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Said M. Ladki & Mohammad A. Shatila

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ABSTRACT. This study addresses the evolution of strategic alliances in the hospitality and travel industry. The impact of strategic alliances on hospitality and travel industry stakeholders quality of life will be explored. Two real life cases will be presented and analyzed in order to understand the effect of alliances on quality of life. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <http://www.HaworthPress.com>*

KEYWORDS. Hospitality, travel, strategic alliances, mergers, quality of life

INTRODUCTION

Strategic alliances, mergers, and acquisitions are the most prevalent changes experienced by corporations these days. Depending on the

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Said M. Ladki is Associate Professor, Lebanese American University, Institute of Hospitality and Tourism Management Studies, Rue Mme. Curie, P.O. Box 13-5053, Beirut, Lebanon (E-mail: sladk@lau.edu.lb).

Mohammad A. Shatila is affiliated with the Lebanese American University, Rue Mme. Curie, P.O. Box 13-053, Institute of Hospitality and Tourism Management Studies, Beirut, Lebanon.

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types of alliances, the effect of change can be positive or negative. In today's complex environment, organizations are experiencing constant change and evolution to meet high quality standards, to compete, and to survive. One cannot underestimate the effect that the change has imposed on organizational stakeholders' quality of life, specifically employees, investors, and customers. Quality of life is defined as the degree to which a person enjoys the important possibilities of his or her life (Naess et al., 1997). Quality of life is divided into three categories which are being, becoming, and belonging (*www.utoronto.com*, 2001). The first category represents physical, psychological and spiritual being. The second category represents physical, community and social belonging. The third category branches into practical, leisure and growth becoming. In assessing the quality of life of stakeholders in corporations experiencing strategic alliance the second and third dimensions of (Naess et al., 1997) definition of quality of life will be explored.

Modern companies perceive independence as a sign of weakness and are in a rush to spin intricate webs of strategic alliances. Since the early 1980s, there has been a dramatic increase in the number of international strategic alliances. For example, between 1980 and 1990 Japanese firms signed over five hundred alliances with American firms (Oster, 1994). As a matter of fact, according to the Securities Data Corporation, the number of alliances has increased about 25% per year for the last decade. The Canadian Bureau of Competition, in its November 1995 policy statement on strategic alliances, defines strategic alliance broadly as including "any form of inter-firm cooperative arrangement beyond contracts completed in the ordinary course of business" (Director of Investigation and Research, 1995). Oster (1994) also defined strategic alliances as any arrangement in which two or more firms combine resources outside of the market in order to accomplish a particular task or set of tasks.

BACKGROUND

The growing popularity of strategic alliances is a response to global competition and the need for cooperation among industry players. Several factors in particular have contributed to this greater need for cooperation (Kolasky, Wilmer, Cutler & Pickering, 1997):

- Globalization: Strategic alliances provide a way to achieve the scale and scope necessary to compete globally and to overcome the many obstacles to global expansion.

- Increasing economies of scale and scope: Strategic alliances provide means of competing on a much larger scale through a network of firms.
- Specialization: Drives firms to outsource and to form strategic alliances with the firms on whom they become dependent for strategically important functions.
- Complexity: Drives firms to look for partners who can provide the expertise in lacking areas.

Alliances vary with the nature and size of the organizations involved. Most strategic alliances usually involve companies of unequal size. It is the size itself that sometimes brings partners together. Alliances also vary with the needs, capabilities, and objectives of the partners involved. Numerous factors, such as alliance structure, characteristics of partners, and nature of specialization, impact alliance formation, maintenance, performance, and have an effect on the potential success of the alliance. Table 1 describes the major types of strategic alliances (Badaracco, 1991).

Strategic alliances by themselves have been known to be short of satisfying all organizational needs. To satisfy unmet organizational needs, some corporations have merged or been acquired. According to John-

TABLE 1. Types of Strategic Alliances

Organizational	Acquisition	Merger	Joint Venture	Agreement (contract)
Partners	Intra- or inter-firm	Intra- or inter-industry	Supplier-customer	Firm with competitors
Product-focused	Create new product	Create new uses or markets for existing products	Create new offering by combining products	Create new distribution channels for product
Formality of Arrangements	***Informal-open,*** temporary, infrequent transactions		***Formal contract*** clearly defined scope, frequent interactions, some duration	
Shared Resources	Land, labor, capital		Information, knowledge, know-how	
Shared Benefits	Increased revenues	Better market access	Lower operating costs	

son and Tonnemacher (1999), the Merger and Acquisition Process is divided into four stages: Planning, Execution, Integration, and Evaluation.

Planning

A company should initiate a planning process by defining and specifying its corporate strategy and goals. Only then, the company will be in a position to consider mergers and acquisitions. The basic steps are:

- Establish a business case and outline a strategy.
- Establish financial and tax parameters.
- Perform preliminary cultural and operational assessments.
- Create a database of target companies and contact log.
- Set specific goals and objectives, used later as an evaluation parameter.
- Conduct a short high-level risk assessment: external and internal.

Execution

After an agreement in principle is reached, the execution stage starts by building on the foundation of information gained during the search, preliminary analysis and risk assessment through:

- Studying operational matters to identify challenges.
- Identifying spectrum of risk the company has to overcome.
- Understanding the target company cultures, systems and processes.
- Conducting another risk assessment along with risk mitigation plans to be carried out during the integration phase.

Integration

A dedicated cross-functional integration team should be assigned the role of integrating an acquisition. Integration should be divided into two carefully orchestrated steps:

Planning for Integration

- Identify stakeholders and draft key messages and communications.

- Identify project team members, including a merger coordinator, and define team structures along with roles and responsibilities.
- Establish a formal master integration plan with dependencies and timeframes.

Implementing Integration

- Articulate a new mission and business plan to support that mission.
- The new organization must integrate core processes, technology and back office facilities.

The objective should not be to just combine the entities, but rather integrate the entities by implementing best practices where applicable.

Evaluation

Evaluation involves identifying and prioritizing the vital measures required to determine merger and acquisition success. Evaluation consists of both hard and soft measures tied back to the company's original strategic objectives. Performance measures include:

- Financial metrics: revenues and operating costs relative to budget, return on assets, return on equity, etc.
- Customer measures: customer satisfaction, customer retention and customer profitability.
- Operational measures: administrative and general expenses per employee, operating margins, etc.
- Human capital measures: employee retention, average productive hours per day and upward feedback indices, etc.

STRATEGIC ALLIANCES IN HOSPITALITY AND TRAVEL INDUSTRIES

In recent years, hospitality and travel organizations have relied on strategic alliances to increase market share, to be ahead of the competition, and to acquire skills and technologies. When strategic alliances are well organized and implemented, they have proven to be beneficial in promoting a company's growth and investment strategy. The quality of life of customers, investors, and employees will be examined through the presentation of two cases. One case of strategic alliance in hospitality and one in travel will be presented.

Strategic Alliances in the Hospitality Industry

According to the lodging industry profile prepared by American Hotel & Motel Association, travel and tourism is the world's largest industry producing $3.6 trillion of gross output in 1996 (Conrad, 1997). In addition, travel and tourism is the world's largest generator of jobs creating 225 million jobs or one new job every 2.4 seconds. Over the decades, hotel operators around the world have recognized the dramatic growth of the lodging industry. Leading hotel companies are attempting to establish unique market position in an effort to boost market share (Dev, Morgan, & Shoemaker, 1995). The hotel industry is booming. Major hotel chains are expanding and new hotels are being built at a rapid pace. In addition, the area of mergers and acquisitions is very active, with ownership of properties changing so quickly that it is difficult to keep track of who owns what (Forte, 1998).

The trend of mergers and acquisitions has taken front stage in the hospitality industry since the last decade. The original factors that gave birth to this trend were the scarcity of land sites suitable for hotel development, high cost of building, and the need for strategic market locations (Chon, 1993). Small firms continue to merge with larger ones in order to survive and improve their financial status. Large companies are always willing to acquire more hotels, restaurants, and management companies in order to expand their operations and diversify their portfolios, geographically, or by product category. The case of Bass Hotels & Resorts will be explored in order to emphasize the importance of alliances in this sector.

Bass history began with the first Holiday Inn hotel in Memphis in 1952. Bass PLC operates or franchises more than 3,000 hotels representing 480,000 guest rooms in more than 95 countries. Each year, more than 150 million people find a warm welcome at a hotel or resort bearing one of Bass Hotels & Resorts international lodging brands. Bass Hotels & Resorts operates Inter-Continental Hotels & Resorts, Crowne Plaza, Holiday Inn Hotels and Resorts, Holiday Inn Express, Holiday Inn Select, Holiday Inn Sunspree resort, and Staybridge Suites by Holiday Inn. All of Bass Hotels & Resorts members offer information and reservations capability on the World Wide Web of the Internet. Each member of the Bass family offers a customed product that is targeted toward specific consumer groups. For example, Inter-Continental Hotels and Resorts has been the preferred choice of the world's business travelers since 1946 (www.bass.com). Inter-Continental offers exceptional comfort, convenience and service throughout the world. Crowne Plaza Hotels and Resorts are located in major markets worldwide, and are specifically designed for travelers who enjoy the pleasures of simplified elegance, combined with the practicality of the latest features and amenities. Holiday Inn targets business as well as leisure travelers. Holiday Inn Select, Holiday Inn Sunpree Resort, and Staybridge Suites by Holiday Inn are dedicated for cost conscious convenience seeking business and family travelers.

The formation of Bass PLC would not have been possible without the formation of series of strategic alliances with various regional hotel chains. For example, Bass Hotels & Resorts acquired the Inter-Continental Hotels and Resorts on February 2000. With the $2.95 billion purchase of Inter-Continental, Bass added 187 hotels with 65,000 rooms in 69 countries. The purchase price incorporated $1.395 billion in cash, the repayment of debt of $450 million, and $1.105 billion in the assumption of debt net of cash. Thomas Oliver, chairman of Holiday Hospitality, commented "we look forward to building on Inter-Continental's existing strong base in Europe, the Middle East and Latin America.We also look forward to expanding the brand in Asia and the United States, it is a very good marriage because Bass needed some five-star hotels in the group."

In January 2000, Bass Hotels & Resorts entered into an agreement with the Pritzker family to purchase the share capital of Hale International Limited (Hale). Through its subsidiary the Southern Pacific Hotels Corporation (SPHC), Hale owns, leases, manages or franchises 59 hotels throughout the Asia pacific region. The acquisition agreement includes 24 hotels in Australia, 13 hotels in New Zealand, 8 in the Southern Pacific Islands, and 14 in the rest of Asia. The acquisition was settled in around $217 million in cash. This acquisition added to Bass' portfolio an additional 59 hotels making it the largest hotel company in the growing Asia Pacific market with 161 hotels and over 40,000 rooms. Commenting on the deal, Tom Oliver, chairman and CEO of Bass Hotels & Resorts, said "This is an excellent opportunity for Bass to strengthen our number one position in the Asia Pacific market. Our customers will experience improved benefits through the linking of Bass customer frequency program, Priority Club with SPHC Pacific Privilege."

Impact of Bass Alliances on Stakeholders Quality of Life

In terms of quality of life, Bass Priority Club Worldwide has rewards program that allows members to collect points or miles at more than 3,000 Bass Hotels & Resorts around the world. Thus, making it easy to earn exciting trips and developing consumer loyalty to recognized brands. Bass properties feature a complimentary breakfast bar, and free local phone calls. Bass Hotels & Resorts provides a wide variety of guest services, including fully appointed guestrooms with ample work areas, business centers, excellent dining choices, quality fitness facilities, and comprehensive meeting capabilities. All of Bass quality of life enriching services are delivered by expert and caring staff. Bass hotels and resorts E-commerce services are among the most visited hotel sites on the web, with more than 2 million visits monthly. Bass allows real-time reservation bookings online and is continually building alliances with popular travel sites such as Priceline.com, travelocity.com, and lastminute.com. Bass hotels also benefit from the Guest Satisfaction Tracking System. This advanced database measures and tracks key product and service attributes directly related to guest satisfaction and guest retention at the hotel.

Strategic Alliances in the Travel Industry

The late 1990s air-transport became characterized by inter-airline alliances. More precisely, in mid-1998, airline business recorded 502 separate alliances. Up to 32% of all alliances had taken place during the last 12 months of the same year. As a result of the need to expand and compete, four major alliances have emerged: two larger alliances, Star and Oneworld, and two smaller ones, Delta/Airfrance and Wings. Together, the four alliances generated 62% of world traffic in 1998 (Doganis, November 2000).

Airline strategic alliances are characterized by geographical spread and importance. The first type is the Route-Specific Alliance which covers limited numbers of city pairs. The second type is the Regional Alliance, which is wider and can be achieved either through commercial agreements or franchise. Commercial agreements cover many routes, involve code-shared flights, joint marketing and sales, capacity coordination, and mutual use of business lounges. Franchise arrangements provide regional operators with service standards, flight codes, sales, and marketing strategies. The third type of airline alliance is the Global Alliance. It involves code-sharing on lots of routes, schedule coordination, joint sales offices, ground handling, maintenance, and combined frequent flyer plans (Doganis, November 2000).

The establishment of airline strategic alliances begins with partners' commitment toward network expansion and joint marketing where the focus is on revenue generation. A followed separate agreement is signed to join operations and reduce costs. Afterwards, allied partners begin to share the use of assets, product development, and management of different aspects of operations. The partners move from separate identities to emphasizing and even adopting a single brand, possibly with combined consolidated company accounts. Throughout this process, all partners should have clear and fair benefits in terms of marketing, revenue generation, cost reduction, and reduced competition. The long terms and visions should be shared and understood by all. Clear and neutral governance must be maintained under network organizers through close working relationships and mutual trust and appreciation of cultural/organizational differences. Customer satisfaction has to be the center of all activities through high customer-oriented service standards (Doganis, December 2000).

The case of Star Alliance will be discussed in order to analyze the importance of strategic alliances in this sector. Star has 322,857 employees, a fleet consisting of 2,299 aircraft, it serves 129 countries, and 894 airports with 9,967 daily departures and has 317.55 million passengers per year. The members of the Star Alliance are: Air Canada, Air New Zealand, ANA-All Nippon Airways, Ansett Australia, Austrian Airlines, British Midland, Lauda Air, Lufthansa German Airlines, Mexicana, SAS-Scandinavian Airlines, Singapore Airlines, Thai Airways International, Tyrolean Airways, United Airlines and Varig Brazilian Airlines. Star Alliance has a full-time Alliance Management Team (AMT), which comprises the executive body of the partnership. The Team translates directions and policies from the alliance's highest governing body, the Chief Executive Board, and the Alliance Management Board, develops policies and plans, implements products and operates budgets (Star Alliance, 2001).

Impact of Star Alliance on Stakeholders' Quality of Life

Star Alliance now generates about 20% of global scheduled passenger traffic (Doganis, November 2000). Star's 15 formal members each have regional partners. In terms of quality of life, the passengers of the Star Alliance have access to 894 airports and to more than 500 lounges in 129 countries. Passengers earn and redeem frequent flyer miles or points on any member airline with a world-wide recognition of status. Star Alliance Gold members, first, and business class travelers enjoy priority reservation, boarding, and baggage handling services. The alliances minimize some of the inconveniences of traditional interline trips such as passenger connection between the carriers by schedule coordination and gate proximity at hub airports especially if there is a merger of the partners' frequent flier programs. Code sharing and alliance membership lead to a notable reduction in interline fares, and the antitrust has an even larger beneficial effect.

A study by Brueckner (2000) stated that the antitrust immunity enjoyed by Star Alliance partners generates an aggregate benefit of about $80 million per year for interline passengers. Code sharing among Star partners yields a further annual benefit of around $20 million. Thus, these forms of cooperation generate a benefit of approximately $100 million per year. Moreover, if cooperation within the Star Alliance were to expand through extension of antitrust immunity more than $20 million of additional benefits would be generated. The quality of life of Star Alliance members have been realized through the financial gains of more than $80 million that members have obtained.

IMPLICATIONS

The rapidly changing hospitality industry forces operators to keep track of the merger and acquisition game. Hospitality managers must keep track of the financial activities of the industry in order to use the appropriate financing tools when times demand. Big hospitality corporations tend to perform a lot better than independent, small companies (Chon, 1997), which explains the rush towards mergers and acquisitions. The hospitality industry is a capital-intensive business, so there can be a distinct and powerful advantage in having economies of size and greater access to capital than competitors. The past decade witnessed the disappearance of several small hospitality and travel businesses as they were acquired by larger organizations. The acquisition of a company brings new business practices and cultures that are alien to the company being acquired. The introduction of the new culture is very critical; in fact, if not properly planned and executed, the alliances may result in culture clashes or culture shock. Many mergers and acquisitions have as their main goals the reduction of overhead expenses, and lowering cost of capital (Robinson, 1997). The major effect of strategic alliances on customers is price reduction, improved level of service, and improved product offerings. The success of strategic alliances will be displayed through customer satisfaction and management appreciation of the merges, thus improving the quality of life of all involved parties.

In the travel industry, deteriorating financial performance seems the first motivation behind strategic alliances. In fact the search for alliances with strategic partners has been particularly marked among weak or loss-making state-owned airlines. Airlines strategic alliance partners share assets to fulfill their needs and achieve their goals. The shared assets include terminal facilities, maintenance bases, aircraft, staff, traffic rights, or capital resources (Doganis, November 2000). Enhancing the quality of life of those involved directly or indirectly with organizations is the basic need behind the search for strategic alliances. Quality of life motives in this domain can be basically divided into four categories.

1. Search for marketing benefits: Marketing benefits can be achieved by increasing scope and network spread. Airlines produce more passengers and freight while expanding the partners' total markets by extending geographical reach, at little extra cost.
2. The second factor is cost reduction which will be achieved through (a) use of larger aircraft, and higher usage of fixed assets, (b) shared sales offices, lounges, and staff and coordinated schedules can reduce fleet size, (c) partners benefit from smaller carrier's lower operating costs, (d) joint purchasing.
3. The need to reduce competition in a more liberalized world.
4. "Nationality Rules." International regulations drive the nature of cooperation. To be given traffic rights, airlines must be substantially owned and effectively controlled by nationals of that state. This fact has resulted in complex inter-airlines alliances.

The effect of strategic alliances on employees' quality of life depends on types of partners, kind of agreements, and industry norms. The effect will be positive if employees get the opportunity to benefit from the formed alliances. Employees' benefits may include several factors such as training, motivation, promotions, and better salaries. However, many things if not well monitored might take place. Culture shock is one of the major problems that arises from an alliance. For example, if the average age of the managerial staff of an acquiring company is around 35 and that of the acquired firm is 50, then a culture clash is most likely to emerge. If the terms of the alliance did not preserve the welfare of the employees, employees of the acquired firm might be put out of work or subject to demotions. Retained employees are very likely to lose their sense of direction and will not know the goals or needs to be achieved. In this case the long term goals and the overall vision and mission must be communicated to all employees to put them on the right track. Power redistribution must also be communicated to everyone so that employees will know to whom they report, the scope of their work and its limitations. Reassigning duties will also cause loss of commitment since employees are now working with new people and have lost the old system which they trusted and were committed to it. All the above factors will contribute to the employees' resistance to change which should be dealt with carefully in planned and reassuring ways in order to avoid unpleasant complications.

The International Society of Hospitality Consultants (ISHC) held up a conference under the theme of identifying challenges in the hospitality industry. This conference dealt with the following:

- Finding, training, motivating and retaining capable employees, to help end turnover.
- Helping communities promote tourism.
- Capital asset preservation.
- Mitigating capital-reinvestment exposure through improved preventative maintenance programs and better capital-investment decision making.
- Making sure guests feel valued.
- A reliable, industry-accepted method to measure return on investment.
- Making more money in a stagnant business cycle.
- Making mergers work.
- Determining the optimal investment in technology. "Under investment may result in lagging behind competitors in terms of customer service and in less-than-optimally efficient operations," while "Over investment may result in having obsolete technology before achieving a satisfactory financial return"(Patterson, 1999).

CONCLUSION

It is quite evident that the hospitality and travel industries are leading global markets through the establishment of strategic alliances. The year 1998 was labeled as the Mega Merger year. In such an active volatile industry no place is left for the small centralized companies. Strategic alliance is a means to secure market shares and growth. No matter what the challenges and threats are, one cannot underestimate the positive effects that the strategic alliance brings along, improving the quality of life of stakeholders.

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