

## **International Implications of “Relationship Markets” between Hospitality Operations and Private Land Owners considered from the standpoint of Economic Parallel Rationality**

Tourism has long been the bread and butter of a diverse array of countries and regions. As the world economy ebbs and flows, some localities are finding economic salvation through becoming a travel destination. One trend that is growing in popularity around the world is agritourism and ecotourism. Some countries, regions, and towns are known for outdoor sports. Additionally, it provides tourist opportunities for areas that have little else to offer in terms of either industry or “traditional tourist attractions.”

Hospitality operations, e.g., hotels and resorts, may provide their own recreational activities for their guests. However, that can require a significant capital investment. An alternative is to make arrangements with nearby private land owners. In such a framework, local relationships can potentially be leveraged for mutual benefit. Hotels are able to provide more opportunities for their guests, but both avoid the direct cost and forego the potential direct benefit of land ownership and maintenance. Land owners similarly may be able to generate more revenue from the land without all of the management and marketing costs associated with running their own independent recreational operation.

In land use cooperative relationships between land owners and hotels, the opportunity cost for using the land is *a priori* entirely on the side of the land owner. The hotel incurs no direct cost for using the land. The land owner, however, cannot use the land for other potential revenue-generating purposes while it is being used for recreation. Also, for some land owners, the opportunity cost results from limitations on their use of land they keep for personal recreational use.

While the use of nearby land for recreation is a value-added benefit to the hotel that can lead to increased revenue and profit, the costs borne by the land owners are not automatically internalized by the hotels or the hotel guests. This leads to a difference in decision strategy between land owners and hotels regarding the use of private land for recreation by hotel guests.

Land owners have the right to exclude, so their utility maximization strategy is unlikely automatically to take into account the utility of hotels or hotel guests. However, since hotels realize the lands owners have the right to exclude, their utility maximization strategy must logically take into account the utility maximization strategy of the land owner in order to be effective. That presents a situation of misaligned incentives that can easily lead to a sub-optimal allocation of land for recreational use, which can negatively impact the local tourist economy. The more the local area depends on tourism for its livelihood, the more that negative externality is likely to be felt.

Following the principles of economic parallel rationality, this study considers the two sides of the recreational land use transaction as statistically independent and non-interacting economic worlds, each with its own distinct decision strategy. Data regarding hospitality operations, land owners, and recreational clients from the Northwest Minnesota Recreation and Land Use Survey Project are used. Modeling the misalignment of incentives in the framework of parallel rationality provides a different view of the situation aimed at providing additional insight that may suggest pathways to reduce or eliminate the sub-optimal outcome of land allocation.

Northwest Minnesota, despite being a region rich with land suitable for a diverse array of outdoor recreational activities, receives the smallest income from tourism compared to the other regions of Minnesota. Land owners have little interest in opening their land for outside recreational use. Although outdoor recreation is popular in the region, there is difficulty in attracting outside visitors relative to local participants. It is expected that, given the nature of tourism in northwest

Minnesota and the difficulty in developing relationships with local land owners, analyzing the region could provide insights that may be useful to areas around the world that experience difficulty in attracting tourists. In particular, those regions in the world that are either dependent upon tourism and seek to expand by using outdoor recreation as a draw or who are considering agritourism and ecotourism as a means of improving their economy but in each case face a misalignment of incentives with local private and/or government land owners could benefit from the insight into land owner-hotel interaction through the resulting suggestion of incentive-aligning mechanisms.