (Overall value)	1,444,758	1,034,742	1,200,008	7,418,650	7,555,500	7,314,333
O'Neill(= gross BVAA)	121,175	-303,833	61,158	3,862,591	3,550,458	7,297,991
BVAA	-238,825	-699,473	-416,606	2,885,207	2,476,313	6,177,505

The differences in brand value, as presented in Table 7, could certainly affect strategic decision making. The calculations for each method are based on the figures presented in Table 5. The brand value in Hotel A Yr1 fluctuates from SEK -238,825 (BVAA method) to SEK 1444,758 (Rushmore overall value) with the O'Neill-method in between. The differences between the O'Neill results and the BVAA results are substantially smaller.

As the Rushmore method does not take the incremental revenue generated by the brand into consideration, it will produce a result which is usable mainly in a context where the objective is to separate real estate value from the total market value. For all three years the Rushmore method therefore produces positive results, which it is intended to do. The results will be relatively stable and predictable, based on contract stipulated royalties and fees, over the years compared to the other methods, where several factor will affect the outcome. These positive results are highly relevant for the affiliation, which could envisage a positive result, i.e. royalty payments from the affiliated hotel. The method does not focus on the performance of the hotel, nor the value created.

Hotel B receives great value from its affiliation, more than MSEK 6, based on contribution Yr3, and is producing a substantial return on the investment. Interestingly, the initial investments, which are of concern for independent hotel owners seeking alternatives, is affecting less than the hotel owners anticipated. Although the present value of Hotel B's investment is SEK 1,180,000 compared to SEK 434,000 for Hotel A in Yr3, the former is creating a far higher BVAA.

As shown in Table 7, the cost related to affiliating (such as royalty and booking fees) used in the Rushmore-method is moderate in the case of Hotel A (SEK 144,000) and considerably higher in the case of Hotel B (887,000) for Yr3. At the same time, the benefits produced are very different – in the case of Hotel B the cost is only 13% of the value created. As the intention here is to create a method to calculate a BVAA for a hotel in a consortium, the treatment of the membership fees will not suffice, it is clearly necessary to look at the contribution created as well. A value is created and this value will be of utmost importance for any hotelier contemplating affiliating. The initial investment is affecting the end result, and as the aim is to calculate the BVAA in a way which makes it possible for the hotel owner to evaluate the options, or current situation, this needs to be included in order to produce valid results.

A method especially developed for the consortium is the main contribution from this study. Primarily as very little research is done on consortium companies and consortium members. This is achieved by including the initial investment associated with the adaptation process. Another factor is to add this to the NPV of the contribution achieved from affiliating. The individual hotel owners will now be able to measure the contribution and value created. The hotel will buy into a brand and the adaptation process could be costly and therefore affect the overall feasibility of the project.

Even if it primarily is a matter of matching a hotel to an affiliation, from various perspectives, the method presented here could produce figures which indicate major discrepancies between what the hotel owner pays and what they get from the money invested in such a venture. As an illustration, for Hotel A, alternative routes would be advisable as the membership is producing a negative BVAA. Could the money spent on the affiliation possibly be used more productively in another way – marketing efforts, up-grading of facilities, new management or a change to a, for this property, more suitable affiliation?

By looking at the key performance indicators for each hotel presented in Table 3, it is possible to identify the affects these will have on the BVAA. Significant are the substantial improvements in the key performance indicators and NOI for Hotel B during the period. This could be identified as attributable to the contribution associated with the brand, which consequently produces a positive BVAA. In this case it is evident that the key performance indicators are affecting the valuations for the BVAA. A better ADR (average daily rate) for hotel B generates a positive contribution attributable to affiliation for all three years. This stresses the importance the affiliation will have on the business, primarily as a revenue generator and as a value driver, i.e. the affiliation should be able to produce better figures for the participating hotels. If not, they cannot justify the fees and royalties payable. This is in line with previous research, a study by O'Neill & Carlbäck (2011) covering 51,000 hotels in the US, where affiliated hotels produced better NOI and occupancy rate than independent hotels.

As positive key performance indicators are results of a membership in a consortium and will affect the BVAA-value, it would be advisable to take this into consideration when choosing an affiliation. What do I, as an hotelier, need to improve in my business, and can this affiliation, with its business plan, fulfil this? The method could be used to simulate different scenarios in the decision making process.

It is possible to calculate the BVAA for hotels in a consortium context. The contribution of this study is the inclusion of investment relating to the adaptation process, i.e. get the hotel up to the affiliation's requested standards – something perceived by independent hotel owners as a major obstacle to affiliating.

This article is focusing more on issues which are relevant for the independent hotel owners seeking strategic alternatives for the future. By using the BVAA method, the foundations for important decision could be enhanced. It gives the opportunity to evaluate a membership in a consortium from a financial perspective - to evaluate if the invested money (fees, royalties and initial investment) are producing a fair return.

The results also support Tiwari's (2010) definition of brand value, which this method is based on. The measurement is the net present value of future cash flows from a branded product minus the net present value of future cash flows from a similar unbranded product - what the brand is worth to management and shareholders (Tiwari, 2010).

Managerial Applications

The BVAA-method offers managers, owners or decision makers a method to better understand the pros and cons of affiliating. In both hotels presented in this article, the owners or managers expressed only a vague knowledge as to what benefits the membership produced.

It is apparent that the BVAA can vary considerably between different affiliations. While the membership for hotel A is producing a negative BVAA, the case for hotel B is the reverse. There would be several factors to take into consideration before one can draw any major conclusions as to why this is the case. Based on the results, using the BVAA method, hotel A would have to consider alternative strategic possibilities, as the money invested in a membership is not producing an acceptable return (and during all three years the membership is costing money). As hotel A is a well-known business with a clear market presence, a first suggestion for an alternative future would be to discontinue the agreement with the affiliation, or alternatively look for a better suited affiliation. This would partly depend on the affiliations ability to create a positive BVAA and partly on how well the two entities match in a business perspective.

The method will also aid hoteliers and managers in their strategic business planning as different alternatives could be compared before any decisions are made. Expected results could further be compared to financial outcomes in order to facilitate more efficient corrective actions. The industry professionals could measure as to what extent affiliation would be a performance booster or if it would add market value to their business in the event of refinancing, disinvesting, mergers and acquisitions. The affiliation stakeholders could benefit from a method suitable to adjust their offering to independent hotels and therefore be more attractive and enhance their performance and growth.

Methods would both be beneficial for the hotel owners searching for information to enhance the strategic decision making, and for the consortium trying to attract new members. A greatly improved BVAA would produce a better market value for the hotel owner. By communicating this, the affiliations would have better possibilities to attract new members to a consortium and in a long term also be able to adjust the fees and royalty payments accordingly.

A more solid knowledge of BVAA-creation within organisations would open up the discussion regarding new ways to compute the royalties and membership fees. A higher BVAA-value created, based on the brand, could impose higher royalty payments and produce incentives for both the organisation and the individual hotels, not to mention the argumentation for actually joining a consortium.

Limitations and Directions for Further Research

The results from this study should be interpreted with caution, and the method should be tested and evaluated in more circumstances before one can draw conclusions. Even if the method in itself would be universal, considerations must be taken to the fact that the hotels used as illustrations are based in the Swedish market and the results may vary between different markets. One of the affiliations is Sweden-based and will operate in accordance with Swedish standards and practices. But as the hotel scene is homogenised, the results produced with the BVAA-method should be indicative for similar markets in other economies. Further, it should be taken into consideration that the illustration is based on two hotels with their own individual features and functions. And as it previously has been discovered (O'Neill & Carlbäck, 2011) the general economic climate will affect, not only the hotels' result, but also the value of the brand. A similar study over a prolonged period of time (including a recession and an economic upturn) would also produce relevant results, better indicating the possible value of a membership under certain economic conditions.

The use of income statements for the two hotels, where entries related to the affiliation are clearly presented, facilitates a straight forward identification of gross profit and incremental cost attributable to the affiliation. The figures related to the historic adaptation process present a different challenge, as some of the items, such as upgrading of certain facilities, i.e. bath rooms could have a residual value even in a case of a termination of the affiliation-contract.

One way to further test the method and enhance the knowledge would be similar studies in other markets, with larger selections or based on a selection within one organisation. This could provide more information regarding the actual BVAA within a specific organisation and the means to compare between organisations. It might well be that the BVAA greatly varies in any given chain, and factors such as location, size and amenities play an important role as to the magnitude of BVAA.

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GÖTEBORGS UNIVERSITET
HANDELSHÖGSKOLAN

From Cost Accounting to Customer Accounting in the Hospitality Industry – a Constructive Approach

Mats Carlbäck

LICENTIATUPPSATS I FÖRETAGSEKONOMI
J U N I 2 0 1 1

From Cost Accounting to Customer Accounting in the Hospitality Industry – a Constructive Approach

Abstract: The objective of this research project is to analyse and identify the role of tools used in the restaurant industry to improve resource management efficiency and performance, to develop and test the Experience Accounting tool, and to test and evaluate if this particular system is the system that could fill a gap in the hospitality industry.

The research is based on the notion that the hospitality business is part of the experience industry and is producing experiences rather than a plate of food and a bed to sleep in.

By using a constructive approach to first review the current situation and then use a case study to test and try to establish the practicality of the new management accounting tool, the goal is to lay the foundations for a tool that could be used by the practitioners in their quest for better utilisation of the resources at hand, by producing experiences better aligned with the guests willingness to pay for experiences.

The research identified a need for more sophisticated management accounting methods. Further, the study resulted in a new management accounting tool - Experience Accounting, which takes a step from cost accounting towards customer accounting. This new tool was received well by the practitioners involved in the Swedish restaurant business. The tool also contributed a valuable ad-hoc feature in terms of a possibility to get a snapshot of the business performance at any given time, as the use could identify the current performance compared to historic data, pre set aims or budgets. It could also be applied by managers or consultants as a benchmarking feature compared to industry standards.

Keywords: Restaurant Industry, Management Accounting Tools, Management Control, Experience Accounting, FAMM, Cost Allocation, Performance Measurement, Constructive Approach

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Department of Business Administration
School of Business, Economics and Law
University of Gothenburg
P.O Box 610, SE 405 30 Göteborg, Sweden

Content

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1. Introduction

Is the restaurant industry in tune with reality? If so, does it have the tools to manage its operations efficiently, and if not, how should such a tool be constructed to enhance the industry's full potential? One can argue that the restaurant industry produces more than just a plate of food to relieve hunger. The restaurant visits today are far more complex and every part of the meal is part of the experience. Every effort the restaurant makes, or allocates resources to, should add to the guest's perceived value and satisfaction and ultimately the whole experience.

But the standard management accounting tools in restaurants today are not taking this into consideration; instead most restaurant managers are still calculating and developing budgets as if they were producing products, not experiences. This gap is to a certain extent related to the availability of management accounting tools and the design of these. And as most business owners, regardless of industry, who want an efficient performance, would need tools to steer the firm in the right direction, it would evidently be beneficial with a tool that is in tune with reality.

By simplifying the notion of what is actually being produced in the industry, several dilemmas or problems could arise. Apart from the likelihood of running a restaurant that because of poor resource management is ignoring what the guests actually want and therefore are willing to pay for, it could also create ineffective strategic decisions. Important business strategies, such as pricing, budgeting, resource management, cost allocation, and performance management could be based on irrelevant measures or metrics.

An industry that wants to progress will need the best possible tools to do so, and in the restaurant industry it would make sense to base such a tool on experiences rather than products. This could be one way of tuning in the industry; to make the production better aligned with what the guests want.

But the apparent lack of a suitable tool is only one part of the problem. Management accounting in general, and more specifically for the restaurant industry, is faced with a gap between theory and practice. While theories are developed, by scholars, consultants, and larger companies, they are often rather limited in their applicability or simply not diffused or spread to the end-users, i.e. the practitioners. In industries based on a vast majority of SME's (small and medium sized enterprises) this problem is even more apparent as the time and money restraints make the diffusion even more difficult. In an industry such as the restaurant industry, with a lot of unskilled labour and a rather conservative approach, the problem is greater still. An efficient tool would therefore both be adopted to the production process in the restaurant industry and developed/presented in such a way that it would bridge the gap between theory and practice.

This research aims to analyse and identify the role of tools used in the restaurant industry to improve resource management efficiency and performance, to develop and test a management accounting tool based on the theoretical grounds that the customer and the perceived experience should be part of such a tool, and to test and evaluate such a tool's applicability and practicability in real operating restaurants and to identify areas for improvement. It is not within the scope of this research to come up with a fully functional new management accounting tool that fulfils all the needs from academia and the practical world, and that has been tested and diffused to the industry. It will serve as a base for this discussion and by combining the need of new developments, a tool that would bring new possibilities in terms of management accounting and the acceptance of the practitioners; it may break new ground and constitutes a solid platform to continue to build from.

2. Background

The hospitality industry - hotels and restaurants - are today producing experiences (the meal, the overnight stay, etc.) with a perceived value for the guest. It could be an exciting experience, such as a fine meal or a stay in a luxury hotel with an expensive price tag attached, or it could be a quick coffee or a few hours sleep in a budget hotel. In all cases, the perceived value of the experience would need to match the price charged. If not, the guest would not find it good value and turn to other alternatives. The ideal would be to use the resources at hand to produce a product or service that creates best possible value for the guest. The guest will then be happy with the consumption and not only come back, but also recommend the establishment to other people. By using the resources right and efficiently, the firm should be able to enhance the profit at the same time - not only by increased business - but also by a leaner production process.

There is a need for new and better methods for resource management (F. Mitchell, 2002). This is not specific to the restaurant industry; it is valid in many aspects of management accounting. A proportion of new management accounting techniques seem to be deriving from consultants or managers in the industry with the researchers there as bystanders, ready to analyse and comment on already existing ideas (F. Mitchell, 2002).

One way of researching resource management would be to look at what the large affiliations have developed in terms of new tools for the industry as a whole. If looking at it from the FAMM (Five Aspect Meal Model), four of the aspects in the model (Room, Meeting, Product, Atmosphere) were supplied by the chains/affiliations, but the affiliations left the fifth aspect (Management Control) rather untouched (Carlbäck, 2008; P. Jönsson & Knutsson, 2009). There is also a lack of relevant research in management accounting in the hospitality fields and the emphasis should be shifted to this vital area (Dittman, Hesford, & Potter, 2009).

By using a constructive approach and an aim to develop a useful management accounting tool for the industry based on existing ideas, the objective is to bridge this gap and create a tool better aligned with the needs of the hospitality industry. Cost management and resource management are some of the most debated and discussed issues within management accounting (Kaplan, 2006). As the restaurant and hotel industry produces experiences rather than products, the reasoning behind the accounting tool is to base it around the production of experiences (Andersson, 2006) and use the results to better allocate the resources at hand to what the customers are willing to pay for – to go from cost accounting to Customer Accounting (CA). While the focus before has been biased to cost as the most important parameter in the management accounting techniques, the idea is to use the customers perceived value as a base for the tool. In this case an alternative approach to customer accounting, where the actual customers willingness to pay is used as one important metric in the model as compared to previous more marketing oriented models which mainly are used for loyalty analyses and customer profitability analyses over its life time.

The idea of bringing in actual customers' or guests' valuations of services and products produced is becoming more important, as is exemplified by the VCM-model (McNair, 2003; McNair, Polutnik, & Silvi, 2001). This way of thinking stems from work relating to the experience economy (Pine & Gilmore, 1999) and seems to attract interest from both the research community but also among the practitioners.

A constructive approach (Kasanen, Lukka, & Siitonen, 1993) should not only add valuable knowledge about the present situation, but also lay the foundations for future development of an accounting tool based on these ideas, as the constructive approach is solving a problem through the construction of for example a new model (Kasanen et al., 1993). Kasanen et al.'s (1993) study shows that only a limited amount of research aims to solve a problem via the construction of something new, the research agenda is instead focusing on analysing, measuring and commenting on other peoples work.

This paper will be outlined in the following way; a theoretical review, a demonstration of the applicability of the developed solution (Experience Accounting), a demonstration of the theoretical connection, an examination of the applicability, conclusions and finally the articles.

3. Theoretical Framework

As a certain topic for research has been identified and a lack of a suitable tool for the industry has been established. A more in-depth review of management accounting in general and management accounting in the hospitality specifically, should provide a more transparent picture of the current use of management accounting tools in the industry. This section is organised as outlined in Figure 1. The aim of the section is to draw conclusions from this part to develop a solid foundation for the creation of a new tool. After the review of the literature relating to the hospitality industry (Figure 1) and the more common accounting techniques and methods (Figure 2), a description of the theoretical foundations for the EA (Figure 3) will follow in order to create a base for the development and testing of the tool.

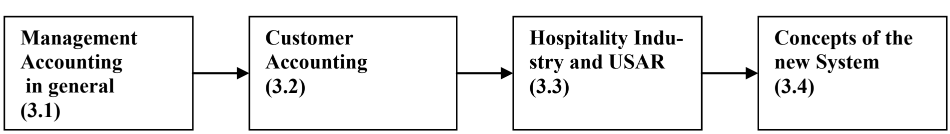

Figure 1. Outline of the first part of the section theoretical framework

3.1 Management Accounting in General

The purposes behind the accounting in most industries, including the hospitality industry, could be described as follows (Moncarz & Portocarrero, 2003):

- Financial - to record all transactions
- Cost - identify and control cost
- Tax - compute taxes due
- Auditing - verify accounting data
- Managerial - for management decision making

Financial, tax and auditing will all be part of the normal accounting activities and will in most industries be compulsory in order to be able to fulfil the regulations and norms of a specific country. It will also constitute a base for certificates and licenses.

In the Introduction and the Background sections above, some theoretical topics was identified and will be described further in the following section. It is not supposed to be exhaustive, but is based on the occurrence of these systems in the literature relating to management accounting in the hospitality industry. They are not necessarily the most common in practice, but the ones mentioned in discussions of the current situation, or in possible developments for the future. Figure 2 gives an overview of the management accounting tools presented in this chapter. The illustration is a description of the various techniques used and the amount of cost focus as opposed to customer focus that is entailed in the tool. The methods based on a cost approach are to be found at the left side of the illustration and an increasing amount of customer focus will move the method to the right.

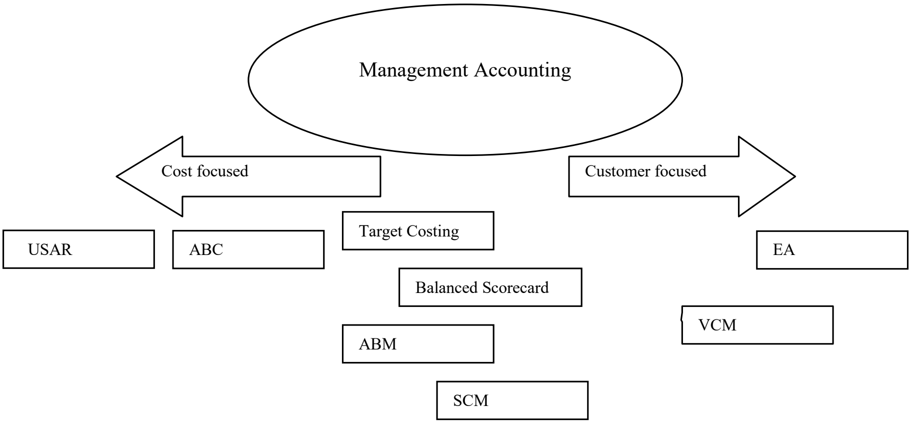

Figure 2. Important management accounting techniques with a customer focus

There are several attempts in the literature dealing with the challenge of relating customer value, price and cost to try to create new and efficient management accounting techniques (McNair et al., 2001). One of the most important methods and one that has attracted a lot of interest is *Activity Based Costing* (ABC) (Cooper & Kaplan, 1991; Kaplan & Cooper, 1998). ABC is built on identifying activities and assigning cost, of each activity, to all products and services, with focus on indirect costs. This helps the management to estimate the cost of each product and service and this can be used to measure profitability and price structure. The main use is for understanding product and customer cost and profitability and as a foundation for pricing, outsourcing or process improvements. With ABC it is possible to find the links between activities and resource consumption and it could indicate profit possibilities. Based on ABC a company can, with *Activity Based Management* (ABM), identify and evaluate activities, perform value chain analysis and create a base for strategic and operational decisions. *Target Costing* (Shank & Fisher, 1999) is a tool used in management accounting, where the target cost is maximum cost that can be added to a product or service to allow sufficient profit margin, based on the price the customers are willing to pay for such a product. This is mainly used in the early stages of production. Research has shown the possibility of using target costing along the value chain as well (Shank & Fisher, 1999). Another important and versatile management control tool is *Strategic Cost Management* (SCM) where the cost information is used as a base to formulate strategies, implement those strategies and later monitor these implemented strategies (Shank & Govindarjan, 1993). The *Balanced Scorecard* (Kaplan & Norton, 1992, 1998, 2000) has a certain degree of customer focus, but it is limited to build and maintain the relationship with the customers, create and increase new markets. Common for all the above mentioned tools is the lack of connection to the customer or guest perspective. The Balanced Scorecard, as mentioned above, touch on the subject.

3.2 Customer Accounting

If the focus is on overhead costs in the hospitality business, the allocation could be done in a more efficient manner than with current tools. At the same time, the resources at hand could be put to better use (Potter & Schmidgall, 1999) and a tool for this is needed (Heikkilä & Saranpää, 2006) – a tool based on customer accounting. Guilding and McManus (2002) identified the following possibilities with Customer accounting:

1. customer profitability analysis;
2. customer segment profitability analysis;
3. lifetime customer profitability analysis;
4. valuation of customers or customer groups as assets; and
5. a combination of the above.

In all cases the customer is analysed from the companies' perspective and is not included in the actual process, i.e. his or her perception of value created and willingness to pay for this value are not used in order to gain valuable management accounting information. The marketing literature is dealing more with this issue than the management accounting literature. The importance of customer based metrics such as customer satisfaction, customer loyalty and the drivers behind these valuables have been discussed (Helgesen, 2007). On the other hand we have the business metrics such as customer revenue, customer cost and customer profitability (Grönroos, 1990; Helgesen, 2007). The majority of the research in this field is based on a marketing framework and on a contribution approach, i.e. how the customers could be integrated in the marketing efforts of the company. Customer accounting has been more a way of including the customer in the performance measurement as a non financial measurement

(Lind & Strömsten, 2006).The expression Customer Accounting could here be misleading as customer accounting is actually based on the customer and the guest and their willingness to pay (Guilding & McManus, 2002). Customer accounting has to an increased degree been developed around the customer, but the emphasis has been put on the segmentation of customers and the profitability evaluation of customer segments and individual customers and even the profitability of a customer over its lifetime (Cooper & Kaplan, 1991; Guilding & McManus, 2002).

3.3 Hospitality Industry and USAR

In most cases hospitality accounting, in practice, will be based on and follow a pre-defined system or a system that is required by law or tax authorities. The most common systems in hospitality accounting are the Uniform System of Accounts for the Lodging Industry (USALI), Uniform System of Accounts for Restaurants (USAR), Uniform System of Financial Reporting for Clubs (USFRC), but local variations may exist (Harris, 1999). These systems are used as road maps for the responsible person in the company, so that all will follow the same format for recording revenue and expenses. As USALI and USFRC will relate more to businesses with lodging and clubs, we will here focus on USAR.

USAR is a development from the USALI and is used as a common language for restaurant operators and other stakeholders in the industry. It enables the user to analyse certain aspects of the performance and also compare the results to other in the same sector (Fuller, 1983). USAR is used as a tool for cost management, as opposed to resource management. The system is mainly used to identify the following from the income statement:

- Analysis of sales/volume
- Analysis of food expenses
- Analysis of beverage expenses
- Analysis of labour expenses
- Analysis of other expenses
- Analysis of profits

The current systems are based on production of a product or service and not an experience. USAR is primarily used for financial, tax and auditing accounting and gives limited information when it comes to management accounting, producing key figures and something to base future strategies on (Potter & Schmidgall, 1999). It produces accounts that are based on the cost and is not at all indicating the best utilisation of resources - not if these are efficiently applied in the operation and possible changes a different utilisation could add to the performance. It produces certain key figures that are useful, but is as a method, not sophisticated enough to allow for resource management and other more advanced management techniques (Dittman et al., 2009).

The USAR will only give the owner or manager certain key figures such as Gross Profit (GP), Net Profit, Payroll and other indicators that could be used for comparing the operation to different years or other operations. The USAR is to a large extent used to relay financial information to stakeholders, owners, managers, creditors, governmental agencies and the public.

A typical USAR statement could look like this (Harris, 1999):

	Dollar	%
Sales	100 000	100
Cost of Sales	-33 000	33
G.P	**67 000**	67
Salaries	-32 000	32
Rent	-8 000	8
Water, gas, electricity	-5 000	5
Administration	-5 000	5
Other expenses	-10 000	10
Net profit before tax	**7 000**	**7**

A USAR statement will fulfil the regulatory request and give the management the possibility to calculate a limited number of key figures.

The hospitality business would, based on its nature, therefore have to be analysed in ways adapted to its specific needs. These are examples of key indicators that are important in the hospitality industry (Harris & Mongiello, 2006; Moncarz & Portocarrero, 2003):

- ADR (Average Daily Rate)
- Check average (Average amount on bill)
- Occupancy % (Percentage of room occupied)
- Sales break-even point
- RevPAR (Revenue per Available Room)
- Profit margin
- Product cost %
- Product yield %
- Contribution margin
- Seat turnover
- Average food spend
- Average beverage spend
- RevPASH (Revenue per available seat hour)
- Cost of goods sold

This list in not exhaustive and only illustrates some key figures that are used in the hospitality industry. The USAR is only helpful in computing some of these indicators but if the manager will move in to more complex management accounting, where cost management and resource management is emphasized, USAR will not suffice. USAR is limited by the fact, that it is based on the creation of products, not experiences.

3.4 Elements of a New Tool Design

As outlined in Figure 3 a new tool could be designed and developed based on certain elements identified in earlier studies. The figure is based on the factors influencing the new tool development, i.e. concepts where influences have been drawn from in the process of creating a new tool, and these will be explained in more detail below. The reason to why these four have been chosen is partly their common factor of customer perspective and relation to the guest's experience and satisfaction.

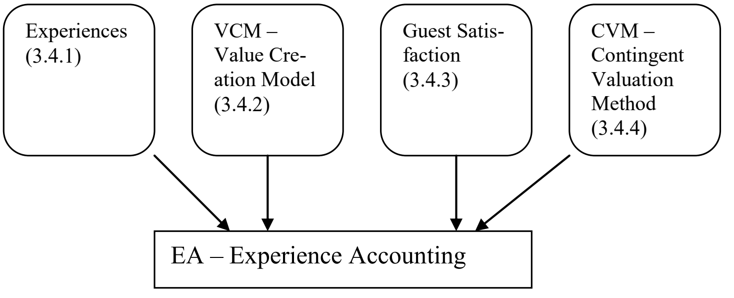

Figure 3. Elements in the development of EA

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3.4.1 Experiences

The restaurant experience, i.e. the whole experience that the guest is experiencing when visiting the restaurant, can be analysed in terms of satisfaction, perceived quality, and value. In the literature these are not always well differentiated and the weight attributed to each one of them varies, depending on school of thought. Oliver (1999) emphasizes satisfaction; Zeithaml (1988) perceived quality, and Holbrook (1999) value. For a more detailed discussion on the restaurant experience, see Article 2 below.

The most common accounting technique in the hospitality industry is a cost driven accounting, but lately the focus is on the customer management accounting tools based on them (McNair, 2003; McNair et al., 2001). By turning things around to look at the issue from the guests' perspective, a more relevant method could evolve, one that takes the customers evaluation of the goods and services into consideration. Pine and Gilmore (1999) paved the way for a new way of looking at the issue, by saying that in the future the way forward for any business will be the ability to produce experiences and not just products. The competitive advantages would then be based on the experiences a business can offer existing customers and new ones and not only the price, not least in the tourism and hospitality industry (Pine & Gilmore, 1999) . Budget chains in the hotel segment, fast food outlets in the restaurant segment, cheap mass tourism destination in the pure tourist segment and no-frill airlines in the transportation segment have all made a tremendous impact and in many ways changed the way we are travelling and where and what we are eating and drinking. Even if Pine and Gilmore's book states that experiences and the value these experiences present to the guest/client is important, it looks like the budget alternatives are here to stay and will make up an important and considerable part of the industry. But, at the same time, special experiences are seeing a revival as people are looking for different things, and not just the cheapest alternative. The Canary Islands have reinvented itself as something different than the cheap mass tourist market it used to be (Díaz-Pérez & Álvarez-González, 2005). The boutique hotel segment is very popular and growing (Rushmore, 2001). The same can be said about most forms of tourism, where the trend is shifting from sun & sea holidays to more experience driven activity holidays, themed in various attractive ways; green holidays, experience holidays, nature holidays, active holidays (Stamboulis & Skayannis, 2003). The discerning customers are looking for experiences that create a value and this will have to be incorporated in the business strategy of any business interested in remaining in the industry (Mattila & O'Neill, 2003). But, regardless if the company is using budget driven and experience driven accounting, they will still have to base the offering on producing experiences that perceived as good value for the customer or guest. It will therefore be paramount in most activities to include the customer's valuation of the experience in any sound business thinking. It may not be enough to produce the cheapest deal or best offer, if this is not perceived as valuable for the potential guest or customer.

3.4.2 The Value Creation Model - VCM

As the customer will pay for the perceived value of a good or service and not the cost (McNair, 2003), it becomes more evident that the management accounting tool should be geared towards the customer guest perspective rather than the cost perspective. The Value Creation Model (VCM) is taking into consideration the customer's willingness to pay for a service as a base for cost management. In line with McNair's (2003) ideas, a new tool that is dealing with the question of producing what is right - seen from the customer perspective could improve the situation.

McNair and fellow researchers have developed this further by the VCM model where the market price is the boundary for what any company can charge for any given service or product, understanding the value, from the customer's perspective is the key to a completive advantage. Failure to do so will decrease the company's possibilities in the market place. An efficient company will therefore have to create the highest possible profit margin within the boundaries set by market price, used as a proxy for present economic value, and costs. The guests are willing to pay for value-adding core activities and the difference between this and the market price can affect the profit. Here is room for waste and profit, and consequently less waste would produce a higher profit (McNair et al., 2001). With the Value Creation Model (VCM), McNair and fellow researchers try to align costs to market value approximated by the current market price (McNair et al., 2001).

One of the most important aspects of the VCM model is the value multiplier, which enables the calculation of how much of the firms' cost that is focused on improving the firms' profit and potential. The value multiplier is the relationship between the revenue and costs adding value, and even if it is considered an important feature it only highlights an average level of performance for the firm (McNair et al., 2001). A ratio of four as a value multiplier would indicate that the value-added activities created a value four times the resources used. This again would be advantageous for any manager in the hospitality industry in making strategic decisions regarding how to allocate the resources. The value multiplier has been put to limited use in the literature, but certain research has indicated that it does not produce completely reliable results. (Lindén, Olander, & Strängberg, 2009).
A study in Sweden indicated the VCM model was applicable in the hospitality industry (M. Jönsson & Eriksson, 2006) where some interesting results directly usable in the industry were

produced. If the customer side will be of more importance, it should be interesting to draw from the VCM model and align it with more specific needs of valuable information for strategic decisions in the hospitality industry.

3.4.3 Guest Satisfaction

Guest satisfaction is often measured and used in studies relating to restaurant experiences as a way of quantifying the guest's perception of the total experience. In the overall satisfaction concept, factors such as food quality, restaurant atmosphere, and fairness of seating procedures (Sulek & Hensely, 2004) are included, but there are several more aspects of the meal that could be included. See section 5.2 and article 2 for a more detailed discussion on guest satisfaction.

To create a method that takes the customer into consideration, it will be paramount to identify the underlying aspects of the guests' satisfaction and reasons behind such a satisfaction. While the topic of management accounting is under-researched fielding the context of hospitality, the topic of customer satisfaction is well researched and discussed. A successful customer satisfaction programme could be incorporated in the company's corporate culture and in the management accounting systems (Pizam & Ellis, 1999). If it is important to satisfy the guests in today's competitive environment, the measurement of customer satisfaction becomes more and more crucial (Pizam & Ellis, 1999) and naturally efficient new methods aiding the business performance have to take this into account. The FAMM model is one way of looking at all the aspects of the total guest experience (Gustavsson, Ostrom, Johansson, & Mossberg, 2006). The FAMM model produces a framework for looking at the restaurant business and how to adapt it to the clientele. It divides the restaurant experience into room, meeting, product, atmosphere and management control system, but is limited in its usability as to observe and measure fixed aspects and find solutions to these without including the guest as such. Another interesting and important model do draw from is the Mehrabian-Russell (M-R-model) (Mehrabian & Russell, 1974), which has been modified to suit the dining experience (Ryu & Jang, 2008). M-R takes the inclusion of the guests experience a step further. The model divides it into three parts; environmental stimuli, emotional states and approach or avoidance responses (Mehrabian & Russell, 1974). These models add to the SERVICESCAPE (Bitner, 1992) by bringing in environmental stimuli and emotional issues to get a clearer picture of the whole experience and the factors that make up the important part of any guest's satisfaction (Ryu & Jang, 2008). This research shows the importance of all factors affecting the guest's satisfaction and will be important to include in any discussion on guest satisfaction.

There is a need for a new management accounting method to fulfil these issues and to take the importance of the guest value into consideration, as guest satisfaction is vital for any business' performance and there is a direct link between guest value, guest satisfaction and performance (Gupta, McLaughlin, & Gomez, 2007). By using existing resources to produce maximum quality of products and services the restaurant will create high customer value and consequently, if controlled right, an efficient operation (Kim, Oh, & Gregoire, 2006).
It would therefore be fair to base a new management accounting tool on these grounds, as the tendency now is to use the guest's perception as an important aspect of any strategic decisions in the hospitality industry.

3.4.4 The Contingent Valuation Method – CVM

In order to measure the customer value there are two dominating methods, developed scale and contingent valuation. In order to fulfil the requirements of this research project a method that can measure in monetary terms was needed. The contingent valuation method (CVM) was developed to produce results in monetary values where Willingness to pay (WTP) is the measure (R. C. Mitchell & Carson, 1989). The method was primarily developed for public goods without market price but has been identified as promising in other types of research as well (Wiser, 2007). For a more detailed explanation of WTP and samples of the questions used in CVM-methods, see Article 2 in this compilation.

3.5 Theoretical Results

The theoretical focus in general is turning to more customer based accounting and pricing (McNair et al., 2001) and this could be valid for the hospitality industry. To change from cost accounting to customer accounting is in line with the scope of this research, and by taking the notion of customer accounting a step further and to actually take the customers perception into the equation could lead to new possibilities.

By adding the guests' view of the value, price, experience, and satisfaction, the owner or manager could, in theory, be able to see the operation from the other side - the side of the paying guest. If the business manager knows what the guest wants, and even better, what the guest is willing to pay for this, he or she can align the business after that.

If the target guest for a particular restaurant frequents the place for the service, the culinary finesse or the atmosphere, then the proactive manager could allocate the resources to fulfil this need. If on the other hand, the target guest is after a meal that will relieve hunger, then the manager can allocate the resources as to be able to produce good size portions at a fair price (a canteen for example), at the same time as less money, or resources, are spent on atmosphere, culinary finesse, etc. These efforts would be wasted, as this is not what the guests to that particular restaurant want. To use the resources to produce excessive experiences could be inefficient for the business as these resources could be put to better use elsewhere.

3.6 Design of a New Tool Based on Theoretical Results

To develop a tool more adapted to the hospitality industry and its specific needs could be valuable and the idea would be to draw from ideas and theories in the more current studies presented above. The focus is shifting towards the customer and to be able to include the customer it will be necessary to include the value created and perceived by them.

The tools used today do not give any key figures or data that could be used for such refined strategic analyses. The tools are too ineffective to produce any measures or prognostics, and the person responsible for the business is forced to rely on "gut feeling" or base decisions on inaccurate data or even irrelevant data. This could lead to poor performance, or worse - a poor performing industry, lagging behind other industries where newer methods are being implemented.

While before the focus of management accounting in the hospitality was based on producing products and services as cheaply as possible, regardless if those products of services are the ones wanted by the paying guests or not, there is a now a shift to a more guest based approach (P. Jönsson & Knutsson, 2009). It will therefore be important to look at what the guests want. To rectify this, the Experience Accounting tool (EA) was developed as explained below.

3.7 Experience Accounting –The Method

Experience Accounting (EA) was developed (Andersson, 1991, 2006; Andersson & Carlbäck, 2009) based on the idea of a more customer related tool and previous studies relating to customers' perceived value of obtained products and services (Andersson, 2006). EA is a two-way approach where the cost of the production of experiences is compared to the perceived value of the very same experiences, seen from the guest's perspective.

The basic idea behind EA is to develop a management accounting tool well aligned with the production of experiences based on the above discussion. The foundation is a management accounting tool where the costs are allocated to the production of four major types of experiences. As the restaurant experience could be divided into basic food, culinary finesse, service, atmosphere, company at the table and other guests (Andersson & Mossberg, 2004), but as the two latter to a certain degree fall outside the control of the management, they are not included in the accounts. Four new accounts for basic food, culinary finesse, service and atmosphere were created and the costs for the full year were divided to the four accounts as to what experience they were part of creating. Potatoes, water, salt, salary for kitchen-hand, etc, were allocated to the "basic food" account, while prawns, wine, fillet steak, salary for the head chef, etc, were posted on the "culinary finesse" account. Equally, for the service, most of the service staff wages were posted on the "service account", and music, decor, investment in atmosphere increasing activities were all allocated to the "atmosphere account".

This created a completely new picture, where all costs were distributed to accounts in relation to the experience they produced. By this, every manager could see exactly what went into the production of each guest offering. Simultaneously a guest survey is carried out, where the guests *Willingness to Pay* (WTP) is measured for the actual restaurant experience, but also for an ideal restaurant experience. By using *Contingent Valuation Method* (CVM) (R. C. Mitchell & Carson, 1989), the results are produced in monetary terms, hence comparable to the data from the accounts produced above. The CVM method gives results in monetary terms and has mainly been used to value public goods. It has also been used to put a value on other private goods (Wiser, 2007).
Restaurant owners and managers will now be able to see where the resources are used (based on cost) and what effect they will have on the guests' perceived value. This will indicate if the resources are deployed efficiently or if they could be used better in an alternative way.

In this first instance, the EA was aimed at the restaurant industry, but it could, with small adaptations, be adjusted for use it the hotel industry. The framework illustrated in Figure 4 is presented as a guideline to the development of the new tool.

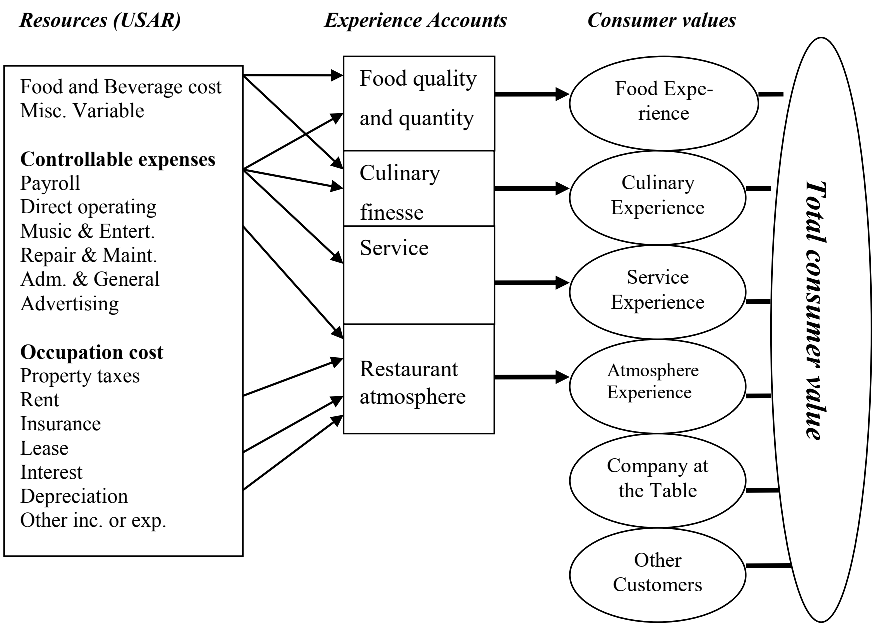

Figure 4. Proposed analytical framework for assessing the efficiency of experience production by a comparison of customer value versus accounting cost. (Andersson & Carlbäck, 2009)

4. Research Questions, Objectives and Research Design

4.1 Research Questions

Based on the discussion above, the following research questions were identified:

A. What is the role of management accounting tools in the hospitality industry?
B. How could a management accounting tool be constructed in order to add efficiency and performance in terms of resource management?
C. How would the practitioners perceive such a tool in terms of usefulness?

4.2 Research Objectives

The objectives with this study are:

A. To analyse and identify the role of tools used in the restaurant industry to improve resource management efficiency and performance.
B. To develop and test a management accounting tool based on the theoretical grounds that the customer and the perceived experience should be part of such a tool.
C. To test and evaluate such a tool's applicability and practicability in real operating restaurants and to identify areas for improvement.

4.3 Research Design

The following section will explain and describe the design and methodology used in this research project.

4.3.1 The Constructive Approach

Based on the discussion above, where a problem has been identified, a theoretical review has been conducted and a possible solution has been developed in terms of a managerial construct, this research falls within a practical field. Management accounting is in several ways an applied and practical field and therefore open to research with a constructive approach. Kasanen et al. (1993) describes the process of a constructive approach as follows:

1. Find a practical relevant problem which also has a research potential.
2. Obtain a general and comprehensive understanding of the topic.
3. Innovate, i.e. construct a solution idea.
4. Demonstrate that the solution works.
5. Show the theoretical connections and the research contribution of the solution concept.
6. Examine the scope of applicability of the solution.

This particular research project follows this approach in all six points (Kasanen et al., 1993). Keating (1995) is also discussing different approaches to a more theory defining research within management accounting. Kasanen et al. are illustrating the constructive approach in the following way:

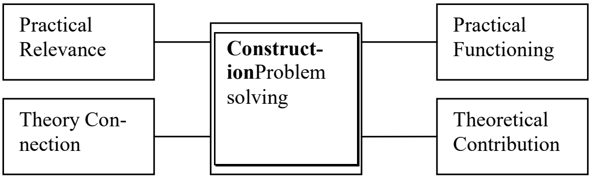

Figure 5 - Elements of Constructive Research, adapted from Kasanen, Lukka and Siitonen (Kasanen et al., 1993)

To be classified as constructive research it is necessary with a combination of problem solving and theoretical knowledge.

In this particular project, a practical and relevant problem was identified - in this case a lack of relevant management accounting techniques in a specific industry. To follow the constructive approach, a thorough understanding of the current situation and the literature was obtained. The EA technique was developed and its workability was tested. In the articles the theoretical connections are presented and by presenting the EA to the practitioners the last point, the applicability test, was dealt with. The constructive approach, as outlined above, appeared to be well suited for research within the hospitality industry due to several factors prevailing in the industry.

Management accounting in the hospitality industry is less developed compared to many other industries, as few of the tools have been adapted to the industry. (Dittman et al., 2009). The hospitality industry is dominated by small independent owner-run establishments, where neither interest nor time encourage any deeper interest in research results (Carlbäck, 2011). The majority of the working hours are devoted to ensure that the business is running as normal and new innovations or techniques are often met by scepticism. To adapt to running a new tool takes time and effort - two aspects the restaurant manager or owner viewed as very scarce resources. The second issue is that the debate takes place in academic journals and at conferences, not the forum that would attract the small scale business owner.

Hence, the research needs connection to the practitioners and the research needs feedback from the user of such tools, not only to verify its applicability, but also to see it diffused in its real environment. Apart from identifying the need and come up with something new - it is also a matter of getting the message across, both to the research community and the business community. This process of testing and diffusing it, would be a necessity for any advancement (Ax & Björnenak, 2004; Björnenak & Olson, 1999). The task, once the need is identified to tackle the issue, would be to produce a valid solution and spread it to the users. The purpose of management accounting tools or cost management tools is to be used in a real business environment and provide a valuable tool for managers and owners interested in taking their business further or make the operation more efficient and leaner. In management accounting research it is often a case of doing research on existing tools and to look at questions as why it is used, by whom it is used and why an alternative is not being used (F. Mitchell, 2002). The innovations come from the companies themselves or to a large extent the consultancy industry. The academia seems to be happy to watch and analyse already developed tools and criticize them or describe to what extent they are being adopted in the real world (F. Mitchell, 2002). There have been some major developments in academia, like ABC and the Balanced Scorecard, but in its wake we can also see criticism (Nörreklit, 2000, 2003) rather than any constructive approaches as to develop new methods or at least work on possible improvements for existing tools (Kasanen et al., 1993; Kasurinen, 2002). Under-representation of constructive approaches in the literature is evident, as few articles deal with matters within this field.

4.3.2 Research Format

Based on the constructive approach, the research project was divided into three parts, each resulting in the publication of a corresponding article. The initial part (article 1) was a review of the current situation, focusing on tools available to businesses in the industry, using the Five Aspect Meal Model (FAMM) as a framework. By identifying what the chains and organisations have to offer potential new members or start-ups, the aim was to analyse to what extent the management control or management accounting side was covered.

The second part (article 2) was a case study of three selected restaurants. The yearly income statements from each restaurant were analysed and re-worked to four experience accounts, simultaneously as a guest survey was carried out to identify the very same restaurants' guests' willingness to pay (WTP).This was achieved by using the Contingent Valuation Method (CVM) (R. C. Mitchell & Carson, 1989). This resulted in monetary values for every guest's willingness to pay for each part of the service experience.

Cost accounts were made in close cooperation with the managers for every outlet to get as accurate figures as possible. As opposed to the traditional USAR (Uniformed Systems of Accounts for Restaurants) the costs were allocated to four experience accounts (Basic food, Culinary Finesse, Service, and Atmosphere) which were developed around existing literature on the subject (Andersson, 1991, 2006; Andersson & Mossberg, 2004; Oh, 2000; Sulek &

Hensely, 2004). The results from the two parts were compared and analysed to produce a foundation for the concept Experience Accounting.

In the third part (article 3) the managers were interviewed in a semi-structured way to be able to identify their opinion on the experience accounting tool. This was followed by a seminar with invited representatives from the Swedish restaurant industry. Again, the results were presented and the participants (around 40 managers/owners) were encouraged to voice their impression of the results and to come up with possible improvements and comments of the applicability of the tool. The questions and comments were duly recorded and analysed by relating the answers to the research questions to see to what extent EA was needed, appropriate and applicable.

5. Results, Analysis & Conclusions

5.1 Article 1- Carlbäck, M. (2008). Are the Chain Operations Simply with it? Five Aspects Meal Model as a Development Tool for Chain Operations/Franchise Organizations. *Journal of Foodservice, 19*,(1), 74-79.

The first phase of the research project, which resulted in article 1, is a review of what the affiliations have to offer growth oriented individual business owners – in this case the hotel and restaurant industry. The focus was on what advantages the chains could bring to individual hotels and restaurants. The aim was to identify the current situation and a possible need for new tools that were not made available through affiliation.

This survey indicated a need for more practically adaptable management accounting tools in the hospitality industry. Management accounting was the one area where the affiliations did have limited offerings to the participating hotels and restaurants.

The independent firm would not have the time, nor the know-how or theoretical background to develop and use management accounting tools. And, the issue of affiliating would not improve the prospects. The reasons to affiliate for a growth-oriented business would, in the hospitality business, be more related to a brand, central reservations systems, central purchasing and loyalty cards and not to acquire more sophisticated management accounting tools or indeed other models aimed at improving the actual performance of the company.

The efforts, related to chain affiliation, are rather concentrated on increasing the amount of customers and at the same time on increasing the margin, not so much on ensuring that the existing resources at hand are utilised to its maximum. The chains and organisations could offer central reservation, central purchasing, loyalty card and so forth, but little that would help a manager and owner to control cost and allocate resources at hand more efficiently. This is not possible to find neither in the literature nor in the practical world of hospitality. But the very same literature stresses the need for more research in the area, more relevant research and more applicable research (P. Jönsson & Knutsson, 2009). Not least in the hospitality business is this evident, as the few studies dealing with the subject of management accounting and hospitality, states the lack of research, rather than presenting new and relevant research. By using the FAMM framework it was evident that most of the focus is put on the room, the meeting, the product and the atmosphere and not the management control part. Consequently, this part of the research answered the question; "What is the need for a management accounting tool in the hospitality industry?" even though in this case it is more limited to the restaurant business. This would be the natural first step in a constructive approach and this would lead on to the actual construction of a possible solution to the problem.

5.2 Article 2 - Andersson, T. D., & Carlbäck, M. (2009). Experience Accounting: An Accounting System that is Relevant for the Production of Restaurant Experiences. *Service Industries Journal, 29*(10), 1377-1395.

In the second phase (article 2) a tool was developed and tested on three cases – three individual "middle-of-the-road" restaurants. The accounts were re-worked in order to allocate the expenses to "experience accounts"; developed to indicate the implication every expense would have on creating an experience. This was compared to the results from a customer survey based on the customer's perception of experience created and the customer's willingness to pay for every additional step. The study produced a model which gave the business' owners or managers a new insight into the use of resources at hand by including the customer's view of the value created in the metrics and thereby a possibility to assess the whole business strategy around the customers. The results showed clear discrepancies between the way the owners and managers used the resources and what the customer wanted and was willing to pay for. This opens new ways for the astute manager to look at the resources at hand and allocate them in a way that would improve the customers experience and perceived value. This could be small details like certain ingredients in the food, to more capital intensive activities like a refurbishment of the whole local or a focus on more service. Apart from being a valuable tool for any decision maker in the industry as how to improve the business, it also gave anyone with an interest in the development of that particular firm a snap-shot of the performance at any given time. This result could be used by owners, managers and consultants who would like to identify the current situation and to try to find ways of improving the business performance. This phase of the study contributed with knowledge in response to the question; "How could a management accounting tool be constructed in order to add efficiency in terms of resource management?", and was a practically important step in this constructive approach. By conducting the research in a real, practical environment, the implications of such as tool became more transparent.

5.3 Article 3 – Carlbäck, M. (2010). From Cost Accounting to Customer Accounting in the Restaurant Industry *Int. J. Revenue Management, Vol. 4, Nos. 3/4, 403-419*

The last part of this project (article 3) was a presentation and initial test of Experience Accounting to the participants in the initial survey and also representatives for some of the leading restaurant companies in Sweden. The interviews and the seminar, where the functionality of the tool was explained, indicated that the tool was useful, but needed further testing and adaptation in order to be fully integrated in the current business environment. The response from the industry was positive and several ways of enhancing and adapting the tool were suggested. The respondents could see clear advantages with stepping away from the more traditional way of looking at resource management and cost management. The general consensus was that new tools were needed and EA was a step in the right direction. Several benefits were identified, such as a shift of allocation of resources from one area to another, pricing, strategic investment decisions – just in line with the aim and objectives of the task. When using a constructive approach it is important, not only to get the results tested or evaluated in a real environment among the end-users of such an innovation, but to initiate diffusion and a testing process, where the practitioners not only get to know that such a method is there to use, but to ensure further spreading and hopefully create a debate and discussion around such a development. This part answered the question of how the industry would perceive and react to this new way of thinking with regards to resource management and to what extent the industry is ready to adapt to innovations.

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6. Summary, Managerial Applications, Theoretical Contribution and Further Research

6.1 Summary

The review of previous research clearly indicated a need for research into applicable management accounting in general and in the hospitality industry in particular. The fast moving industry is not up to date with accounting tools relating to the management accounting side of running the business. Not even large companies, like multinational chain operations, can offer relevant management accounting tools. Regardless if the restaurant is independent or part of a chain, the aspect of management accounting, cost allocation, resource management and similar issues, will have to be dealt with in-house and with proprietary tools. The lack of such tools will however make it more difficult for most business owners or managers from going deep into management accounting techniques and will therefore risk the situation of running a company below its true potential. This research has showed that it works and could thereby rectify some of the issues addressed above.

The actual development of the Experience Accounting tool produced some interesting results apart from laying the foundation for a management tool for the hospitality industry. It gave a different picture of the cost allocation and utilization of resources at hand than that of the traditional methods.

Seen in a longer period, the accounting tool, if properly used, presents new ways for operation managers to align the performance of the business with customers' needs. Any restaurant should then be able to draw resources from areas where they create very little value for the customers or guests to other areas where they create better value – something the guests are more willing to pay for. It would however require additional administrative work, something many time-constrained restaurateurs would object to, and consequently, any use of the tool will be based on a trade-off between possible enhanced efficiency and additional time spent on allocating costs and conduct guest surveys.

6.2 Managerial Applications

The Experience Accounting tool is developed for use in restaurants, by restaurateurs and should hopefully enhance the business performance for anyone prone to adapt new ideas and methods. The reasoning behind the tool has been described above and for any manager in the industry it will be one way to, in a possibly better way, allocate resources and costs, to get a clearer picture of how the business is performing – by comparing to what extent the guests are getting what they want, which is fundamental for success in the restaurant industry. The manager will then be able to compare the use of resources with what the guests are willing to pay for. But the use would require properly maintained accounts and a willingness to spend additional time on a tool that for many, especially smaller outlets could be perceived as time wasting. Many smaller restaurants would neither have the time nor the interest to increase the burden of paper work.

The proactive manager, with an interest in trying new tools, could use Experience Accounting to improve the firm's performance via better cost management, resource management, budgeting and planning.

For the consultant, it adds a useful and applicable tool to get a clear view of where the restaurant stands at any given moment in time and to identify problematic areas where improvements could be introduced. The research shows a need for this type of development amongst the practitioners, since the Experience Accounting was met with enthusiasm from the restaurant community in Sweden, and further testing was suggested.

6.3 Theoretical Applications

Based on the initial discussion, both regarding lack of development of new and specifically dedicated management accounting tools and poorly adopted management accounting techniques in the hospitality industry, the use of constructive approach as a method was decided suitable for this research project. As the aim from the beginning was to identify a relevant and currently existing problem and to find a solution to this problem and finally evaluate its applicability, the roadmap of constructive approach fitted well into the objectives of this project. In the literature the constructive approach is mainly described as a method suitable for similar cases, but there are very few examples of where it has been put into use in a more direct context (Kasanen et al., 1993).

This particular research is on the other hand following the method all the way through and should by this add a valuable contribution, exemplified by a research project that has been conducted based on this method. As some areas of the social science research suffer, like management accounting, from a lack of connection to the need from the practitioners, i.e. some of the research and results are not connected to the problems or questions the industry is faced with and would like answers to, the use of constructive approach could rectify this dilemma.

The involvement of the representatives from the industry in the project did not only present valid and interesting research questions and problems, it also provided valuable feedback in the later stages of the project, in the validation phase. Apart from the fact that the researcher could retrieve valuable comments and suggestions for the further development of the method, a certain kind of diffusion process had also been initiated. With other methods and approaches, the results would be kept within academia for a prolonged period of time and the valuable input from the practitioners will come into play much later. One problem is to relay the message in such a way that practically oriented entrepreneurs actually can grasp the consequences and provide feedback that would be relevant for the development. Many practitioners would accept suggestions and developments from the academia with caution and therefore only participate to a limited extent. This was, and will be, an obstacle with any research including practitioners with limited time at their disposal.

By using the constructive approach, the results, in this case a new tool, have already found its way into the end users – the practitioners – and any further development could be a process of input both from fellow scholars *and* the industry. The need for, or rather lack of, suitable tools has been identified, and EA has also, in theory, been identified as a useful way of adding to this lack of knowledge and present a platform to build on. The idea to base the resource and cost management on the experiences produced is a theoretical step forward and could be used to develop the research within several areas on strategic progress.

6.4 Further Research

This research project was intended to create a solid ground for the development of new management accounting tools in the hospitality industry, by using a constructive approach. The idea was also to initiate a new way of thinking in order to break away from the traditional tools for this, in many ways, unique business segment. The need was identified, the first general idea of an accounting tool was developed and later presented and tested with the real users of such a tool.

The next step would be to test Experience Accounting in a real environment in one or several restaurants during a prolonged period of time to evaluate its practicability and also identify possible problems. To simultaneously run guest surveys to establish the correlation between the actual performance of the restaurants and the guests' view of the establishment would add to the process further. A thorough follow-up process with detailed interviews to collect feedback from the participants would bring additional knowledge and help the modification process, before a more general diffusion process.

As the Experience Accounting tool, in its present form, would be equally applicable for the hotel industry, it would be beneficial to do a similar research process on initially two or three hotels, in order to get the foundations right and then follow the path outlined above, in order to be able to implement changes and amendments to the tool. In theory, the two projects, restaurants and hotels, would be very similar, and it should be possible to draw from one to the other in order to speed up the refinement process.

It would also be interesting to use the Experience Accounting tool to set prices in one or several outlets to be able to analyse the effects on the overall turnover while the guests experience level would increase, based on a new pricing structure. By using the guest’s willingness to pay for certain experiences, there is a possibility to get away from the traditional system, where a standardized mark-up to cover indirect costs is applied to the actual cost of the product. This is normally a fixed percentage calculated on the product's cost. Expensive items such as fresh fish, shellfish, game and expensive wine will then have to carry a proportionally higher part of the indirect costs. If instead a fixed mark-up, i.e. 1 dollar/euro, for atmosphere, culinary finesse, service and so forth is added to the cost of the product, the indirect costs will be more evenly distributed among the different items on the menu. This could result in a better choice for the guests, as items with high cost of sale (COS) could be less expensive and items with cheaper raw material could be a bit more expensive. Guests would then have a better possibility to choose what they want from the menu rather than just the more inexpensive items.

Preliminary calculations and interpretations of the results from the study indicate that the use of Experience Accounting would not affect the total sales, but a more thorough study would be required to analyse the implications on sales and to get more solid empirical data. Suggestions from participating practitioners did challenge his proposal and without a full scale test, it would be difficult to draw any conclusion as far as the effects the use of Experience Accounting would have on the income. It could also be difficult or complicated for the restaurateurs to interpret and apply any results to the operation.

A possible integration with the *Value Creation Model* (VCM) (McNair, 2003; McNair et al., 2001) could add both theoretical weight and potential practical advantages for both ideas. The VCM model has been described in a hotel context (M. Jönsson & Eriksson, 2006), but an empirical study aimed at the pure restaurant business in conjunctions with the ideas from the Experience Accounting tool, would certainly lead to opportunities to refine and develop both models.

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Original article

Are the chain operations simply with it?: Five aspects meal model as a development tool for chain operations/franchise organizations

Mats Carlbäck

School of Business, Economics and Law, Göteborg University, Vasagatan 1, P.O. Box 610, SE-405 30 Gothenburg, Sweden

Correspondence:
Mats Carlbäck, School of Business, Economics and Law, Göteborg University, Vasagatan 1, P.O. Box 610, SE-405 30 Gothenburg, Sweden.
Tel: +46 (0) 708 427296;
Fax: +46 (0) 31 7864652;
E-mail: mcarlback@phica.biz

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Abstract

The issue of belonging to a chain or affiliation, or indeed the right one, is becoming more and more vital for all participants in this fast moving and highly competitive business and could be a key factor for success or failure. However, how does one choose and in what ways it is possible to get the concept right and in line with trends, cultural and social aspects? And what possibilities are there to keep the concept uniform and easy to relay to current and future participants alike? One factor is what the chain actually offers as possible new outlets. If the chain organization lacks clear models, clear concepts or does not grasp new and important trends evolving on the scene, the outlook for individual members looks less promising. This paper examines how the five aspects meal model, as used in the Department of Restaurant and Culinary Arts at Örebro University (Gustafsson *et al.* 2006), might be used to better understand chain/franchise operations and the environment in which they work. Hopefully, it could help chain organizations and individual businesses to develop strategies for the future.

Introduction

Chain affiliation is a growing phenomenon in the international hospitality scene. In the USA, it has been playing an important role for many decades to increase business, create value, drive expansion and establish powerful brand names. Even though it is not new to the European or the Swedish market, theoretical understanding is, to a large extent, undeveloped and this creates a gap for new research to be conducted. The trend is here to stay and industrial data quite clearly show that Europe and Sweden will follow suit in this development and more and more individual hotels and restaurants will join affiliations in order to reap the benefits offered by participating in large organizations with strong purchasing power and a powerful marketing organization, not to mention the added value of a well-recognized brand name.

However, simply belonging to a chain or affiliation is not a guarantee for instant and unconditional success. The concept has to be right, the circumstances relevant for the case and outlet and the organization should match. An already established outlet, or an outlet with unique features, may not benefit at all from carrying an affiliation flag. In fact, research in the USA shows that some individual businesses perform as well, or even better, as affiliated ones in some areas (Mieyal Higgins 2006). For the individual, independent business owner, it therefore becomes a matter of choosing the right strategy, not only with whom one should affiliate, but also if one should affiliate at all. On the other hand, chains franchising is a strategy for growth for the affiliations, and it is very important for them to be able to attract new outlets and to maintain an ongoing valuable business concept (Cunill 2006).

Both these cases need tools to develop their businesses for the future. A family-owned restaurant needs to decide on strategies to take the business further, while franchisors and chains must ensure that they are fully aware of trends, fashions and habits, and that the concept they offer adheres to these. Losing touch with reality is hazardous for any player in the game. If the chains are no longer 'with it' and cannot create a meal or event that attracts customers at a reasonable price, a major rethink is probably necessary. The process of developing concepts, strategies and business plans could be greatly enhanced for chains and large corporations by using clearly defined, industry-accepted tools. The actual implementation of ideas and the execution of training, supervising and control should also be part of a more structured and organized process. For the individual business owner contemplating affiliation, finding a suitable match for present and future goals and plans for the business would both be easier and more accurate, leading to less risk of failure and fewer expensive detours (Rushmore 1999).

Background

There has been a tremendous development of the restaurant business, not least during the last century. The days following the French revolution and the development of the taverns in England (Gustafsson *et al.* 2006) gave us not only new ways and modes of eating but also many trends and concepts along the way. There have been developments as diverse as fine dining, themed sports restaurants, laid-back coffee bars and the hugely important fast-food market. Concepts and themes are becoming more and more important. The product alone was perceived as the single most important factor in the early 20th century, followed by the judgement from the product and consumer in the middle of the 20th century (Meiselman 2003). The concept has now become far more important and the context is of equal importance, including expectations and eating locations, which together form a three-factor approach (Meiselman 2003). Even though food quality is still regarded as the most important of the three factors, the consumer and the foodservice environment are considered of almost equal importance (Meiselman 2001).

For the industry, it continues to be of paramount importance to follow and adapt to the changing consumer trends and behaviour. For instance, the American chain Applebee's lacklustre performance is blamed on the company's refusal to respond promptly to changing market trends. Restaurant customers are more and more aware of food quality and relative nutrition, but at the same time they prefer a more streamlined decor (Adamy 2007). Expected trends within the industry are now considered hot property and valuable information for business executives and developers alike. A recent culinary RandD conference in Dallas, Texas, highlighted the importance of trends and also stressed the fact that organic ingredients will be crucial in the future (Thorn *et al.* 2006).

The trends, the environment, service, atmosphere and many other factors, that before were considered of minor importance, are today competing with the previously predominant factor of the food product in driving the business. The fact that the food product should be of the best quality is almost taken for granted and so the other factors, such as service, ambiance and the other diners are increasing in importance. Such customer need is an important part of the development of services and goods, driving demand and price (Andersson & Mossberg 2004). Customers are willing to pay more for factors they prefer such as a pleasant interior and quality service (Andersson & Mossberg 2004).

Five aspects meal model (FAMM) as a theoretical framework

A widely accepted and reliable tool for creating a product in line with the times is much needed in the chain environment. The FAMM, which has been developed to investigate different aspects of meal service in restaurants, could be a very useful tool for chains and individual business alike (Gustafsson *et al.* 2006). The need for a tool is clear, and chains that wish to flourish need to look at alternative ways of monitoring the meal experience, both within the business and outside.

The idea behind the FAMM model derives from the Michelin Guide's way of evaluating hotels and restaurants and was implemented from the start of educational programmes in the Department of Restaurant and Culinary Arts at Örebro University (Gustafsson *et al.* 2006). The fundamentals are based on different types of knowledge within the field: scientific, practical-productive, aesthetic and ethical. In order to describe the model, a normal restaurant visit is normally used as an illustration. The first aspect is the actual restaurant (room in the model) followed by interaction with staff and fellow guests and interactions in-between these groups (the meeting). The next part of the model is the aspect of the food and beverage itself (product). Together with the fourth aspect relating to all factors concerning economic aspects, laws and logistics (management control system), these parts create the fifth aspect, the actual overall ambiance and feeling (the atmosphere) (Gustafsson *et al.* 2006).

Room

The room is defined as a place where the food is consumed and may be in a restaurant, bar, school, hospital, airplane, train, at home or outdoors. Wherever the room is, it is important for the organization to recognize that the room can and should entail more than the four plain walls. To some extent, this involves creating a space suitable for serving and consuming food, i.e. enough space to be financially viable and at the same time workable. Most restaurateurs would like large eating area (generating money) served by a small but efficient kitchen (cost centre). Anyone working within the business should have knowledge of style history, architectural style, textiles, design and arts (Gustafsson *et al.* 2006). Added to this, it becomes more and more important to be aware of trends, fashions, and economic and social factors. Chain organizations, and indeed individual outlets, need to be aware of all these aspects and to incorporate them in the room's concept and design. If this is not done, for example the room décor may be a complete mismatch with the target clientele or does not blend with the other four aspects in the model.

Meeting

The concept of meeting is especially important in an industry where a large part of the workforce consisted of low-paid, relatively uneducated employees. Many organizations fail to make the most of the impact the meeting, the greeting and the service can provide. By taking a keen interest in this aspect, many chains could greatly improve their performance. The need for new training, recruitment and incentive schemes may be identified by using a model like the FAMM, and could lead to the better utilization of money and resources. However, the FAMM model is not restricted to the staff. Other guests are increasingly becoming a consideration in the provision of foodservice (Andersson & Mossberg 2004). This is a counter-intuitive idea and seems more difficult to formulate and rectify. The 'there-to-be-seen-factor' is important, especially in urban areas, and pulling the right crowd takes more than clever marketing. However, if this need is identified through a systematic method, measures could be taken in order to attract the desired clientele. An issue like this does not depend upon one single factor alone, but a combination of several. For chains, this may be another important issue for selecting new member outlets, as these intangible factors could be very effective for profitability.

Product

The product has always been important and will continue to be, even though competition from the other meal experience factors is increasing. According to Gustafsson *et al.* (2006), the FAMM model stresses the following aspects for evaluating or establishing the product:

Sight: the appearance of the different components and their colours, their shine or gloss, translucency, size and shape and surface texture.

Hearing: the sounds made when you chew as well as the sounds produced by the mode of preparation, e.g. flambéing.

Smell: the aroma of the dish.

Taste: the taste of the various flavour combinations of the dish.

Touch: the texture, for instance, of fish and the contrasts between different textures in the dish. All the senses must be in harmony to create agreement that it was a good meal experience, and they were the inner frames of the experience of the product.

However, other more abstract issues are involved in determining the quality of the product. For example cultural, social, ethnic, fashionable, nutritional and environmental factors all influence the context of the meal experience and the customer's expectations and thus play an important role in the overall perceived quality of the product. This is as important a consideration for business strategists as it is for meal production.

Management control system

Management control systems may not be the most obvious consideration in creating a restaurant because they are usually perceived to be taking place behind closed doors. However, they are vital for an individual restaurateur and absolutely critical for a chain operation. Guests may notice the management control system in terms of the cost of the meal, availability of everything on the menu or the payment procedure. The smoothness of the operation and absence of annoying factors (absent or ill-trained staff for instance) very much relate to the management control system. However, this is the part visible to the customer. Behind the scenes, there is a more complex part, concerned with efficiency, profitability and strategy. Research in Norway examined factors related to the management control system and found that delayed payment at the end of the meal could affect the whole experience so that customers who had to wait a long time for the bill might not visit the restaurant again, even if everything else was faultless (Hansen *et al.* 2004). Early payment also increases the turnover of customers and benefits the profitability of the operation.

Atmosphere

The aspects previously mentioned create a fifth one in the FAMM model, the atmosphere. This is a broad and multifaceted aspect, which may involve a variety of factors, including music, fellow guests, sounds from the kitchen, view, height of the ceiling, interior materials and presence of children. Studies have shown that some factors, such as music, can harm the atmosphere and discourage customers if they are not correctly applied (Gustafsson *et al.* 2006). The atmosphere of catered meals is becoming increasingly important and at the same time possibly more difficult to understand and create. This is especially for the lone entrepreneur, who might be a tremendous chef, but lacks the other aspects of business expertise. Chain operations offer great experience and knowledge and the financial muscle to be able to employ consultants and develop strategies.

Discussion

Development is progressing at high speed in the tourism industry and it is likely that the pace will continue. The restaurant industry follows suit. More disposable income, more leisure time, more discerning customers, and increasing awareness of health and environmental aspects are factors taking the industry to new and challenging routes. It becomes ever more crucial to know the trends and preferences of competitors and customers alike. A trend analysis in Sweden described a completely new scenario in terms of consumption and habits in the future. Use of the Internet and other multimedia will change as new generations come of age, leading to a vast array of services and products either new, or representing brand new business and distribution models. The person or business that can anticipate this will be in a very unique position (Lanvin 2007).

This not only puts pressure on the individual restaurateur, but also, perhaps even more, on chain operations affiliations and franchises. If these allow themselves to become dated, or are unable to follow trends, they will lose market share and perhaps disappear, first from the international and then from the national stage. As they acquire new outlets, new opportunities will appear and adaptation may become more stringent. On the other hand, affiliation may become more vital for the individual operator. The wrong decision could prove fatal for the business and be very costly (Cunill 2006).

Certain operations, notably fast-food restaurants, have become, or are increasingly becoming, global. Cooperation rather than conflict is expected to be the order of the 21st century (Parsa & Khan 1993). Successful companies may gain an advantage through segment diffusion, employee empowerment and maximization of brand equity (Parsa & Khan 1993). Fast-food restaurants probably represent the vanguard of the whole industry in terms of globalization and eventually every big player may have to follow this path.

Menus are expected to change dramatically and may, for example, have to include genetically modified food in order to meet the nutritional demands of aging baby boomers (Parsa & Khan 1993). The same may well be the case for equipment and supplies as demands increase for higher quality and efficiency (Levin 2007). The growth in coffee bar establishments has created a demand for new equipment, for instance for heating sandwiches and serving light snacks (Levin 2007)

Hospitality companies are increasingly developing and managing multiple brands as a route to growth (Laroche & Parsa 2000). Such a strategy will not flourish if the new concepts do not reflect consumer preferences or fashions. In Spain, where the development of chain operations is relatively new, fast-food outlets have been rolled out in most new shopping malls. However, the concepts in which they have been created seem to be somewhat artificial, and based upon North American concepts: burger joints, taco places and pizza parlours rather than developing from actual demand. It appears that several aspects of the FAMM model may be missing. This is clearly a way of creating a rapid expansion, mainly financed by the franchisees, but the long-term viability is doubtful. The concepts are artificial concepts and their function has not been tested ready for a nationwide roll out. In Sweden, by contrast, such developments are mainly concentrated in the fast-food, sports bar and coffee bar segment. The concepts are tested and verified before expansion takes place. On the other hand, development is still very limited and there is clearly much further scope.

Franchising is probably the most used strategy at present for developing new restaurant chains. A study of 94 foodservice chains revealed four distinct groups relating to the strategic use of franchising; manager-scarce franchisors, money-scarce franchisors, franchising minimizers and seasoned veterans (Ketchen *et al.* 2006). The first two groups consist of relatively young companies that take up franchising to gain access to resources in a cost-effective way. On the other hand, franchising minimizers avoid franchise-related agencies because they want to maintain control over strong brand names and complex operating systems. Seasoned veterans have many years in business and are not concerned about resources problems or agency concerns. They made modest use of franchising as a growth strategy, with a steady growth and sound financial position (Ketchen *et al.* 2006).

One only has to take a brief look at high streets and shopping malls to see the prevalence of franchising in the foodservice industry, but the true picture is more complex than one thinks. Guests and franchisees are becoming more aware and trends and fashions are changing rapidly. By using models such as the FAMM, many poor decisions could be avoided, while better business models could be developed. Another interesting trend is that financial firms are now actively acquiring restaurant chains. With their help, many restaurant companies now acquire small brands for development (Duecy 2006). Another aspect of the development of cooperative organizations such as franchise and joint ventures is agent theory (Combs & Ketchen 1997). This will minimize the cost of monitoring each outlet, and hence, speed up the expansion at a lower cost.

Conclusion

This paper has identified the current trends affecting the restaurant industry and the way in which these affect individual entrepreneurs, affiliations, franchises and chains. The restaurant industry is a vivid, complex and potentially expansive entity, which will undoubtedly continue to thrive. Although individual restaurant operators will always be important, the chains are also here to stay in whatever cooperative organizational form they may take: franchises, joint venture or fully owned. All of these depend upon having a clear concept and business strategy. Without a firm basis of this kind, the chances of survival diminish drastically in a fiercely competitive market.

Models, such as the FAMM, have an important role to play in developing such concepts and strategies. The model has potential for use in a number of ways, including: concept creation, formulating strategies, the selection of new outlets and the selection of possible outlets for assimilation. In addition, individual businesses could use it to select chains or organizations with which to affiliate

This study paves the way for future research into chains and independent restaurant organizations, where the FAMM will provide important theoretical underpinning. Hopefully, it will also add to understanding the chain/independent relationship and make the matching process between multiunit outlets and potential partners easier and more efficient. In any case, it should help the researcher identify interesting and valuable results from the actual field study.

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Experience accounting: an accounting system that is relevant for the production of restaurant experiences

Tommy D. Andersson [a]; Mats Carlbäck [a]
[a] School of Business, Economics and Law, University of Gothenburg, Gothenburg, Sweden

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Experience accounting: an accounting system that is relevant for the production of restaurant experiences

Tommy D. Andersson* and Mats Carlbäck

School of Business, Economics and Law, University of Gothenburg, Gothenburg, Sweden

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Restaurants are clearly part of the experience industry but managers get little information and support from the accounting system in their efforts to create memorable meal experiences for their customers. The objective of this study is to empirically assess how an accounting system can be better aligned with the production of customer experiences. First, total costs are allocated to the production of four major types of experiences in a restaurant: basic food, culinary finesse, atmosphere, and service. This is followed by an analysis of customer evaluations of a meal experience categorised into the same four components. The study is based on empirical accounting data from three restaurants and an explorative study of how their customers evaluate an ideal as well as an actual meal experience they had in that restaurant. Experience evaluations are made in monetary terms, using the contingent valuation method, and the value of an experience can be compared with the cost of producing it. The analysis of the production cost compared with the value created indicate that, on average, the restaurants need to reallocate resources from service and basic food expenses to invest in the interior atmosphere of the restaurant to meet customer expectations.

Keywords: hospitality; management accounting; experience; value; willingness to pay; experience accounting

Introduction

Research on experiences and the experience economy has introduced new concepts and new perspectives in management and economic analysis (Pine & Gilmore, 1999). The hospitality industry is in many ways a core sector in the experience economy. Excitement and novel experiences for customers are major outputs for the hospitality industry and research clearly indicates that there is a demand for experiences and that customers' excitement influences customer satisfaction (Russell & Pratt, 1980). Satisfied customers in the hospitality industry also tend to become repeat customers and provide family and friends with positive feedback regarding their experiences (Gibson, 2005).

On the supply side, many restaurant managers see themselves as being part of the experience industry and they are aware of the fact that the restaurant experience depends on much more than what is served on the plate. Studies in hospitality management also clearly show the importance of a restaurant's physical environment (Ryu & Jang, 2008a, 2008b), food quality (Sulek & Hensley, 2004), and service personnel (Andaleeb & Conway, 2006). But when it comes to operational management and investment decisions,

*Corresponding author. Email: tommy.andersson@handels.gu.se

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managers get little information and support from the accounting system in their efforts to create memorable restaurant experiences for their customers.

A major point of this study is to empirically assess and to discuss how the development of accounting systems could be better aligned to the challenges from a more customer-oriented and experience-oriented style of restaurant management. The first step will be a cost analysis of the restaurant based on the production of experiences rather than the production of food on the plate. Four major components of the restaurant experience will be used in the accounting scheme namely the basic food account, the culinary finesse account, the service account, and finally, the atmosphere and physical environment account of the restaurant.

The second step will be an analysis of customer value (cf. Johns & Pine, 2002). Based on the model of the service encounter (Baker, 1987; Bitner, 1992), three major factors of the restaurant experience will be assessed: tangible factors, service employee factors, and customer factors. The customer value of a restaurant experience will, in this study, be categorised into six components: the 'basic' food experience, the culinary experience, and the physical environment of the restaurant together account for *tangible factors*. The *service* experience factor and, finally, the *consumer factors* that are accounted for by two components: company at the table and other guests in the restaurant.

Customer value will not be measured on an ordinal scale, as is the dominant approach in consumer behaviour research, but on a ratio scale in terms of monetary values using contingent valuation methods (Mitchell & Carson, 1989). This methodological approach makes the customer value compatible with cost accounting information in a restaurant. The third step will, therefore, be to compare the accounting costs of producing each of the four components of the restaurant experience with the four values that customers attach to the same four experience components.

The study is based on case studies (cf. Harris, 1996) of three restaurants, including independent as well as chain affiliated restaurants. Empirical accounting data from each restaurant will be compared with the results of explorative customer surveys that have been conducted at the three restaurants. The objectives of this study are to

(1) reallocate costs from a standard system of accounts to an experience-based system of accounts that shows the costs associated with the production of various components of a restaurant experience;
(2) analyse the value that customers attach to a restaurant experience and to various components of such an experience;
(3) assess whether an experience-based system of accounts yields relevant information for management accounting and management control.

Restaurant accounting systems

The uniform system of accounts for restaurants (USAR) provides a well-established framework for restaurant accounting systems. Other national standards have been produced, e.g. in the UK through the Economic Development Committee for Hotels and Catering, but USAR, originating from the National Restaurant Association of USA, has, for several reasons, become internationally the most widely used standard.

The USAR provides little opportunity to analyse cost behaviour and no prescription for how fixed and operating costs should be controlled, according to Potter and Schmidgall (1999). In spite of the fact that fixed costs are very dominating in the hospitality industry, detailed analyses of fixed cost and fixed cost behaviour are lacking (Heikkilä & Saranpää, 2006).

In the manufacturing industry where fixed cost had grown in importance and become dominant, Johnson and Kaplan (1987) suggested that traditional methods for product costing had 'lost relevance'. The new methods they suggested, called activity-based costing (ABC), were based on a more thorough analysis of cost behaviour in order to understand the drivers of fixed cost. These cost drivers were used for a more relevant distribution of fixed cost in product costing.

ABC has developed into ABM – activity-based management (Cooper & Kaplan, 1991) – with a broader scope, not only limited to costing but also including budgeting and management control (Gupta & Galloway, 2003). ABM is, just like ABC, based on an examination and an analysis of the production process with the objective to identify activities that add value and use resources. The ability of ABC/ABM to solve cost management problems was probably overestimated in the 1990s, and Armstrong (2002) argues that much consultancy work in this area has been futile.

ABC has been implemented in the healthcare sector (e.g. Chan, 1993) and in the airline industry (Tsai & Kuo, 2004). Krakhmal (2006) suggests an ABC approach for hotel accounting using three levels of accounting: resources (e.g. raw materials, labour) are allocated to activities (functions providing services to guests) by the use of 'resource drivers'. Activities and the cost of performing activities will be allocated further to cost objects by the use of 'activity drivers'. Krakhmal (2006) states that a stronger accounting focus on activities can potentially improve service delivery to customers. Collini (2006) also develops an ABC customer-focused approach particularly suited for the case of joint revenues. Harris and Mongiello (2006) give much attention to 'cost behaviour analysis' in the profit planning framework they suggested.

The use of metrics such as gross operating profit per available room (GOPPAR), revenue generation index, and revenue opportunity model are more related to businesses with room capacity (Cross, Higbie, & Cross, 2009). GOPPAR measures revenue from rooms, food and beverage, and other activities (Banker, Potter, & Srinivasan, 2005), but is of limited use for the restaurant business. Revenue per available seat hour (RevPASH) is a useful tool, although it requires considerable efforts related to data collection and computing (Kimes, Barrash, & Alexander, 1999).

A study of the use of accounting information by managers in the hospitality sector underlines the need for appropriate accounting information for managers (Downie, 1997). The pace of development of new accounting ideas in the hospitality industry seems to be slow. Ideas that have been discussed in the manufacturing industry for almost 20 years are unheard of in the hospitality industry (Raab & Mayer, 2003). This need for development is further underlined by research which indicates that managers are highly concerned about customer satisfaction (Downie, 1997; Mia & Patiar, 2001). It is evident that the practical development of accounting systems in the industry has not yet responded to this situation, although lately the British Association of Hospitality Accountants provide material and practical guides (Krakhmal & Harris, 2008) for hospitality managers who are prepared to develop their accounting system.

The restaurant experience

The three concepts satisfaction, perceived quality, and value are not always well differentiated and there are different schools of thought that put more or less emphasis on either satisfaction (e.g. Oliver, 1999), perceived quality (e.g. Zeithaml, 1988), or value (e.g. Holbrook, 1999). The concepts satisfaction, perceived quality, and value are, however, positively correlated with each other (Oh, 2000).

Satisfaction

Studies of the restaurant experience are often focused on satisfaction. Sulek and Hensley (2004) found significant relationships between customer satisfaction and food quality, restaurant atmosphere as well as fairness of seating procedures. The study carried out in the USA also found indications of the importance of service quality, personnel response, and convenience. Another US study by Andaleeb and Conway (2006) found strong correlations between customer satisfaction in full service restaurants and service responsiveness (0.72), tangibles (0.31), and food quality (0.57).

According to Wall and Berry (2007), diners use the following types of clues to judge a restaurant experience: functional, the technical quality of the food and service; mechanic, the atmosphere and other design and technical elements; and humanic, the performance, behaviour, and appearance of the employees. Even though customer satisfaction is crucial for the restaurant industry, a study by Skogland and Siguaw (2004) showed that there is only a weak connection between customer satisfaction and loyalty.

Elements of the 'service encounter' model fit restaurant services well and the three main components suggested (Baker, 1987; Bitner, 1992) can easily be interpreted in a restaurant context: (1) tangible elements such as food, interior design, music, and lighting; (2) service employee factors; and (3) consumer factors such as the appearance and behaviour of other consumers.

Mossberg (2003) uses a model similar to the service encounter model for an analysis of customer experiences but adds 'image' as a fourth factor. Carlbäck (2008) also includes 'management' as a fifth factor.

Customer value

Value is perceived as an important part of the customers' decision making, together with satisfaction, trust, and commitment (Mills & Thomas, 2008). To ensure this, restaurateurs must ensure that they truthfully represent their product and are able to explore the gap between customer expectations and the performance of the product or service (Mills & Thomas, 2008). Raab, Mayer, Kim, and Shoemaker (2009) discuss pricing as an important part of the creation of value for the guests. The hospitality business tends to focus on high profit margins and on the cost side of production, rather than looking at creating customer value. Woodruff and Flint (2006) stress that there is a need for better in-depth understanding of customer value.

The value of an experience will depend on a personal process taking place in the mind of the customer since experiences take shape internally within a customer (Andersson, 2007). A restaurant can only offer tangibles and intangibles that hold a potential value as an input to an experience that the customer must realise through co-production (Vargo & Lusch, 2004).

Customer value is therefore, to a large extent, determined by the customer through co-production and consumption of services in a restaurant (Grönroos, 2005). Andersson and Mossberg (2004) describe the value of customers' restaurant experiences using five factors: cuisine, restaurant interior, service, company at the table, and other guests. When customers perceive a high level of product or service quality, they generally also perceive high levels of value and satisfaction. Value seems to be the biggest motivator for the customers (Oh, 2000).

Customer value is a concept rooted in economic value and utility, but Holbrook (2006) suggests a wider concept making it interactive and involving a relationship between the customer and the service. Holbrook (1999) also suggests a typology of customer value based on three dimensions: self/other oriented, active/reactive, and extrinsic/intrinsic which results in eight types of customer value.

Measuring customer value

There are two dominating schools concerned with the measurement of customer value: developed scale and contingent valuation.

Based partly on the typology of Holbrook (1999), an experiential value scale was developed (Mathwick, Malhotra, & Rigdon, 2001) using (normally a seven point) ordinal metric and a large number of questions. A similar scale, the perceived value scale, has been developed by Sweeney and Soutar (2001).

A different approach to estimating customer value is represented by the contingent valuation method (Mitchell & Carson, 1989) whereby estimates are made in terms of monetary values. Willingness to pay (WTP) is the main 'vehicle' used in surveys and contingent valuation methods have become one of the most popular methods to assess environmental values (Bateman & Willis, 1999). The methods are primarily developed for public goods without market prices but applications to private goods present promising opportunities for new research endeavours (Wiser, 2007).

Model

The efficiency in the production of restaurant experiences will be assessed by a comparison between the cost of producing the experience on one hand and the customer value of the experience on the other hand. The accounting information will be based on the *USAR* reallocated to four 'experience accounts' (Figure 1).

The reallocation of expenses to experience accounts will be based on how resources are used and the type of experience a resource ultimately supports. Part of the food and beverage cost such as expenses for rice, potatoes, and pasta will, for example, be allocated to 'basic food and beverage', whereas culinary food ingredients such as costs of high-quality meat and fish will go on the 'culinary finesse' account. Similarly, the payroll will be allocated between 'basic food and beverage' for unqualified kitchen hands, 'culinary finesse' for the chef(s), and 'service' for the waiters and waitresses.

The customer value will be analysed based on the 'service encounter' model. Three main factors are suggested (Baker, 1987; Bitner, 1992):

(1) Tangible factors:
   (i) food (Keng, Huang, Zheng, & Hsu, 2007),
   (ii) culinary experience,
   (iii) restaurant atmosphere (Ryu & Jang, 2008a, 2008b);
(2) Service employee factors:
   (i) service personnel (Andaleeb & Conway, 2006);
(3) Consumer factors:
   (i) company at the table (Fiore & Kim, 2007);
   (ii) other customers (Brocato & Kleiser, 2005).

All in all, six factors will be included in the total restaurant experience and the value of these six factors will be assessed using contingent valuation methods. One reason for choosing this method is that a monetary value will be compatible with production cost, which will make a comparison between the two straightforward. Another reason is the challenge involved in using a new type of metrics in hospitality research that is more

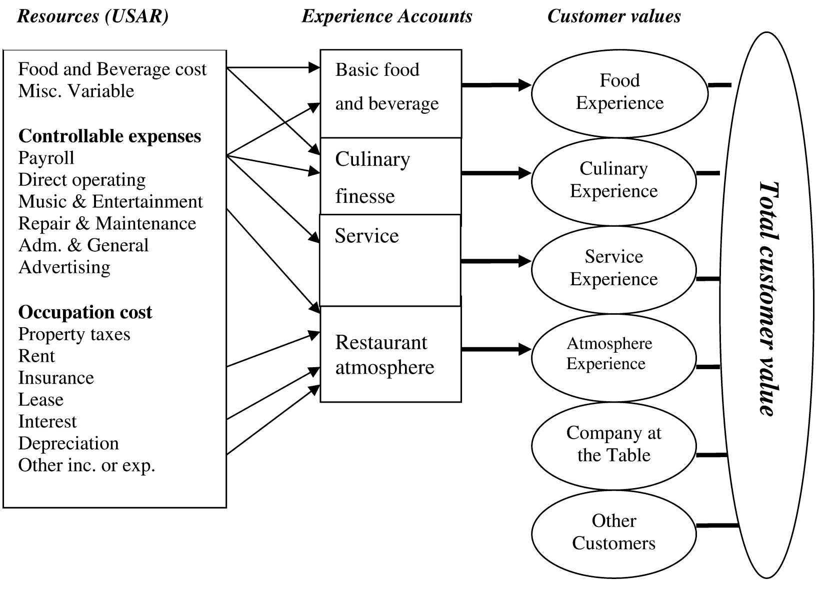

Figure 1. Proposed analytical framework for assessing the efficiency of experience production by a comparison of customer value versus accounting cost.

relevant in an accounting context and also statistically superior to ordinal scales since a ratio scale allows more advanced statistical elaborations of the data than an ordinal scale does.

Method

Three restaurants were selected in different cities. The restaurants were all full service outlets with a track record and filed accounts for several years back. The size and the turnover for the establishments differed, which may give a better picture of possible differences depending on the size of the restaurant.

- Restaurant 'South' is a fairly small restaurant with a French touch, centrally located in a midsized town. The focus is mainly on business lunches and formal dinners and there is no bar area. During the cold months the restaurant seats around 40 guests and in the summer a small outdoor serving area is added.
- Restaurant 'East' is located in a midsized town and belongs to a major hotel affiliation. The restaurant is inspired by the proximity to the sea and seafood is a special feature. Apart from a cosy bar area, restaurant 'East' has seating space for around 80 guests and a very attractive outdoor service area for the warm months. The restaurant is very popular with local guests as well as the guests staying in the hotel.
- Restaurant 'West' is located in one of the best locations in the centre of a major town. The restaurant is comparatively big and can seat more than a hundred guests in the dining room and also has several private rooms as well as a large bar area. During the warmer months, a large outdoor serving area is added. Restaurant 'West' attracts business guests, formal diners as well as a many tourists, due to the location. The kitchen can best be described as international with a Scandinavian touch. The listed building where the restaurant occupies a big part is a unique feature.

Full financial statements from a previous financial year (2007) were collected from each outlet and analysed based on the standardised *USAR* and certain posts estimated with help from the respective owner/manager.

Following this, assessments are made by owners/managers and other informants from the restaurant industry regarding how each cost item in USAR can be allocated to the production of one or more of the four experience components: ‘basic food’, ‘culinary finesse’, ‘service’, and ‘atmosphere and physical environment’ in the restaurant. It must be underlined that these assessments, although made by people with long experience from the restaurant industry, are made *ex post* and must be regarded only as a rough estimate of the true cost distribution.

In order to evaluate the customer value of the restaurant experience, an Internet-based questionnaire was developed based on the contingent valuation method (cf. Mitchell & Carson, 1989). Guests were asked to estimate a monetary value first on the actual restaurant experience and second on an ideal restaurant experience. The guests were presented with 11 contingent valuation questions. The first question served as a baseline question. The following 10 questions (five for the actual experience and five for the ideal experience) introduced an additional experience component for each question in order to measure the guests’ WTP for each step. The results will consequently describe both the WTP for each additional step and each restaurant’s actual performance compared with the ideal experience.

Respondents were asked to state the maximum amount of money that they would be willing to pay for the following restaurant experiences:

(1) You are sitting alone in an uninspiring locale and eating simple but acceptable takeaway food (baseline).
(2) You are sitting alone in the actual restaurant where it is self-service and eating simple but acceptable food.
(3) You are sitting alone in the actual restaurant and the service is the same as it was at your actual visit. The food is simple but acceptable.
(4) You are sitting alone in the actual restaurant and the service is the same as it was at your actual visit. You are eating the same food you had at your visit.
(5) You are sitting alone in the restaurant and the service is the same as it was at your actual visit. You are eating the food you ate at your visit. The atmosphere is the same as when you visited the restaurant.
(6) You are sitting together with your friends in the restaurant and the service is the same as it was at your actual visit. You are eating the food you ate at your visit. The atmosphere is the same as when you visited the restaurant.

Questions 7–11 were using the same format as questions 2–6 above, but ‘the actual restaurant visit’ was replaced by ‘the ideal, most exquisite, and most delicious restaurant experience’, with answers related to the maximum amount of money the respondent would be willing to pay.

An information letter with the link to the online questionnaire was distributed to a sample of guests in each of the three case-study restaurants during lunch and dinner, and the guests were asked to fill in the forms the day after the restaurant visit. Information letters were handed out by restaurant managers, since the managers preferred not to let researchers disturb customers in the restaurant. This proved to be far from ideal and affected the response rate negatively. After having received an explorative sample of 30 responses, the survey was terminated.

Table 1. Descriptive statistics of an explorative sample of customers at the three restaurants.

Restaurant	Number of respondents	Mean age	% Lunch respondents	% Female respondents	% Private diners
South	11	48	27	27	73
East	9	44	33	33	90
West	10	46	90	50	60
Total	30	46	50	37	73

As indicated in Table 1, the respondents in restaurant 'West' are predominantly lunch customers, which may have influenced the results as the fact that 90% of the respondents in restaurant 'East' pay with their own private money.

Results

First, the experience accounting scheme is introduced by transforming a traditional USAR accounting scheme into an 'experience accounting' scheme.

Then the results from the customer survey of how customers evaluate the restaurant experience in terms of monetary values will be presented and discussed.

Cost accounting in the three case-study restaurants

The detailed profit and loss reports for a full financial year for the three outlets were analysed and costs were first allocated according to the USAR. The breakdown was made with a combination of information from the profit and loss accounts, standard budgetary formulas, and with specific information provided by each individual manager on issues that could not clearly be explained by the figures.

Table 2 is a result of this breakdown and provides an overview of the three outlets in the study according to a standard accounting system, as well as a calculated average for the three outlets. It describes the cost allocation for the restaurants. A comparison of the three restaurants indicates that restaurant 'South' with the smallest turnover is facing a dangerously high food and beverage cost, but has, on the other hand, the lowest payroll.

Table 3 offers a different perspective based on an experience-based breakdown of the various costs. Every cost item from the USAR has been allocated into the four experience accounts: basic food, culinary finesse, service, and atmosphere based on standardised budget methods and information from the managers themselves. The results, presented as an average of the three restaurants in the bottom line of Table 3, illustrate a cost analysis based on producing experiences rather than just a plate of food for the average restaurant.

Table 4 presents the experience accounting for each of the three case-study restaurants. By analysing these figures, it is not only possible to identify problem areas and possible weak areas, but also, depending on the business goals, to take corrective action and focus on creating experiences for which the guests are willing to pay. This could also include those for which the current competitors' guests are willing to pay.

Restaurant 'South' would, for example, as a first step look into the spending on atmosphere and service, where the percentage is lower than the average for the three restaurants. A guest survey or a sensitive manager should be able to get this feel from the guests and could consequently take action in these areas. Restaurant 'East' could, based on business goal and a guest survey, look into the culinary finesse and possibly improve that part.

Table 2. USAR for the three case-study restaurants (GBP).

	Average	%	South	%	East	%	West	%
Cost of sales								
Food and beverage cost	570,484	38	55,384	49	431,257	37	1,224,813	38
Miscellaneous variable	0	0	0	0	0	0	0	0
Controllable expenses								
Payroll	562,563	37	27,869	25	435,010	37	1,224,813	38
Direct operating	134,379	9	10,042	9	49,107	4	336,758	11
Music and entertainment	44,752	3	0	0	3180	0	132,802	4
Repair and maintenance	26,636	2	1091	1	17,606	2	65,198	2
Administration and general	56,920	4	8579	8	119,250	10	42,162	1
Advertising	30,451	2	2921	3	2860	0	85,572	3
Occupation cost		0		0		0		0
Property taxes	66	0	0	0	196	0	20,500	1
Rent	35,621	2	7760	7	81,790	7	21,610	1
Insurance	50	0	0	0	149	0	0	0
Lease	0	0	0	0	0	0	0	0
Interest	4513	0	0	0	19,270	2	12,077	0
Depreciation	5011	0	0	0	15,033	1	0	0
Other inc. or exp.	42,498	3		0	0	0	33,688	1
Total	1,513,943	100	113,623	100	1,174,709	100	3,199,993	100

The same could be the case for restaurant ‘West’, where the spending on culinary finesse is low compared with the basic food spending. The restaurants’ balance between allocating production costs to various aspects of a meal experience varies and this variation should ideally reflect the desired profile of the restaurant and the expectations of each restaurant’s customer segment.

Customer value of the restaurant experience

Figure 2 shows the accumulated value of a restaurant experience from a simple takeaway dish to an exquisite dinner in a perfect restaurant in favourite company. The basic need of relieving hunger accounts only for about a quarter of the value. The average actual performance of the three restaurants is also illustrated in Figure 2 and the gap between the ideal and the actual experience widens as more and more components are taken into consideration.

An analysis of each one of the six value components is described in Table 5, which shows that for the average restaurant, customers are willing to pay more for an interesting interior and physical environment than for service and culinary finesse. Customers are also prepared to pay more for an ideal culinary experience but their assessment of actual culinary finesse is much lower. This can be interpreted as customers being prepared to pay more if the restaurant improves its culinary finesse. There is also some scope for improvement of the service. The largest difference between ideal and actual experience is related to the atmosphere and the physical environment in the restaurant indicating that the restaurant managers have not invested sufficiently to capitalise on the WTP for atmosphere that restaurant customers apparently have.

In terms of percentages, there are clear indications in Table 5 that the ideal restaurant experience contains more of a culinary experience and less basic food than the actual

Table 3. Experience accounting for the average restaurant (GBP).

Average restaurant	Total (GBP)	Food	%	Culinary	%	Atmosphere	%	Service	%	Total (%)
Cost of sales										
Food and beverage cost	570,484	305,780	54	264,705	46	0	0	0	0	100
Miscellaneous variable	0	0		0		0		0		
Controllable expenses										
Payroll	562,560	153,886	27	95,791	17	0	0	312,883	56	100
Direct operating	131,955	72,583	55	34,680	26	11,863	9	13,197	10	100
Music and entertainment	45,328	0	0	0	0	45,327	100	0	0	100
Repair and maintenance	27,965	8389	30	5593	20	6991	25	6991	25	100
Administration and general	56,664	16,999	30	16,999	30	5666	10	16,999	30	100
Advertising	30,451	12,180	40	6090	20	6090	20	6090	20	100
Occupation cost										
Property taxes	6899	1734	25	1721	25	1721	25	1721	25	100
Rent	37,046	9261	25	9261	25	9261	25	9261	25	100
Insurance	0	0		0		0		0		
Lease	0	0		0		0		0		
Interest	4026	1006	25	1006	25	1006	25	1006	25	100
Depreciation	5008	501	10	501	10	3506	70	501	10	100
Other inc. or exp.	17,652	4413	25	4413	25	4413	25	4413	25	100
Total	1,496,105	586,734	39	440,761	30	90,568	6	373,064	25	100

Table 4. Experience accounting (GBP) for the three case-study restaurants.

	South (total)	%	East (total)	%	West (total)	%	Average	%
Basic food	46,804	41	154,916	37	1,314,713	41	586,734	39
Culinary finesse	52,292	46	121,399	29	900,686	28	445,672	30
Atmosphere	4151	4	6926	2	209,239	7	90,558	6
Service	10,365	9	136,156	32	775,354	24	373,064	25
Total cost	113,613	100	419,396	100	3,199,992	100	1,496,120	100

average experience in the three restaurants does. The largest percentage difference is related to the restaurant atmosphere and physical environment, whereas the service component seems to be well balanced. There are also interesting results related to what is called 'consumer factors' in the 'service encounter model' (Baker, 1987; Bitner, 1992), i.e. the components 'other guests' and 'company at the table'. 'Other guests' plays a significant role in both the actual and the ideal experience just as 'company at the table' does. Taken together, these two 'consumer factors' seem to account for slightly more than a quarter of the total experience.

In terms of the three factors of the 'service encounter model', the first factor, i.e. tangible factors including the food and the culinary experience as well as the restaurant atmosphere, account for the dominant part of the experience (59% of the actual and 63% of the ideal experience). The service employee factor accounts for 13% of the actual and 10% of the ideal experience and seems to be less important than the consumer factors 'other guests' and 'company at the table', which account for 27% of the actual and 26% of the ideal experience.

A discussion about customer average assessments of the restaurant experience based on customer surveys in three different restaurants may overlook important and interesting differences between the three restaurants. The three restaurants have different images and appeal to different customer segments. Thus, it may be expected that customers' expectations of an ideal restaurant experience differ between the three restaurants. It may also be expected that the actual experience is different in the three restaurants.

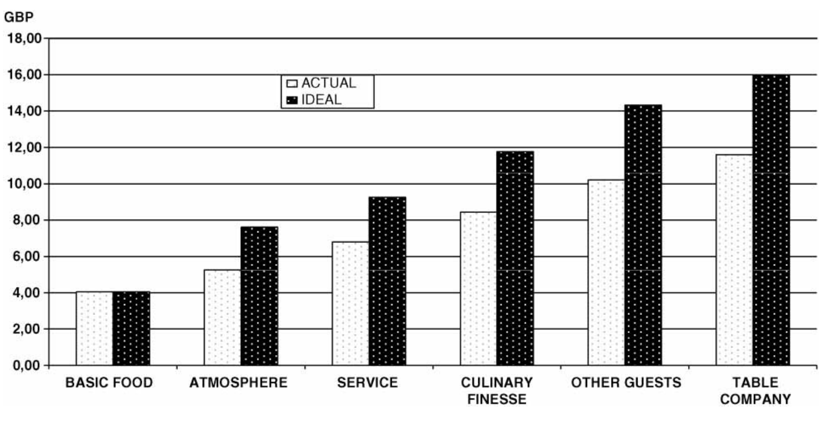

Figure 2. Stepping up the restaurant experience. Accumulated values of the average actual as well as the average ideal restaurant experience.

Table 5. Partial analysis of the average value of six aspects of a restaurant experience.

	Monetary measures (GBP)			Percentages		
Average restaurant	Actual	Ideal	Difference	Actual	Ideal	Difference
Basic food	4.05	4.05	0.00	35	25	10
Culinary finesse	1.63	2.50	−0.87	14	16	−2
Atmosphere	1.22	3.56	−2.34	10	22	−12
Service	1.54	1.65	−0.11	13	10	3
Other guests	1.78	2.56	−0.78	15	16	−1
Company at the table	1.40	1.65	−0.25	12	10	2
Total	11.61	15.97	4.36	100	100	0

Table 6 describes the customer assessments for each one of the three restaurants. A comparison in terms of *the ideal restaurant experience* indicates that customers in restaurant 'West' expect more of a culinary experience and better service than customers at restaurant 'South' and 'East' do. On the other hand, the customer segment that the restaurants 'East' and 'South' appeal to seems to be more sociable and put a higher value on the consumer factors. 'Other guests' and 'company at the table' seem to be particularly important for customers to restaurant 'East'. 'The atmosphere' seems to be very important for customers of restaurant 'South'.

The actual restaurant culinary experience is quite different from the ideal in all three restaurants. Customers seem to get quite an unsatisfactory culinary experience at restaurant 'South', whereas customers at all three restaurants get more of a 'basic food' experience than what they expect from an ideal restaurant experience. Customers at restaurants 'East' and 'South' are positively surprised by the service, whereas customers at restaurant 'West' seem to be disappointed with the service. The message from customers at restaurant 'South' is clear: less of basic cooking and more fine cuisine. Restaurant 'East', on the other hand, delights its customers by providing a higher culinary experience than expected.

The restaurant atmosphere and physical environment seem to be more important for customers at restaurants 'East' and 'South' although they do not get much of that experience. On the other hand, customers at restaurant 'West' seem to fulfil the customers' expectations in this respect.

The service employee factor is more important to customers in restaurant 'West' than to customers in the other two restaurants but the actual value of the service experience is similar in the three restaurants with most delighted customers in restaurant 'East'.

Table 6. Customer assessments of six components of an actual as well as an ideal restaurant experience in the three case-study restaurants.

	South (%)		East (%)		West (%)	
Restaurant	Actual	Ideal	Actual	Ideal	Actual	Ideal
Basic food	37	27	28	20	40	31
Culinary finesse	4	14	20	16	18	17
Atmosphere	10	35	9	17	13	13
Service	13	1	16	14	10	17
Other guests	24	15	13	19	8	13
Company at the table	12	9	13	14	11	7
Total	100	100	100	100	100	100

The consumer factors 'other guests' and 'company at your table' seem to be much more important for an ideal restaurant experience to customers in restaurant 'East' than to customers in restaurant 'West'. The actual experience of the component 'other guests' is also valuable for the customers in restaurant 'South' and this component outperforms both the values of the service, the culinary finesse, and the restaurant atmosphere. Clearly, 'South' stands out as a social place at which to hang around. Customers in restaurant 'West' seem to be disappointed by 'other guests'. 'The table company' seems, however, to be a positive surprise to the customers in restaurant 'West' and 'South' and met the expectations in restaurant 'East'.

Analysis

Customers' evaluation of the total restaurant experience includes 'customer factors', i.e. 'other customers' and 'company at the table', which together account for 26% of the ideal average restaurant experience and 27% of the actual experience. It may, however, be argued that customer factors are out of control for the restaurant manager or at least not reflected in the accounts. In the comparison between customers' assessment of the value of a restaurant experience against the accounting cost of producing these experiences, the value and the cost of experiences related to 'other customers' and 'company at the table' will therefore be excluded.

The percentage distribution of the total experience value to the now four value components (basic food, culinary finesse, service, and atmosphere) will be different from the percentage distribution in Tables 5 and 6 since two of the components are no longer included. The new percentage distribution is illustrated in Table 7 together with a percentage distribution of total cost to the four experience accounts to allow an analysis of how accounting costs of utilised resources correspond to the experience value created based on mean values of the three restaurants and all customers.

Although the ideal value of 'culinary finesse' is higher than the actual value, the actual experience value (19%) is much less than the cost proportion (30%). This may be an indication of poor efficiency in culinary activities and much of the resources that ideally should be spent on culinary finesse seem to have spilled over to basic food. Customers' expectations of an interesting interior and atmosphere stand out again as the area where restaurants have a potential to spend more resources to create higher customer value.

The results in Table 8 illustrate values for each individual restaurant. As a restaurant needs to adapt the concept in line with the expected clientele, it will be important to produce an experience that is in line with the guests' ideal restaurant experience.

Table 7. A comparison between accounting cost in the average restaurant and the customer value created in terms of percentages.

		WTP (%)	
Average restaurant	Accounting cost (%)	Actual	Ideal
Basic food	39	48	34
Culinary finesse	30	19	21
Atmosphere	6	14	30
Service	25	18	14
Total	100	100	100

Table 8. A comparison between accounting cost and customer value in the three restaurants.

	South (%)			East (%)			West (%)			Average (%)		
Restaurant	Cost	Actual	Ideal	Cost	Actual	Ideal	Cost	Actual	Ideal	Cost	Actual	Ideal
Basic food	41	58	35	37	38	29	41	49	40	39	48	34
Culinary finesse	46	6	18	29	28	19	28	22	22	30	19	21
Atmosphere	4	16	46	2	12	26	7	16	17	6	14	30
Service	9	20	18	32	22	21	24	13	22	25	18	14
Total	100	100	100	100	100	100	100	100	100	100	100	100

Both 'South' and 'East' are rated far below the ideal in atmosphere and the clients seem to be willing to pay more for the atmosphere part of the experience. Customers on average give the atmosphere 30% of the total value of an ideal restaurant experience, whereas the two restaurants only spend 2–4% of their total cost on the atmosphere and physical environment. 'West' is the most elegant restaurant of the three and 7% of the cost is actually spent on the atmosphere, which is also highly valued (16%) by the customers' actual experience when dining in 'West' almost in line with an ideal restaurant experience.

'West' is spending 24% on service, which corresponds well to the guests' ideal proportion (22%) but not so well to the actual service experience of the customers in restaurant 'West' (13%), a fact that may indicate a low service efficiency. 'East' on the other hand has created an actual service experience that the guests are willing to pay (22%) considerably more for than in the other two restaurants. The restaurant is also spending 32% of the cost on service according to the experience-based costing method.

'South' is valued highly on the basic food and so are the other outlets. This could indicate a high proportion of lunches or business lunch trade were the culinary aspect seems to be of a lesser importance. 'South' seems to be focusing on the basic food experience rather than creating culinary finesse, something for which the guests seem willing to pay. 'East' is successful in the culinary aspect without spending more than the other restaurants on this. This could be the result of efficient utilisation of resources. 'South' is the opposite of this and spends a lot of resources (46%) on culinary finesse and achieving only a 6% actual experience, which is an indication of high inefficiency in the culinary aspect but on the other hand customers at 'South' highly appreciate the basic food component.

An important factor is also the high scores for basic food in 'South' and 'West'. If the aim of the restaurant is to increase the trade, apart from lunches, this is an indication to put more effort into the culinary aspect of the restaurant in order not only to increase trade but also to raise the profile of the restaurant and consequently be able to charge more for the experience.

Conclusions

One major objective with budgeting and management accounting is to focus on how costs are allocated to various activities in a firm. Experience accounting sets a focus on how resources are used to create customer value. There is a large variation among hospitality firms as to the amount of time and interest devoted to budgeting and cost analysis and for many restaurant managers accounting in its simple form is already too burdensome and or too tedious for the manager to spend time on. Taking accounting one step further, as you would do with experience accounting, may not be met with any enthusiasm by many restaurant managers. On the other hand, the more relevant information that experience accounting provides in terms of a match between value created and cost of producing the value may make it worthwhile to spend more time albeit on a slightly more complicated bookkeeping.

By analysing the costs of creating an experience and comparing it with the guests' WTP for a particular part of the whole restaurant experience, managers and owners could reallocate resources from one area to another. But it will all come at a cost. There will always be a trade-off as putting resources into one area will affect another area and a method like this helps to find a better balance, a more suitable mix. The issue of getting the balance just right is also meant to avoid 'overkill' in any area and to make sure that all experiences on offer are the experiences for which the guests are willing to pay.

Customer surveys based on the contingent valuation method yield results in terms of monetary estimates that have not only statistical properties that allow advanced analysis but also a value measure that is directly compatible with cost estimates.

The results of the customer survey carried out in this study support recent studies regarding the importance of service personnel as well as the restaurant atmosphere and the physical environment (Ryu & Jang, 2008a, 2008b) as well as the quality and quantity of food (Keng et al., 2007). The customer survey also highlighted the importance of the consumer factors 'company at the table' and 'other guests in the restaurant' as has been pointed out also by Brocato and Kleiser (2005).

The service encounter model (Baker, 1987; Bitner, 1992) suggests three factors and the results of the customer survey carried out in this study gives a dominating role to tangible factors (i.e. food, culinary experience, and atmosphere) in a restaurant context. The tangible factors represent 63% of the ideal experience and 59% of customers' actual experiences in the three case-study restaurants. The service employee factor accounts for 10% of the ideal experience and 13% of customers' actual experiences. The consumer factors 'company at the table' and 'other guests in the restaurant' finally account for 26% of the ideal experience and 27% of customers' actual experiences in the three case-study restaurants. Experience accounting may serve as a foundation for a better utilisation of resources in order to focus on issues were the restaurant is weak and allocate the efforts to creating experiences that the guests value and consequently, for which thus are willing to pay more.

Even though it is often argued that the two factors 'other guests' and 'company at the table' are beyond the control of the restaurant operator, there are industry-specific methods of 'creating' the clientele. Pricing could be one way of setting the standards for a restaurant, simply by setting the prices at a level where a certain clientele would feel discouraged to enter the establishment or indeed the reverse. The knowledgeable restaurant manager/ operator can also allocate tables to guests in a way that is affecting the guests' experience. By putting the 'ideal' customer at the window tables, the restaurant can try to create a specific image. It is also quite common to put business-related guests on one side and guests with children on another to avoid conflicting noise levels for the guests. Other more or less discriminating measures could also be used to try to attract the type of clientele that the restaurant perceives as the target clientele that would enhance the experience for the other guests.

Further research

The rationale for management accounting is to provide reliable and relevant information for management decisions. This study is mainly based on ideas generated from academic research on accounting, customer value, and satisfaction but an assessment of reliability and relevance must be made by practitioners. 'The proof of the pudding is in the eating' and restaurant managers should, as a next step in the process, give their opinion on the usefulness and relevance of the ideas put forward in this study.

This study is based on a reallocation of costs *ex post* from a traditional accounting scheme (USAR) to four experience accounts. Should a restaurant manager find these ideas worthy of a full-scale experiment, this experiment should start with experience bookkeeping, i.e. allocating costs to value-creating activities already as a part of the daily bookkeeping task. Experience bookkeeping should then be matched both against a survey of customer value and against an experience budgeting process.

For an industry that for a long time has used standardised and rather unsophisticated methods of calculating the price of the food and drinks served, experience-based accounting could serve as a tool for a more accurate pricing strategy (Andersson, 2006) and consequently a better utilisation of resources at hand. Rather than using a uniform mark-up figure, the experience created could serve as a base for a different method of pricing that is more aligned with the cost and the value of the various components of the restaurant experience for which guests actually are prepared to pay.

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From cost accounting to customer accounting in the restaurant industry

Mats Carlbäck

School of Business, Economics and Law,
University of Gothenburg,
Box 610,
Gothenburg SE-405 30, Sweden
Fax: +46 31 786 46 52
E-mail: mats.carlback@handels.gu.se

Abstract: The aim of this paper is to discuss the testing, diffusion and application of newly developed experience accounting (EA) system to academics and practicians in the hospitality industry. As the EA system is based on the production of experiences, it will be important to test and diffuse the idea to practitioners in order to evaluate the actual practicality of the method, via this constructive approach. A well-aligned system would provide the industry with a tool for better managerial accounting and should facilitate better resource allocation, cost control and consequently increase the efficiency in the restaurant industry. The research indicated a need for such a tool and the EA system was applicable and useable in a live environment. It was also apparent that the method used and the results would give a very useful snapshot of the business performance at any given time, hence a valuable *ad hoc* contribution of the research.

Keywords: restaurant industry; management accounting systems; management control; EA; experience accounting; EA pricing; FAMM; five aspect meal model; cost allocation; performance measurement.

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Biographical notes: Mats Carlbäck received his BBA in Hospitality Management from Schiller International University in London, UK and is currently working on a PhD at the University of Gothenburg, School of Business, Economics and Law. With extensive experience from the hospitality industry, his main research interests are managerial accounting, intangible assets and presumptive taxation related to the hospitality business. He has published in *Journal of Foodservice* and *the Service Industries Journal.*

1 Introduction and overview

Would a dedicated management accounting system for the restaurant industry improve productivity in this business sector and is there a need for such a system?

As many of the accounting systems today are based on the production of a product and not the production of the entire experience surrounding the restaurant visit, and both the academia and the practical world seem to be waiting for development in this area; the answer to this question should probably be yes. This research aims to look at the practical need for such a new development, and an attempt to evaluate if this is the right thing by running it through the actual end users of such an innovation – the practicians. The final objective is to lay the foundations for a new managerial accounting system, specifically developed for the restaurant industry, in order to create a better tool for cost allocation, resource allocation, cost control and pricing – important areas where the literature indicates a lack of suitable methods or systems.

Few would argue that the restaurant industry is producing just a plate of food, consumed to fulfil the basic need of hunger. Today, it is often a matter of producing experiences, i.e. the whole concept relating to the dining experience, and hence the restaurants would be included in the experience economy (Andersson and Carlbäck, 2009; Pine and Gilmore, 1999). Restaurants produce whole concepts and experiences and only a certain part of what the guests would pay for is actually the food on the plate. Recent research has divided the meal experience into five aspect meal model (FAMM) based on the *room* (the actual local), the *meeting* (meeting other guests and staff), the *product* (food and drinks), the *atmosphere* (the environment and sentiment) and the *management control systems* (pricing and efficiency, etc.) (Carlbäck, 2008; Gustavsson et al., 2006).

By neglecting or simplifying the issue of what is actually produced, the industry will face several dilemmas. Not only the fact that both the pricing structure, control systems, performance measurement and budgets could be out of tune with reality, but also more practical issues, such as not meeting the needs of the guests in today's competitive market (Andersson and Mossberg, 2004; Barsky and Nash, 2003). If the restaurants ignore what the guests want and are willing to pay for, it could lead to profitability problems in the long run. There has been studies conducted which clearly points out that the restaurant's physical environment (Ryu and Jang, 2008), food quality (Sulek and Hensley, 2004) and service personnel (Andaleeb and Conway, 2006) are the high priorities for the modern restaurant guest. Consequently, the industry as a whole and the individual restaurant should follow this lead and ensure that the accounting system is geared up to adapt the business to what the paying guests are asking for. A system tuned in to the demand should lead to better profitability and better allocation of resources. Current research has shown that the first four aspects in the FAMM model are being researched, but the management accounting part is attracting less interest and consequently development (Jönsson and Knutsson, 2009). This paper will focus on the last aspect (management control system) and therefore, contribute to the whole concept of FAMM and enhance the development of management accounting systems or techniques in the restaurant business.

On the other hand, producing what the guests want would not alone create a profitable and successful business. With lack of proper control and indeed tools to allocate resources and prices that give enough income to cover the costs and produce a fair profit, no restaurant would survive in the market for long. Proper resource utilisation is important in order to minimise waste, as this will always have an effect on the profit (McNair, 2003). The issue here is that while the restaurants are producing experiences, the accounting system is tuned in on the creation of a plate of food. This could also be related to the research about value creation model (VCM) (McNair, 2003; McNair et al., 2001) where the importance of the guest's willingness to pay is described as paramount to the business' success and consequently is a part of this model. The application of the

VCM model has mainly been focused on the non-service industry, but lately some attempts have been conducted to use it in a more service oriented context (Jönsson and Eriksson, 2006). The research clearly indicated the usefulness of the VCM in the service sector.

The experience accounting (EA) system was developed (Andersson and Carlbäck, 2009) based on the need for a new system to control over-head (OH) costs in the restaurant business and to be able to allocate resources more efficiently, manage the resources better and price the products more inline with the actual cost of producing them. The EA system presents a way of allocating the OH costs, normally a substantial part of any restaurant operation. The EA method is rooted in the notion of production of experiences rather than a product (Andersson, 2006). If the restaurant visit is viewed as an experience and not just as an occasion to be fed and relieve hunger, the guest's satisfaction and the guest's perceived value must be taken into account. But a system must be fully tested, refined, adapted and ultimately implemented amongst the actual users of the systems, i.e. the beneficiaries – in this case the restaurant industry. Management accounting systems and indeed managerial accounting research has a purpose because there are real companies using it and benefiting from it (Mitchell, 2002).

This paper will take the constructive approach to discuss the issues and results of the attempts to explain and diffuse the EA system and suggest new routes for both future research and more practical implementations of the system to the restaurant industry. As the literature below indicates, there is a need for new managerial accounting systems, especially based on resource allocation. Previous research also states that more focus will have to be put on the customer side and on the actual user of such a new system. As this study is a combination of these factors, it aims to bring valuable contribution in terms of new ways to deal with resource allocation, cost control, analysis of waste areas and finally novel ways of calculating the price structure, based on what the customer wants and are willing to pay for. By testing the relevance and the validity with the end-users, the aim is to gain important information in order to be able to modify the system before the more practically oriented testing and diffusing process.

A better aligned managerial accounting system, where the customer's willingness to pay is included, should present a better foundation for managers and owners to base their decision-making on strategic decisions, investments, resources allocation, etc.

2 Theoretical framework

A lot of the managerial accounting literature deals with the issue that too little is done for too few users. One line of critique is that the management accounting academia is dealing to a very limited extent with a constructive approach to managerial accounting issues (Kasanen et al., 1993). They argue that almost all new systems have been developed in the companies by consultants while academia is merely bystanders, thereto analyse and criticise already developed and implemented systems.

New ideas, models or constructive approaches, that are results from research, need to be spread in both academia and amongst the practicians in order to develop both the theoretical perspective and practicality of the concept. In both cases, it would obviously be necessary to unbundle the actual innovation and analyse the components in the concept (Björnenak and Olson, 1999). Innovations that have been produced during the last decades are often packed or wrapped as acronyms, such as activity based costing

(ABC), AM, LS, BS, etc. (Björnenak and Olson, 1999). To be able to diffuse and test the innovation, it needs to be analysed in its parts and consequently scrutinised in the aspects of its applicability. If the innovation is perceived as interesting and scientifically acceptable, the debate and valuable improvements and suggestions will be published in coming papers. But as the accounting systems are validated by the applicability in the real world, among real companies, the diffusion process will have to continue. Several managerial accounting papers stress that there is a gap between research and practice (Kasanen et al., 1993; Mitchell, 2002). They argue that the results of management accounting research had very little impact on practice. The topics on the agenda for research and for practical use are different (Mitchell, 2002). Therefore, the issue should be to focus on the diffusion to the practical side of the industry. Not only to get it implemented and used, but also to test it in its right environment and gather information for improvements and possible modifications. It has been argued that the theories developed in managerial accounting research are not being tested sufficiently in practice (Kaplan, 2006). The testing part will be described later on in this paper.

Surveys have shown that few practitioners have access to, or have read the articles written for them, on subjects relating to their businesses (Mitchell, 2002). Time constraint and a more practical approach to the problems could be reasons why the information does not reach its target audience. With respect to the practicality dominated restaurant business it is not very likely that this figure would be better, even though no surveys aiming for owners, managers and executives in the industry have been published. Michell (2002) also pinpoints another important issue regarding why the information is not getting out. The management accounting research has been focused on research of management accounting, rather than theories for management accounting, i.e. what is the solution to the problem (Mitchell, 2002). Basically, the research does not focus on what the practitioners want, but rather what the academia wants. But this paper is focusing on an innovation and to test, evaluate and diffuse this theory to the practitioners, and from that draw conclusion to refine the theory and possibly amend and improve the theory to make it better suited for the end-users. Ax and Björnenak (2004) argue that new concepts or innovations have acquired trademarks which are used to sell them to groups of practitioners. It is also, in the same context, important that the academia is abandoning the emphasis on studying the demand for management accounting and instead starts to focus on the supply of these theories (Ax and Björnenak, 2004).

Based on the above mentioned aspects, the research on EA, described in detail further down, is well in line with the theory surrounding this research field, as this constructive approach is focused on the user and the customer. The work done so far has been empirical based on case studies, or rather multiple case studies in order to establish some kind of framework for the theory (Andersson, 2006; Andersson and Carlbäck, 2009). In this theory development phase, case studies are considered a valid method and it could also be used in the theory refinement phase, even though this is a much less researched area (Keating, 1995). Hence, the academic continuation of the diffusion could be via multiple case studies to evaluate and refine the results and eventually a single case study where the system is put to work in order to gain more knowledge of how the system would work in reality. But, at the same time, the system should be tested amongst the practitioners (Ax and Björnenak, 2004; Björnenak and Olson, 1999; Kasanen et al., 1993; Mitchell, 2002). As the research primarily is developed for the industry players and for use in their businesses, it is of no use to leave the results in the closed circle of academia. The approach should instead be to communicate, initially with the establishments that took part in the survey and monitor their reactions and perception of its applicability. The feedback and indeed comments would make valuable foundations for further refinement of the method or system.

A second alternative, naturally to follow the presentation for the participants, could be a seminar with leading practicians, in order not only to get valuable suggestions, but also to ensure that the message is being spread in the business sector (Kaplan, 2006; Kasanen et al., 1993; Mitchell, 2002). By combining this constructive approach, which is considered scientific (Kasanen et al., 1993) with a more practical way of getting the innovation unbundled and criticised by the real users, the restaurateurs will be part of the development (Ax and Björnenak, 2004). After this testing and refinement phase, the theory should be ready for the ultimate test – to be used in real terms in a restaurant that would be willing to be part of this innovation. By that time, the theory should have spread in academia and hopefully also to a certain extent to the practitioners. A critical issue here would also be to ensure that the information is filtered down through the ranks (Kaplan, 2006), not just staying with top management in large restaurant chains, as the information would have to reach the people who work with this on a daily basis, the F&B controllers, restaurant managers, head chefs and owners.

According to the literature, there is a general need for research in the field of managerial accounting and in the hospitality industry as this need seems even more necessary. In restaurant accounting, the system widely used is the uniform system of accounts for restaurants (USAR) which is a well-established framework and also the system mostly used internationally (Andersson and Carlbäck, 2009). The drawback with the system is its inability to analyse cost and how to deal with the OH costs (Potter and Schmidgall, 1999). As the hospitality industry is dominated by fixed costs, an accounting system to properly analyse them is lacking (Heikkilä and Saranpää, 2006). The use of USAR will only produce key figures, such as cost of sale, payroll, gross profit and net operating income that could be used for comparisons to budget, benchmarks or other businesses. The extent to which the business owner or manager could use the figures to improve the performance of the business is limited.

In other industries, such as manufacturing, it has been argued that traditional methods are obsolete (Johnson and Kaplan, 1987). The result of this was the development of ABC, balanced score card (BSC) and later activity based management (Cooper and Kaplan, 1991). Even though BSC has been criticised and debated (Nörreklit, 2000, 2003), it has been implemented and used in the healthcare sector (Chan, 1993), the airline industry (Tsai and Kuo, 2004), etc. The restaurant industry has been slow to adopt any new systems, while for example the hotel industry has implemented certain new metrics, such as (gross operating profit per available room, revenue generation index and revenue opportunity model (Cross et al., 2009). Revenue per available seat hour has been introduced in the restaurant industry, but requires costly and time consuming data collection (Kimes et al., 1999).

Related to the restaurant industry, this could be extended to say that new systems are neither developed in companies or by consultants, nor by the academia. Hence, the academia does not even have much to analyse and criticise. In a recent article describing and analysing the research conducted in managerial accounting in the hospitality field, it was concluded that one of the largest industries in the world was very little researched in this context (Dittman et al., 2009). The authors suggested several topics for future research that would benefit the hospitality industry, both theoretically and in a practical way.

As a lot of the writing on the subject management accounting is stressing the need for more research on cost, value, revenue and profitability (Banker and Johnston Hansson, 2007), and especially so in the hospitality industry (Banker et al., 2005), the EA research fits in this category. This is also the conclusion in a very recent paper focusing on the management accounting research with this field (Dittman et al., 2009). The suggested research topics are all more or less touched by the EA research, where a lot of interest is put on the issue of fixed and variable cost. This issue has been raised on several occasions and is one of the cornerstones in ABC, e.g. where the question of variable costs gets much attention (Kaplan, 2006; Zimmerman, 1978). Kaplan (2006) argues that costs become variable through information and management actions. In the same paper, Kaplan (2006) is also touching on another important part of EA (Kaplan, 2006):

> A demand curve that represents customers' actual purchase decision must include many more variables than just price.

The focus in general is turning to more customer-based accounting and pricing (McNair et al., 2001). To change from cost accounting to customer accounting is in line with this research, and to take the customers perspective into the calculation could lead to new possibilities. The idea with this research was to take the issue further by using a constructive approach, i.e. to develop a new method or system to solve the problem.

By including the guests' view of the value, price, experience and satisfaction, the owner or manager will be able to see the operation from the other side – the side of the paying guest. If the business owner/manager knows what the guest wants, and even better, what the guest is willing to pay for this (market price), after that he or she can align the business.

Previously, customer accounting has been more a way of including the customer in the performance measurement as a non-financial measurement (Lind and Strömsten, 2006). Customer accounting has, to an increasing degree, been developed around the customer as a part of the whole process and several studies have been conducted in the field. But the emphasis has been put on the segmentation of customers and the profitability evaluation of customer segments and individual customers and even the profitability of a customer over its lifetime (Cooper and Kaplan, 1991; Guilding and McManus, 2002).

Understanding of the relationship between the costs of the firm and the value the firm provides to its customers is the key to the ability of the firm to reach its profit potential (McNair et al., 2001).

The marketing literature is dealing more with this issue than the managerial accounting literature and the importance of customer-based metrics, such as customer satisfaction, customer loyalty, and the drivers behind these valuables have been discussed (Helgesen, 2007). On the other hand, we have the business metrics, such as customer revenue, customer cost and customer profitability (Grønroos, 1990; Helgesen, 2007), but the issue here is to combine the two in a method than will use both sets of metrics to create a managerial accounting system aimed at helping the business manager to get the performance as efficient as possible.

The importance of incorporating the guest satisfaction and perception of value has been developed in recent research (McNair et al., 2001). It is becoming more and more crucial to incorporate the customer satisfaction in the business strategies and new systems would benefit from including this (Pizam and Ellis, 1999). Guest satisfaction and the firm's performance has been proven to be linked together (Gupta et al., 2007) and by using the resources to produce the best possible guest value or satisfaction, the operation will be more efficient (Ryu and Jang, 2008).

2.1 Experience accounting – the system

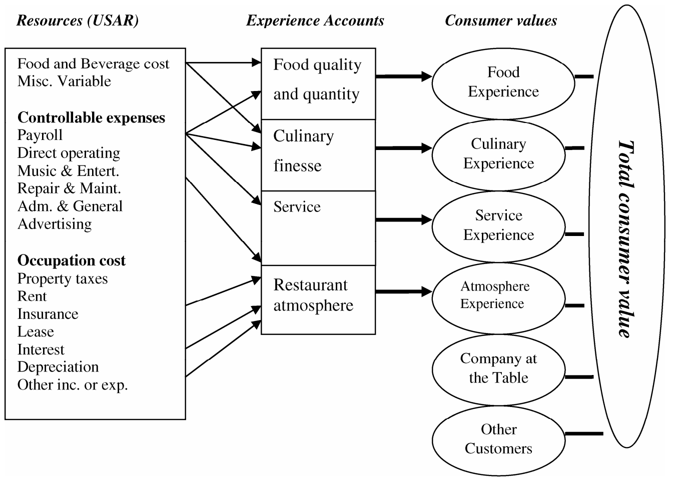
The idea behind the EA is to develop an accounting system well aligned with the production of experience based on the discussion above. The foundation is an accounting system where total the OH costs are allocated to the production of four major types of experiences. The EA system is based on two parts, where the first part is a cost analysis of the restaurant based on the production of experiences, namely the basic food account, the culinary finesse account, the service account and, finally, the atmosphere and physical environment account. This will be followed by an analysis of the customer value, based on the three major factors of the restaurant: tangible factors, service employee factors and consumer factors (Figure 1). Therefore, the final part will be to compare the accounting costs of producing each of the four components of the restaurant experience to the four values that customers attach to the same four experience components. This is then compared to a survey of customer evaluations of a meal experience categorised into the same four components. By using the contingent valuation method (CVM)-method for measuring the value of the customer experience, which produces the results in monetary terms, the results can be compared to the cost of producing them (Mitchell and Carson, 1989). The results of the guest survey will show the customers perceived value of the experience. By comparing these results with the newly created experience accounts, a completely new picture will emerge. Are the restaurants (in this case) utilising their resources to produce what the customers are willing to pay for, and if they are – are they achieving the results they are expecting, i.e. are the costs used effectively?

With an allocation based on the experiences created rather than an allocation based on a fixed percentage of the OH costs, restaurant owners and manager should be able to use the resources at hand more efficiently. The restaurant industry is to a larger extent aware of the fact that the restaurant experience is a complex issue, made up of several factors. But, when it comes to operational management and investment decisions, managers get little information and support from the accounting system in their efforts to create memorable restaurant experiences for their customers.

Firstly, it will be possible to reallocate costs from a standard system of accounts to an experience-based system of accounts that shows the costs associated with the production of various components of a restaurant experience. Secondly, it will also be possible to analyse the value that customers attach to a restaurant experience and to various components of such an experience. Finally, it will create an opportunity to assess whether an experience-based system of accounts yields relevant information for management accounting and management control. An EA system should therefore, when fully developed, give the managers or owners in the restaurant industry an alternative management accounting system which offers the possibility to produce more relevant information as a foundation for budgeting, cost allocation, resources utilisation, cost control and pricing.

The following model was used as a base for the development of the system:

Figure 1 Analytical framework for assessing the efficiency of experience production by a comparison of customer value vs. accounting cost



Source: Andersson and Carlbäck (2009).

3 Method

The aim of this study is to test and analyse the EA system to the possible users of such a system. As the actual developing research is very current, this part of the research will fall under the refinement phase. The first step of this constructive approach was to interview representatives for the three restaurants that allowed the researchers to survey their guests and to rework their bookkeeping. It would have improved the results if more owners/managers could have been interviewed in this phase, but as the presentations were based on the results of the analysis customer surveys, this was not possible due to the sensitivity of the outcome. The owners (restaurants 'South' and 'West') and the manager (East) were given a brief, and practically oriented presentation of the findings, both as an average for the whole research project and also more specifically for their particular establishment. The owner/manager was then interviewed in a semi-structured way as to the ideas, suggestions, applicability and possible problems with the EA system; the interviews were taped and later transcribed. All the three establishments had the presentation/interview that lasted around 2 hour. The second part was a special seminar conducted by the Swedish Hotel and Restaurant Owner's Association (SHR) and Centre for Tourism at the University of Gothenburg, School of Business, Economics and Law (CFT) and around 45 restaurant managers/owners were present. The EA system was the only topic on the agenda. The seminar attracted all the major restaurant companies in Stockholm. The seminar was performed as a 45-min presentation of the research, in a practically oriented way and followed by 30 min of open discussion. Following restaurants participated in the survey:

Restaurant 'South' is a fairly small restaurant with a French touch, centrally located in a midsized town. The focus is mainly on business lunches and formal dinners and there is no bar area. During the cold months the restaurant seats around 40 guests and in the summer a small outdoor serving area is added.

Restaurant 'East' is located in a midsized town and belongs to a major hotel affiliation. The restaurant is inspired by the proximity to the sea and seafood is a special feature. Apart from a cosy bar area, restaurant 'East' has seating space for around 80 guests and a very attractive outdoor service area for the warm months. The restaurant is very popular with local guests as well as the guests staying in the hotel.

Restaurant 'West' is located in one of the best locations in the centre of a major town. The restaurant is comparatively big and can seat more than 100 guests in the dining room and also has several private rooms as well as a large bar area. During the warmer months, a large outdoor serving area is added. Restaurant 'West' attracts not only business guests and formal diners, but also many tourists, due to the location. The kitchen can best be described as international with a Scandinavian touch. The listed building, of which the restaurant occupies a big part, is a unique feature.

4 Results

The owners/managers of the three participating restaurants all conveyed a rather sceptical attitude to the presentations initially, stating lack of time and internal problems as hurdles and obstacles. The promise of a short, concise presentation, where the results were adapted to practical use and relevance made it possible for the meetings/presentations to be set up. Even if the reluctance was present, all the three representatives for the outlets stated a positive attitude to the fact that research was being done for the hospitality industry. None were aware of any research being done in this field, which could both be a lack of interest but also a proof of bad diffusion of any research being conducted in this fast moving business. As a large part of the research is done in the USA or in the UK, the language barrier could be a factor worth considering for future diffusion efforts. Research and the results would obviously be easier to understand, interpret and implement if the material is written in the native language of the audience and possibly also in a rather more practical way. The target audience would then be more prone to read and would get more confidence in trying the suggestions out.

> "It is very interesting that research is being done in this sector. I am not really aware of any research being done, on a more practical level. It seems to be head offices, or consultants who come up with new things, like revenue management," said manager for restaurant East, who has long experience from the business, in various capacities.

> "This is very exciting, indeed. We are using the same methods as we have done for years, and surely there must be new ways of doing things, like improvements in many other business," said the owner of restaurant West, a large busy place, attracting both business people and tourists. "It really is about time that we get more refined methods, so we can take the business to new levels," he continued.

The third participant, South, was not that enthusiastic about the idea. South, which is a rather small outlet, run by the owner and a few members of staff, looked at inventions and changes with the stressed managers eyes – 'it might be good, but I do not have time to learn it, less implement it and benefit from it'.

This restaurant must also be considered the most hands-on managed restaurant, where the control and budgeting were being limited to one person – the owner himself.

> "I am here all the time when we are open, and I have control and I set the prices as I have done before ,– a straight mark up based on a percentage that I have in my head," he said. "I do not really need more than that, the place is too small to use sophisticated systems or methods," he continued.

The results of the survey also indicated that South was further away than the other restaurants when it comes to use the resources in accordance with what the guest would like to pay for.

During the actual presentation, all the three representatives were most interested in the actual results of the survey measuring the guest willingness to pay (WTP) in respect to their own outlet.

> "Interesting, – this shows us that we should focus more on the culinary finesse, rather that the basic cooking," said owner of restaurant West. "Our guests would be willing to pay more for finer cuisine and we do not score very well on the basic food side," he continued.

> "We seem to be doing very well on the service and the atmosphere, but we have discrepancies when it comes to the food, both basic and culinary finesse," stated owner of restaurant East. "It is interesting as we used to be famous for our food, but we recently changed concept (as new owners came in) and it now appears that we have to work on that side. We have to re-allocate the resources in the direction of the kitchen. Very valuable information, indeed."

The owner of restaurant South could also see valuable information from the results of the survey;

> "We have a very high food cost and we do not seem to get that much from it, in terms of what the customer value as important and hence are willing to pay for."

All the three outlets could quite easily and find relevance in this type of results and viewed this as a benefit in its own right, but on a more restaurant-to-restaurant level. Owner of restaurant West summarises this:

> "We can use this information to see where we are failing and do a similar survey after possible changes and then we can see if we got it right. We can, in our case, also try to re-allocate the resources in the kitchen and put more emphasis on the culinary finesse, do another survey and see if we are getting it right."

So, the first and fundamental part of the method was received well by the participants and several questions were raised in respect of how one should interpret the data and ways of using it to improve the performance, or in this case the allocation of the resources.

> "It has certainly given me something to think about, in terms of resource allocation and to view the restaurant visit as an experience is obviously very accurate as it is just what we are trying to create – not just a place to eat and

> drink," said the manager for restaurant East. She continued; "This could be applied in a similar way as yield management or revenue management on the accommodation side, which I have worked with before. Funnily enough, it seems to be very little done on the revenue management side for restaurants and bars."

Owner of restaurant West had a similar opinion:

> "If I have understood it right experience accounting system could be a very valuable tool. To see the guests visit as an experience rather than just a feeding exercise puts the whole concept in a new perspective. It would obviously make more sense to look at what the guests want and ultimately are willing to pay for."

The owner of restaurant South, the smallest one in the survey, was not sure whether this would be applicable to his establishment, based on the statement he made before;

> "I am working many hours as it is and I meet every single customer, so I think I have a pretty clear picture in my head of what the guests want and are willing to pay for. I would not think I will have time to do this."

Time was a concern.

> "I think the idea is good and relevant, but I am worried about the bookkeeping side of it, would it not take a lot of time and effort to use this alternative way of accounting?" asked owner of West.

The manageress of East was not personally involved in the accounting, but was also concerned that this would take valuable and expensive time. But after a deeper description and explanation of the fact that it would, after the initially set-up, not be anymore time consuming than the method used today.

> "Okay, then I cannot see any problems with using this system, only benefits as it would give us a better chance to develop the actual experience for the guests and at the same time use our resources better," she said after the explanation of how the system works.

The owner of West looked at it from a different angle;

> "This could revolutionize the pricing in the industry, no doubt. By using this method, experience accounting, we could use different methods, based on this, to set the prices for every dish and indeed every bottle of wine."

Table 1 Current issues and attitudes in the three cases based on traditional accounting systems

Restaurant	*West*	*East*	*South*
Cost allocation	A	A	A
Budgeting	A	N	A
Align production/output	N	N	N
Pricing	N	N	N
Cost control	N	N	A

He continued;

> "This could lead to the fact that the guests could choose what they really want instead of just the cheaper dishes and the same for wine. That would be very, very valuable and could certainly change the way we are doing business at present."

Table 1 is an overview over the issues and factors considered to be not acceptable (N) or acceptable (A) with the current situation, based on the traditional accounting system.

From Table 1, it becomes clearly evident that the prevailing system lacks certain possibilities that anyone in a managerial position could use in order to better manage the restaurant, at least seen from a financial perspective.

EA would imply certain changes and adaptations. This would be the responsibility of the management or owners, a group that in the restaurant business often work long hours and consequently are reluctant to too dramatic changes. This summarises the impressions from the three cases when presented with the results from the use of EA and the implications that could follow. The mangers/owners indicated useful (U) or not useful (N) which could indicate that a new system would be too time consuming or it was not necessary for that particular restaurant as the current system is sufficient.

Restaurant South is, according to the comments/answers, most reluctant to any new system. The same restaurant is also the smallest and where the management is most 'hands-on'. Hence, the information – the very same information used in management accounting – is stored in the managers own way, in this case his head, i.e. very limited paperwork.

Any deviation from this would impose more administrative work and a break away from the traditional ways of doing things like pricing and cost allocation. It is worth mentioning again, that restaurant South deviated most in the case of resources used compared to the results from the customer survey.

4.1 The seminar

At the seminar held in Stockholm, arranged by SHR and CFT, the presentation was held at a slightly more general level and as the participants had been invited, the initial interest was more curious and less sceptical.

Still, after the presentation, voices were raised, regarding the importance of the research.

> "It is very good that research is being conducted in our industry and the subject is interesting, but I think there are issues that needs to be solved before we go down to issues like this, which is more like an efficiency enhancing method," said one representative of a restaurant company operating several independent restaurants in the greater Stockholm area.

He continued:

> "I think issues like the contracts with the brewers and the interest on these so called loans needs to be addressed first. When we have fundamentals like that right, then I think it would be very valuable to continue in the way you are doing and try to make the industry more efficient."

One representative for one of the major Swedish hotel brands stated that:

> "This is very interesting. First of all that research is being done in this field and secondly that we are trying to find new ways of dealing with issues like

> OH-costs, which we all know is a big part of any firm in this industry. I clearly think this is worth following up, as long as we always keep an eye on the margins, as we can never jeopardizing the margins in this industry."

The main focal point was the fact that research was being conducted and this is in the field of hospitality. Several other participants expressed gratitude and interest in the fact that something scientific was being done as to the efficiency and profitability of the hotel and restaurant business and something that could be applied even on the smaller players, not only the big organisations and the multinationals.

> "I think this is a step in the right direction and with some more refinement and some further testing in the field it could, no doubt, be a very useful tool for the industry," said one participant, who represented a consultancy company, specializing in revenue management and menu engineering for the restaurant business.
>
> "I would be very keen to see the development of this in the future," he continued. "I can certainly see the use for a lot of this in the years to come."

As stated earlier, some concern was raised about the possibilities to keep the margins and to ensure that the total revenue would be the same, even with the use of EA.

> "I have a problem as far as the total revenue goes. It seems to me that the total revenue will decrease with experience accounting and that can not really be the intention," said one participant representing a restaurant company with several outlets in Stockholm.

The issue was explained, but further empirical evidence, i.e. a full-scale test in a restaurant, would be necessary to prove that this is not the case.

5 Analysis and conclusions

The main aspect of this first, initial attempt to test, diffuse and gain feedback for the newly developed EA model, was the fact that almost every participant were unfamiliar to come across any kind of research in this field. This could be interpreted as a lack of suitable research being done in this field, or a diffusion problem of a certain magnitude. It could also be a mere lack of interest from the field players, mainly due to time constraints (as this was clearly expressed during the presentations mentioned above). In either way, this presents a problem as the research should be done for the practitioners and also be filtered down the ranks to the people using it. Hence the testing and diffusion process will have to be improved, not only to make sure the information is spread but also to create an interest among the practitioners to actually read and evaluate the research being done in this field.

As far as the testing process goes, this was only a first step and careful consideration must be taken to develop this further in order to make sure the system that needs to be tested and diffused actually is tested and diffused in a way that will reach every practitioner in the industry.

As far as the actual method goes, the results from the above-mentioned presentations and seminar indicate that there is both a need for and an interest in the method. The literature review clearly indicates a lack of development in this field and the results point in the same direction. There is a lack of industry-related accounting systems in respect of cost allocation, pricing, managerial accounting and ways of dealing with the extremely difficult and important aspect of fixed costs in the hospitality industry.

The results above show that EA (pricing, budgeting and cost allocation) could be one possibility to tackle this issue and drive the development further. Almost every participant was positive to the idea, but also wanted it more developed and foremost, tested.

It is also worth mentioning that the results of the survey indicated that the system would be useful in several ways. One example was the results for restaurant South which indicated that the particular restaurant was further away than the other restaurants when it comes to use the resources in accordance with what the guest would like to pay for. This restaurant was furthest away from using or making any use of current managerial accounting system at all. This restaurant was run 'hands-on' and the results from the survey points out a fairly large discrepancy between what the restaurant produced and what the guest wanted and were willing to pay for. By using a system like EA, restaurant South should be able to use existing resources better in order to produce an experience better suited for the clientele. The results also indicated that the pricing structure could be changed and developed, without harming the margins. The turnover and indeed the stock rotation could be improved at the same time as the customers get a better experience.

Based on the comments/answers from the owners/managers presented in Tables 1 and 2, the EA could be useful. The current system, according to the managers, presented several restrictions and limitations. And, when the managers/owners were presented with the possibilities they could easily see the benefits and usefulness of an alternative accounting system. The reservation came from the smaller and more owner-run establishment South. But the issues of being time consuming and create more administration would have to be overcome by refining the system and test it thoroughly.

The objections with the research were to find out if there is a need for new and more sophisticated managerial tools in the hospitality industry and if EA could be a solution to this problem. The contribution is a clearly identified need for new developments and that EA is one way to tackle this issue. The research also pointed out that the actual testing and the use of a constructive approach are beneficial and that particularly in the practically biased restaurant industry, presentations and informal seminars is an acceptable way of not only getting the message across, but also to get valuable feedback in order to further develop the method/system. This study also indicated that EA would work and apart from giving the manager/owner a tool to allocate resources better it could also serve as performance measurement at any given moment in time as it would paint a clear picture of the outlets performance at the time of the study – and indicate important needs of improvements or strategically changes.

Table 2 Usefulness and possibility to implement in the three cases

Restaurant	*West*	*East*	*South*
Cost allocation	U	U	N
Budgeting	U	U	N
Align production/output	U	U	U
Pricing	U	U	N
Cost control	U	U	N

6 Further research

As the overall consensus was that it was worthwhile to develop further, two main issues became clear; it needs to be tested in a live environment, i.e. a restaurant that is working and the results need to be evaluated and interpreted. It would also be very important to establish just how much time this new method would consume for the stressed restaurant manager/owner. It was clearly the most obvious obstacle to the system and by field testing it and ensure the actual time devoted to the new system compare to the old one, should be established and presented in the next round of presentations.

Hence the next step should be to evaluate any modifications to the system based on the finding herein and to thereafter test the system fully in one or several restaurants. Hopefully, at the same time, the testing and diffusion process in academia would have advanced and valuable input from that side should have been implemented in the system.

That could open the way for a second round of testing and diffusion to the practitioners and by this time with more empirical evidence to present. Another possible outcome was the use of the CVM in this way to create a snapshot of the business performance at any given time. The results showed that this could be disconnected from the overall EA system and be used as a valuable tool in itself – as a stand-alone performance measurement, either by the restaurateur or by a consultant. This *ad hoc* benefit from the research created a lot of interest among the participants.

The results above clearly indicate that the interest is there; it is more a matter of train and instruct the practitioners how to use it, where to find and how to read it. These kinds of seminars/presentations would obviously be a starting point and it should be interesting to develop the process further, based on a more rigid and tested system and presented for more practitioners in possibly smaller groups to allow the feedback and questions to come more freely. It would also be important to test the system fully in order to be able to explain, and be able to prove, that the time consumption will not exceed that of normal systems, once it is implemented and up and running.

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