UNIVERSITAT JAUME I

Departament d'Economia

Quatre articles sobre el creixement, concentració, mobilitat, rendibilitat i factors clau en l'elecció del mode d'entrada de les cadenes hoteleres

Four papers about the development, market concentration, mobility, profitability and factors influencing choice of entry mode in the hotel chains

Tesis Doctoral

Realitzada per

Carles Mulet Forteza

Director

Dr. Onofre Martorell Cunill

21 de Desembre de 2009

Castelló de la Plana

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Al meu pare i germans.

A la meva esposa, Laura, i al meu fill, Miquel Àngel.

A la meva mare, Francisca, que al cel sia.

AGRADECIMIENTOS

Hoy, el día en que finaliza una etapa muy importante de mi vida, quiero dedicar una parte de ella a agradecer a un sinfín de personas que han contribuido que este trabajo llegue a su fin.

No me resulta fácil encontrar las palabras apropiadas para poder definir la relación con mi director de tesis, Onofre Martorell. Me es más sencillo imbuirme en los ocultos pasajes de una literatura creada para navegar en el recuerdo, donde coexisten la razón y la emoción.

"*Tanto para iniciar, como para concluir una singladura, es preciso contar con una tripulación preparada, disciplinada y entregada a su pasión por la investigación, y abierta a los que buscan, como ellos, la esencia del conocimiento. Y, por supuesto, al mando, alguien presto a escuchar, con el convencimiento de que la ilusión de su interlocutor merece una atención especial, y dispuesto, sobre todo, a ser paciente*".

Sus consejos, su apoyo incondicional y su gran dirección han sido fundamentales para dar forma a este trabajo. En definitiva, deseo dar las gracias, más que a un director, a un amigo.

Deseo hacer extensivo este agradecimiento al resto de personas que han contribuido, de forma totalmente desinteresada, en la realización de esta tesis. Gracias al *Departament d'Economia de la Universitat Jaume I*; su apoyo tiene para mí un valor muy especial. En especial quisiera resaltar los valiosos consejos que me han aportado los doctores Emili Tortosa y Javier Ordóñez así como los proporcionados por mi tutora de tercer ciclo, la doctora Aurelia Bengochea. También quisiera dar las gracias de forma muy especial a Eugeni Aguiló, Micaela Rosselló y Jaume Rosselló por sus apreciaciones y valiosos consejos.

El agradecimiento también es para todas las personas que con total desinterés han hecho posible la realización de este trabajo. Quiero mencionar especialmente a los ejecutivos de las cadenas hoteleras Barceló Hotels, Bahía Príncipe, Blau Hotels, Fiesta, Hotetur, Iberostar Hotels, Sol Meliá y Riu Hotels, que me han facilitado toda la información solicitada para que mi empresa sea posible.

También quiero expresar mi infinita gratitud a las personas que me han soportado durante la realización de esta tesis. No sería justo decir que no han participado ya que han hecho sugerencias en varias ocasiones. Su principal virtud reside en aliviar mis preocupaciones, escucharme y ayudarme a sobrellevar los momentos complicados, no sólo durante los últimos años, sino algunas de ellas durante toda mi vida. Me estoy refiriendo a mi familia y a mis amigos, a quienes normalmente uno no tiene la ocasión de expresar formalmente su agradecimiento, y puesto que se me brinda la ocasión, no he querido desaprovecharla.

Por último, a Laura, el motor de mi vida, que desde el principio de la tesis me ha tenido que compartir con ella. Por todo lo que hemos hecho juntos, y por todo lo bueno que nos queda por hacer, ahora en compañía de Miquel Àngel.

CONTENTS

INTRODUCCIÓN Y ESTRUCTURA DE LA TESIS DOCTORAL

1. INTRODUCCIÓN

Esta tesis doctoral pone punto final a largo y sinuoso camino de investigación que se inició en el curso académico 2001/02 con la realización de los cursos de doctorado del Departament *d'Economia i Empresa de la Universitat de les Illes Balears* (UIB).

Ya desde su inicios mi actual director de tesis y tutor durante la realización de los cursos de doctorado, el Dr. Onofre Martorell, encauzó mis estudios de doctorado hacia el sector turístico, y más concretamente al análisis de las cadenas hoteleras. De hecho, el Dr. Martorell ya realizó su tesis doctoral acerca de estos temas por lo que su opinión gozaba de todo el reconocimiento y reputación que puede esperar un recién licenciado ante la difícil tarea que supone la elección de un tema para la realización de su tesis doctoral. Además, porque negarlo, este era un tema que siempre había llamado mi atención durante la realización de mis estudios de licenciatura.

Desde el mismo momento que empecé a cursar mis estudios de doctorado en el *Departament d'Economia i Empresa de la* UIB, el Dr. Martorell se encargo de que mis conocimientos no se limitasen a las distintas enseñanzas que iba adquiriendo durante la realización de dichos cursos. De hecho, me permitió participar en la fase de difusión de los resultados de investigación que había obtenido en su Tesis Doctoral, a la que había dado a luz poco tiempo antes. No hace falta decir que ello me enriqueció enormemente ya que me permitió adentrarme y profundizar en unos conceptos totalmente desconocidos para mí hasta ese momento.

Durante este período de tiempo, además de finalizar los cursos de doctorado del *Departament d'Economia i Empresa de la* UIB, empecé a elaborar el primer material que tendría que desembocar en la finalización de la tesis doctoral.

Esta primera etapa de mi camino de investigación finalizó, a finales de 2004, con la presentación de la memoria de investigación. Este hecho marco mi trayectoria investigadora mucho más de lo que jamás me hubiera imaginado. Durante la defensa del DEA (Diploma de Estudios Avanzados) tanto mi director de tesis como yo mismo nos dimos cuenta que había que rectificar el plan de trabajo que habíamos trazado para la elaboración de mi Tesis Doctoral.

En este sentido, la postura del Dr. Martorell fue firme e inquebrantable, la cual contrastaba con las dudas que en mi se habían generado con la defensa del DEA. Al final, el Dr. Martorell consiguió abrirme los ojos y hacerme ver que una tesis doctoral no es más que el inicio de un duro y largo camino de investigación, que presenta dificultades y obstáculos (e incluso, a veces, recompensas) que el alumno de doctorado tiene que ser capaza de superar. El Dr. Martorell me ofreció todo su apoyo, ayuda y conocimientos para reorientar mi tesis doctoral y adaptarla a los nuevos requerimientos y retos que se me habían planteado. El resultado de esta reorientación y cambio es el que hoy, a finales de 2009, presento para que sea evaluado.

Por todo ello, al Dr. Martorell quiero ofrecer toda mi admiración, afecto, agradecimiento y amistad.

2. ESTRUCTURA DE LA TESIS DOCTORAL

A continuación se analiza la estructura de la tesis doctoral. Dicha estructura de la tesis se compone de cuatro partes perfectamente diferenciadas y a su vez totalmente conexionadas. En cada una de estas partes se detallan los objetivos de la investigación, la metodología utilizada, las aportaciones originales y las principales conclusiones obtenidas así como las futuras líneas de investigación.

La primera parte, titulada "The franchise contract in hotel chains. A study of hotel chain growth and market concentrations", tiene como primer objetivo el de analizar si se mantiene la diversificación en las vías de expansión de las cadenas hoteleras sin que ninguna de ellas predomine sobre las otras, tal y como argumentan ciertos estudios realizados. En este sentido, las conclusiones del trabajo pondrán de manifiesto como los contratos que no implican desembolsos de capital, y en especial los contratos de franquicia, se han convertido en las estrategias de crecimiento preferidas por parte de los principales grupos hoteleros para llevar a cabo su expansión.

La generalización en la utilización de las estrategias de crecimiento que no implican desembolsos de capital ha provocado que el sector hotelero experimente día a día una fuerte transformación derivada del dinamismo de sus agentes y de las continuas operaciones que en él se realizan, en las que algunas cadenas presentan altas tasas de expansión mientras otras desaparecen. Todo ello parecía dibujar un escenario de mayor concentración sectorial. Es por ello por lo que en esta primera parte, y como segundo objetivo, también se analizó la concentración del sector hotelero así como su evolución en los últimos años. Los resultados ponen de manifiesto como la concentración de las cadenas hoteleras ha aumentado de forma notable en los últimos años, alcanzando grados de concentración superiores al 75%.

En esta primera parte también se ha analizado, como tercer objetivo, la movilidad en las posiciones que han ocupado las principales cadenas hoteleras. Las conclusiones revelan como la proliferación de los contratos que no implican desembolsos de capital han provocado que exista una elevada correlación entre las posiciones que han ocupan las 35 mayores cadenas hoteleras a finales del año 2005 con las que ocupaban a finales del año 1996.

Finalmente, mediante la utilización de matrices borrosas de incidencias, en la primera parte también tratan de determinarse las causas que han provocado que la franquicia se haya convertido en la estrategia de crecimiento preferida por parte de las cadenas hoteleras con mayor número de habitaciones del mundo. Para ello, se tratará de determinar tanto las causas directas como las de segunda generación que surgen en la mayoría de los fenómenos socio-económicos. Por causas de segunda generación se entienden aquellos efectos que no suelen ser previstos de manera directa, al menos en primera instancia, pero que inciden notablemente en las estrategias de las empresas ya que suelen manifestarse a medio y largo plazo. Precisamente esta es una de las principales aportaciones originales de la primera parte de la tesis doctoral ya que se determinan las causas que han provocado que la franquicia se haya convertido en la estrategia de crecimiento más utilizada por parte de las principales cadenas hoteleras del mundo con mayor número de habitaciones.

Tal y como se ha comentado, la metodología utilizada en esta primera parte de la tesis doctoral se ha fundamentado en la realización de encuestas, la utilización de análisis cluster, el uso de coeficientes de correlación, la elaboración de paneles de expertos y la utilización de matrices borrosas de incidencia.

La segunda parte, titulada “The relationship between hotel chain growth strategies and their return on investment”, una vez determinadas las estrategias de crecimiento más utilizadas por las cadenas hoteleras, trata de determinar, como primer objetivo, la procedencia de las principales cadenas hoteleras que operan mediante estrategias de crecimiento que no implican desembolsos de capital. En este caso, puede observarse como los grandes grupos americanos e ingleses son los máximos exponentes en la utilización de los contratos que no implican desembolsos de capital, lo cual les ha permitido copar las principales posiciones en el ranking mundial de cadenas hoteleras por número de habitaciones. Todo ello ha permitido que estas cadenas hoteleras hayan consolidado y aumentado su posición de dominio entre las cadenas hoteleras de mayor tamaño del mundo.

El núcleo de esta segunda parte se centra en analizar como afecta a las rentabilidades que obtienen las cadenas hoteleras la utilización de las distintas estrategias de crecimiento. Los resultados obtenidos en esta segunda parte ponen de manifiesto como las cadenas hoteleras que apuestan por la utilización de estrategias de crecimiento que no implican desembolsos de capital obtienen unas rentabilidades considerablemente mayores a la del resto de cadenas que fundamentan su crecimiento mediante modalidades de expansión que si implican desembolsos de capital. En este sentido, las futuras líneas de investigación pasan por analizar los motivos que propician que las cadenas hoteleras estén fomentando la desvinculación entre la propiedad de los inmuebles y la gestión del negocio hotelero, especialmente desde que los accionistas muestran mayor interés en invertir en cadenas hoteleras con elevados niveles de rentabilidad.

La metodología utilizada en esta segunda parte se ha fundamentado en la realización de análisis cluster y en el uso de coeficientes de rentabilidad.

En la tercera parte de la tesis doctoral, titulada “Valuing growth strategy management by hotel chains based on the real options approach”, llegamos a la conclusión de que, aunque las estrategias de crecimiento que no implican desembolsos de capital son más rentables que el resto de estrategias de crecimiento, no se puede valorar únicamente un activo hotelero por la rentabilidad que éste ofrece ya que, por ejemplo, el contrato de propiedad permite al poseedor del mismo la opción de desprenderse de la misma, a cambio de una cantidad monetaria que incrementa la rentabilidad de la operación, sin que por ello tenga que renunciar a la explotación del mismo. Algo sucedido puede pasar con el resto de estrategias de crecimiento que utilizan las cadenas hoteleras.

Por ello en esta tercera parte se ha elaborado una metodología, diferente a la utilizada en la segunda parte, para la valoración de las estrategias de crecimiento utilizadas por parte de las cadenas hoteleras. También se ha llevado a cabo una aplicación práctica, a partir de los datos facilitados por varios expertos turísticos, de la metodología expuesta en esta tercera parte en la que se ha valorado, mediante la técnica de las opciones reales, las distintas alternativas que tiene un establecimiento hotelero a la hora de elegir cual es la estrategia de crecimiento más adecuada para conseguir aumentar el valor de la empresa. Los resultados obtenidos ponen de manifiesto como el management contract es la estrategia de crecimiento que maximiza la rentabilidad de los accionistas y, con ello, el valor de la empresa. La principal aportación original de esta tercera parte de la tesis doctoral es la de ofrecer una metodología útil para la toma de decisiones en cuanto a la elección de la estrategia de crecimiento más adecuada para conseguir aumentar el valor de la empresa.

De todas formas, hay que tener en cuenta que los resultados obtenidos son únicamente un paradigma de la metodología expuesta en esta tercera parte de la Tesis Doctoral. Con ello queremos decir que estos resultados tan sólo se limitan a un ejemplo de la práctica internacional para la toma de decisión de la modalidad de crecimiento más idónea para llevar a cabo el crecimiento de las cadenas hoteleras. De todas formas, la metodología utilizada si que es útil para llevar a cabo cualquier valoración de este tipo ya que no depende de una situación inicial preestablecida. Precisamente, las futuras líneas de investigación pasan por generalizar la metodología utilizada en esta tercera parte de la tesis doctoral.

Finalmente, en la cuarta parte, titulada "Choice of Market Entry Mode into a Foreign Market. The case of Balearic Hotel Chains in the Caribbean Region and Gulf of Mexico", una vez analizadas las estrategias de crecimiento más utilizadas por parte de las cadenas hoteleras, la evolución de la concentración y la movilidad en las cadenas hoteleras, las distintas rentabilidades que ofrecen las estrategias de crecimiento y la valoración de las distintas opciones que tiene un establecimiento hotelero a la hora de elegir la estrategia de crecimiento que aumenta en mayor medida el valor de la empresa, se lleva a cabo una regresión logarítmica multinomial con la finalidad de determinar cuáles son los factores clave que influyen en el proceso de decisión utilizado por las cadenas hoteleras de Baleares a la hora de elegir su estrategia de crecimiento para llevar a cabo su expansión en la región del Caribe y el golfo de México. La utilización de esta metodología también pretende verificar si los conceptos derivados del coste de transacción, coste de agencia y las teorías estratégicas de la capacidad organizativa y conocimiento en las compañías influyen en las cadenas hoteleras a la hora de elegir la modalidad de expansión elegida en la región del Caribe y el golfo de México.

La razón de escoger como referencia a las cadenas hoteleras de Baleares en la región del Caribe y el golfo de México se debe a que más del 73% de los hoteles y más del 78% de las habitaciones internacionales que posee la industria hotelera española en esta región pertenecen a cadenas situadas en Baleares. A ello hay que añadir que, precisamente, este destino internacional es el más importante y el de mayor proyección de futura para la industria hotelera balear.

Una vez determinado los factores que más inciden en la elección del modo de entrada de las cadenas hoteleras de Baleares en la región del Caribe y del golfo de México, se realiza una comparación de los resultados obtenidos en esta cuarta parte de la tesis doctoral con los obtenidos en otros estudios de la industria hotelera internacional.

Las conclusiones de esta última parte de revelarán como una teoría sobre la elección del modo de entrada en un país foráneo no puede basarse únicamente en las condiciones económicas de dicho país de acogida sino que tiene que fundamentarse en los cimientos de lo que se ha venido llamando la teoría sincrética la cual se apoya en determinados factores específicos del país de destino, en factores específicos de las empresas que quieren entrar en estos países y en factores estratégicos y de control de dichas empresas. En este sentido, las futuras líneas de investigación pasarán por contrastar los resultados conseguidos mediante la utilización de la metodología basada en la regresión logarítmica multinomial con los resultados que se podrían obtener mediante otras metodologías alternativas, como puede ser la utilización de campos borrosos.

CHAPTER 1

THE FRANCHISE CONTRACT IN HOTEL CHAINS

A study of hotel chain growth and market concentrations

The franchise contract in hotel chains

A study of hotel chain growth and market concentrations

Abstract: Hotel chains can expand by using a variety of different growth strategies. Some studies argue that hotel chains use a wide array of growth strategies with none prevailing over the rest. Several arguments can now be put forward to demonstrate that systems that are not based on capital transactions, particularly franchise agreements, are the strategies that hotel chains prefer when carrying out expansion programmes. The conclusions show that the franchise system has become the most widely used growth strategy by hotel chains and that the sharp rise in the use of this system has led to increasing market concentrations by hotel chains.

Keywords: Hotel chains; growth strategies; franchise system; market concentration; direct effects, forgotten effects.

1. INTRODUCTION

Hotel chains follow a wide variety of different growth strategies. They can expand through franchise agreements, management contracts, hotel ownership, leaseholds, mergers and takeovers, joint ventures or a combination of any of the former (Tse and Olsen, 1990; Olsen et al, 1990; Okumus, 2004). According to Alexander and Lockwood (1996), in the hotel industry, none of the aforementioned growth strategies prevails over any of the others, and so hotel chains are prepared to follow different systems of growth. In this paper, however, it shows that franchises have become the main growth strategy that is currently used by hotel chains with the world's biggest room portfolios.

Thanks to these new developments in growth strategies, large US and UK hotel groups have consolidated and increased their position of leadership among the top ranks of the world's biggest hotel chains. All this has been possible because these chains are the prime exponents of growth systems that do not require capital investment. If these systems ensure greater, swifter growth, then given the high flexibility that they offer compared with other growth strategies (Martorell et al, 2008), we can see that US and UK chains are better prepared to compete by doing so in a more efficient way.

In the light of all this, European and Asiatic hotel chains should increase the number of hotels that they run under franchises if they wish to achieve the growth rates and profit levels that US and UK hotel chains are seeing while also improving their competitive edge within the hotel industry. The franchise system also involves a lower investment risk (Elango and Fried 1997) in exchange for higher profits (Martorell 2006), allowing them to achieve a privileged position thanks to their size, growth potential and earning capacity.

European hotel chains are beginning to see the drawbacks of growth strategies that require capital investment. One example is Barceló Hotels & Resorts, which has recently acknowledged that it cannot always continue to expand through capital-based growth strategies (ownership). As a result, in the future the chain will have to flex the growth systems it uses, turning particularly to franchise agreements.

There are several arguments to support the view that franchise agreements are currently the favourite growth strategy used by hotel chains:

- Growth strategies that are not based on capital transactions (non-equity modes) are most popular among consumer-services firms (such as hotels and restaurants) as compared to professional-services businesses (for example consulting organisations) (Erramilli, 1990).

- Given the characteristics of the hotel industry, such as a willingness to transfer know-how or the easy codification of hotel management and control systems for use in hotel franchises, growth strategies can be adopted that do not require capital-based transactions (Contractor and Kundu, 1998a).

- Given the low earning capacity of hotel chains that mainly base their growth strategies on hotel ownership or leaseholds plus shareholders' growing interest in investing in increasingly profitable hotel chains (Dockery and Taylor, 2000), hotel ownership and the actual running of the hotel are coming to be seen as two separate roles. As a result, the tendency to expand by extending a chain's portfolio of owned property has begun to change in favour of strategies that do not involve capital-based transactions (Zhao and Olsen, 1997), particularly since one of the main goals of hotel chains has become to accelerate the expansion process (Altinay, 2005).

- Petrick et al, (1999) argued that when the speed of comparable tangible-asset acquisition accelerates and the pace of imitation quickens, corporations that want to sustain distinctive global competitive advantages need to protect, exploit and enhance their unique intangible assets such as brands, knowledge and skills.

- The hotel sector, as a service industry where it is possible to separate capital investment from management skills, is a clear example of how internationalisation can be modelled without considering shareholder investment (Contractor, 1990; Contractor and Kundu, 1998a, 1998b). Indeed, in the hotel industry, non-equity modes account for 65.4% of multinational properties worldwide.

For all the above reasons, the main objective of its study is to analyse whether hotel chains are still characterised by the variety of growth strategies that were observed by Alexander and Lockwood (1996) or whether given the signs noted earlier, a change is beginning to be observed in the growth strategies that hotel chains prefer. This study helps to demonstrate that the franchise system has become the most commonly used development strategy by hotel chains that hold the world's biggest room portfolios, showing that the wide variety of systems that Alexander and Lockwood discovered (1996) are becoming a thing of the past. As we will see later, due to the widespread popularity of growth strategies that do not involve capital-based transactions, particularly franchise agreements, the hotel industry is undergoing a daily process of change, given the dynamics of its agents and the continuous transactions that go on, in which some chains have high growth rates and others simply disappear. All this seems to point to a scenario with a higher industry concentration.

The second objective of this study is to analyse how the degree of concentration has changed and to see whether it has increased in recent years due to the proliferation of franchise agreements.

Finally, the third objective of this paper is to pinpoint the reasons why franchises have become the favourite growth mechanism for the world's top hotel chains. To do this, we will attempt to ascertain the direct and second-generation causes that usually underlie most socio-economic phenomena. By this, we mean those effects that tend not to be directly foreseen (forgotten effects), albeit initially, although they have an appreciable influence on corporate strategies because they usually come to the fore in the mid and long term.

In the following section, an analysis will be made of the franchise system, since franchises have revolutionized the hotel industry, allowing for the impressive growth that the world's top hotel groups have undergone. In continuation, the article describes the methodology used in the development of the study. It goes on to describe how the franchise system has become common amongst the said chains, together with the evolution of the market concentration they held between the years 2000 and 2005, and the reasons why they have opted for franchise agreements as their main choice of growth strategy. Finally, the third section contains the conclusions of the study.

2. HOTEL CHAINS AND THE FRANCHISE CONTRACT

The franchise contract in the hospitality industry. A review of literature.

Franchising has been utilized as an alternative method of distribution and business expansion for the past 40 years (Fulop and Forward 1997). The concept of franchising has been traced back to the Middle Ages, when the Catholic Church granted franchises to tax collectors, who retained a percentage of the revenue they collected for the church. In the mid nineteenth century, the Singer Company became the first U.S. corporation to use franchising as a distribution method for its products. America's economic development and the Industrial Revolution both led to a more extensive use of franchises as a sales system. Franchising, as an organizational form, continues to increase in importance in the provision of services, jobs and self-employment opportunities. This has led increasingly to its presence in debates spanning a number of disciplinary fields including management, marketing, economics, sociology, psychology, law and entrepreneurship (Stanworth and Curran 1999). There have been numerous debates on the issue of franchise definitions (Hoy and Stanworth, 2002) but a broad definition, framed to meet the points commonly raised in debates, has defined franchising as: 'A business form essentially consisting of an organisation (the franchisor) with a market-tested business package centred on a product or service, entering into a contractual relationship with franchisees, typically self-financed and owner-managed small firms, operating under the franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor' (Stanworth and Curran, 1999 p. 326). This definition covers most modern varieties of franchising and, in principle, no barriers appear to exist to incorporating quasi-forms. It is essentially ideal-typical in approach.

The origins of modern-day hotel franchising can be traced back to the 1950s when Holiday Inn established itself as the economy segment’s primary business format franchisor (Shook and Shook 1993). Hotel companies that applied stricter operating standards than had previously been common among independent hotels have subsequently expanded and grown in the economy segment by means of franchising (Lee 1985). Kemmons Wilson built the Holiday Inn system of motel franchises as an attempt to solve the following dilemma. According to franchising lore (e.g. Shook and Shook 1993), Wilson returned from a family vacation so infuriated with the poor service at the motels he visited that he vowed to build a national chain of 400 roadside motels. Wilson recognized that properties in the chain needed to have consistent and identifiable quality. The information problem for consumers would be solved if they had had a positive experience in a motel that, while located elsewhere, looked familiar and operated in the same way. Wilson quickly assembled a network of franchised properties, and competing chains followed, ultimately changing the standard organizational form for the industry.

With a hotel franchise contract, a franchisee changes over to the same brand image and production methods as a particular hotel chain, the franchiser. The company granting the franchise is normally a highly prestigious hotel chain, due to the quality of the services its hotels provide and the good corporative image it possesses as a result. The franchise contract usually covers a period of twenty to thirty years in exchange for the payment of a fixed yearly sum (Roh, 1998; Johnson, 1999), with the extension of the agreement on its expiry if both parties are satisfied with their mutual collaboration. However, the franchiser carries out regular inspections to ensure full compliance with rules regarding corporative unity and the production process. Irregularities of either or both kinds constitute sufficient grounds for the contract's termination, due to the possible damage that the franchisor's reputation may suffer as a result of the hotel's non-compliance.

As well as giving initial assistance to their franchisees, hotel franchisers also offer them a finance programme for the business and advice on the design and construction of their hotels. Additionally, they offer booking services, public relations support, quality control programmes, publicity campaigns, marketing support and other services to assist their franchisees. More specifically, support services include the cost of supplies, independent resourcing, financing sources, training, pre-opening services and exclusive territory. A review of relevant literature indicates that such support services are a prime factor in franchising decisions (Hing, 1996; Roh, 1998). Internal attributes were characterized as belonging to prospective franchisees (or hotels). They are size, the level of sales, geographic location, financial capability, demographic characteristics of their customers, business experience, entrepreneurial personality traits, room oversupply (competitors) and customer demand (percentage of foreign customers and customer royalties for chain hotels) (Jambulingam and Nevin 1999; Pine et al 2000). Franchises make it possible to intensify sales, marketing efforts and reservations systems without prohibitive costs, because the expense is shared among a greater number of associates (Martorell, 2006).

Several factors are decisive in the internationalization of the franchise system. In the United States, the most important ones are the size of the organization, number of staff and number of franchise agreements that are subscribed to. These factors affect the inherent risk that franchisees perceive when choosing a franchise chain, because larger franchisers have more resources and a greater capacity to absorb risks, with these risks decreasing as the experience of the franchiser rises (Altinay 2006). Three key documents need to be drawn up prior to franchising the embryonic business. If it is an existing business ‘converting’ to franchising, the same holds true. First, an ‘operating manual’ is needed, committing detailed instructions to paper for the guidance of franchisees when running an outlet for themselves. Second, a ‘franchise contract’ is required, stipulating the legal obligations of both franchiser and franchisee and, finally, a ‘franchise prospectus’ for use in franchisee recruitment. All the documents require a considerable input of knowledge and, ideally, external professional help from consultants, solicitors and accountants. Then the process of recruiting and training new franchisees, choosing premises and the subsequent launch of their franchise outlets begins (Stanworth et al 2004).

If a franchisee is given an accommodation franchise and joins a specific business, it will take on a number of responsibilities, such as compliance with the chain’s quality control standards, participation in all compulsory marketing programs etc. Failure to comply with the chain’s policies in this respect may lead to the termination of the franchise contract, and the chain’s global image and the value of its brand name may be damaged. As Hennart (1989) explains, companies refuse franchise arrangements because they fear that their trade names will be used without sufficient quality controls. When choosing a possible franchisee, cultural differences between the franchiser and franchisee are taken very much into account because local franchisees must understand the values and strategic policies of the franchiser. This is precisely one of the main reasons why individual hotels decide to accept or reject a franchise agreement (Altinay, 2005). Indeed, Altinay describes the contextual values that influence the selection of a future franchisee. According to the author, there are three important contextual variables that influence the selection criteria that are used to choose future franchisees. These are the strategic context of the organisation, different country markets and the nature of the business itself (franchise partnership).

In exchange for the high volume of sales made by franchisees operating under franchise contracts, franchisers request the payment of substantial franchising fees. In many cases, these fees are the second biggest expense faced by most franchisees, after personnel costs. A hotel franchise contract usually involves the payment of the following fees: -An initial fee: This tends to be a fixed or proportional amount per room. It covers the cost of analyses of the existing or future hotel, together with any expenses incurred before the hotel's inauguration. -A yearly fee: This is usually a percentage of the gross room revenue, paid in exchange for the use of commercial brand names, logotypes and graphics. -A marketing fee: Based on a percentage of the gross room revenue, it is used to finance promotional activities for the hotel chain as a whole. -A reservation fee: Normally a fixed sum for each reservation made. Commissions paid to sales agents and fees for the use of GDSs, which are generally regarded as the operating costs of the central reservations system, must also be taken into account. Lastly, other variable fees might also be paid to cover different back-up activities related to staff training etc.

Tables 1 and 2 provide recent information concerning a typical hotel franchise contract. As discussed by Bhattacharyya and Lafontaine (1995), the contract between franchiser and franchisee is typically linear, including an initial fee to join the organization (between $20 000 and $50 000) and a percentage of revenue meant to reimburse for advertising, marketing, and the use of centralized reservation systems (between 6 and 9.25%). In addition, it may be costly for motels to provide the services required to meet the quality standard for the organization. Chains monitor the services provided by member properties and have considerable discretion over requiring that improvements be made as a condition of continued affiliation. Jones (1995) reports on chains' efforts to maintain consistency in quality throughout their affiliates. For example, Holiday Inn directed its franchisees to spend $1 billion to renovate their properties (Harris 1997). Finally, we should add that if there is uncertainty about a highly volatile political and/or economic environment, according to the agency theory, a franchise would be the best way of investing (Shane 1996).

Franchise agreements offer a series of advantages and disadvantages. The advantages of a franchise include the fact that hotel chains can expand by investing just a small fraction of the capital that they would otherwise have needed to open new hotels (Martorell et al, 2008); hotel chains can expand, internationalise their hotel product and make their brand name better known without the huge financial commitments that purchases involve; and the main operational costs of a computerised booking system can be shared proportionally by a large number of hotels. In this way, optimum returns can be made on capital invested in advertising and promoting the hotel product, due to the larger scale of the chain's business operations. Likewise, the investment risk can be controlled by sharing investment requirements; larger economies of scale can be taken advantage of through centralised purchases; and an internationally famous brand name can be achieved that identifies hotels as members of a prominent hotel chain. Non-equity modes of expansion also offer another series of benefits over equity modes. Table 3 summarizes the advantages of the former over the latter.

In contrast, the main drawbacks include the risk of the franchisee failing to implement sufficient quality controls, neglecting the hotel and allowing the level of service to decline, which would damage the chain's reputation. Franchisers must therefore carry out inspections to check that both the hotel product and the quality of service are up to standard. Similarly, more sophisticated systems must be incorporated to meet the needs of a franchise network, and the high cost of franchise fees must be met by raising the RevPAR (Revenue Per Available Room. It is the ratio between Total Rooms Revenues and Rooms Available for sale. That is revenue per available room for sale) so that it at least offsets these fees. Finally, control over franchise operations is partially shared by each local hotel.

In the process of adjustment to structural changes brought about as a result of the internationalisation of the hotel industry and the liberalization of hotel services, the industry's two activities have come to be run by different companies, with the hotel brand name and management services run by one company and ownership of the hotel in the hands of another. Consequently, while the international hotel industry of the 1970s and early 1980s was characterised by ownership of a large number of fixed assets, in the early 1990s hotel companies, headed by American and British ones, began to relinquish the idea of owning their own assets. In times of recession, companies with a high number of fixed assets, valued and written off in the correct way, are more likely to incur losses, given the high financial burdens and resulting drop in earnings by shareholders. At an international level, their main buyers were Japanese investors, seeking assets and long-term investments that would rise in value. As a result, the American hotel industry in particular became characterised by franchise agreements and management contracts, after being forced to sell its assets, mainly to Japanese investors. In the late 1980s, there was an asymmetric trend in hotel assets (Olsen, 1991), leading to different growth models. That is, while the Japanese hotel industry saw a long-term increase in the value of its assets and higher concentrations, the European industry was suffering from built-up assets and difficulties in achieving high returns. Meanwhile the American hotel sector was beginning to sell off its assets, which were mainly bought by Asian operators, leading to increase in non-equity modes of expansion in the US. As a consequence, there was a notable acceleration in pure hotel management businesses, where a percentage of the business profits was reaped by the management company in exchange for its skills, aptitudes and know-how.

Some examples of the reasons that have been put forward to explain this tendency to separate the two business activities are: the need to separate two operations with different needs and differing management strategies; the desire to focus a company's business strategy on hotel management alone, thus eliminating any inefficiency inherent in running hotels owned by the same company; and an interest in adapting the company's finances to suit the demands of investors, as well as easy access to new sources of finance.

Hotel owners, which are often international investment consortiums, increasingly tend to demand certain involvement in non-equity contractual agreements so as to guarantee the success of the management process. In many cases, this is achieved by taking part in the appointment of a highly skilled professional to manage the hotel's finances on behalf of the hotel management business. According to Geller (1998), the dynamics that underlie the decision whether to invest in real estate in a certain market are similar to the dynamics that affect a hotel chain. Thus the geographic objectives of a strong brand name, in terms of its distribution, tend to coincide with real estate interests. This is undeniably true in the urban hotel market, where a hotel has an intrinsic real estate value, separate from any profits reaped through its management. However, a distinction should be made when money is invested in hotels in resorts that are purely holiday destinations. In this case, if the destination were to undergo a crisis, there might be a mass exodus by part of the population, making it hard for the property to be re-used as offices, a school or a hospital. Consequently, in this kind of situation, it can be riskier to invest solely in real estate.

The methodological framework for the study

As for the methodology that is used, one of the main problems of empirical research in this field is how to define the target population that makes up the hotel industry. In conjunction, it might be seen to comprise at least three different sub-sectors: real estate developers, hotel management companies and franchisers. There are also significant differences among the top hotel chains and independent operators that supply the immense majority of the world's hotel beds (WTO, 1998). Consequently, the first problem was to specify the target population used in this analysis. As can be inferred from databases or specialist journals like 'Hotels', which publishes an annual list, 300 hotel chains control about 6.6 million rooms worldwide (Hotels, 2005). When choosing the best methodology to use, we have opted for the cut-off method. This method has been widely applied in research into the business sector and it consists of ordering companies from the largest down to the smallest. Businesses are added until the sample covers at least 75% of the total market (Kuhn and Fankhauser, 1996). In this study, 35 hotel chains were included, covering 75% of the rooms operated by the world's TOP 300 hotel chains with the biggest room portfolios. It must also be taken into account that these 35 chains represent 79% of all hotels operated by the TOP 300. Data was compiled on the 35 chains that were analysed using the websites (10-K Annual Reports) of the said companies.

A cluster analysis was also performed to check whether the conclusions that were obtained by the hotel chains used in the cluster analysis are the same as those obtained in the analysis based on the cut-off method. “Hotels” (2005) was the chosen source of data for the study. The cluster analysis technique is helpful in identifying segments because individuals (hotels) can be grouped into different clusters based on a given set of variables or similar characteristics, using a centroid model to define the whole group by minimizing the distance between the centre of the cluster and each individual via the k-means algorithm. From this analysis, we can conclude that the TOP 8 hotel chains have a very different behavior from the other 292. The global room portfolio controlled by these 8 companies amounts to 3,590,777 rooms. That is, about 22% of the world supply (Johnson and Vanetti 2005) and 54% of the total room portfolio of the world’s TOP 300 chains. The number of rooms controlled by the TOP 35 comes to a total of 4,990,918 rooms. That is, more than 30% of the world's hotel supply (Johnson and Vanetti, 2005). The authors believe that these figures are sufficient to analyse the objectives of this article, since they are more comprehensive than those obtained in other research studies of the hotel sector, such as the study by Johnson and Vanetti (2005) which is based on companies that account for a total of 3,987,595 rooms, approximately 24% of the world supply, which stood at around 16.3 million rooms in late 2005. These estimates are very similar to those obtained by the World Tourism Organisation (WTO), which estimated that in February 2003 the hotel industry accounted for a total of 15 million rooms (Slattery, 2003).

To pinpoint the reasons that have led the world's major hotel chains to opt for franchise agreements as their main growth strategy, a Delphi analysis was conducted (Lazzari et al, 1994a). This analysis was performed in six stages. During the first stage, a panel of experts was asked to name the main factors that have allowed this top group to expand so heavily in recent years. In the following stage, the experts were given their colleagues' opinions in order to try and reach a consensus on the results. During the initial stage, the questionnaire was sent out to 11 experts. Later the number was reduced to 7, because some of their results were not coherent with the outcome of the first analysis. The results of this second stage are shown in Table 4. Once the reasons or causes had been determined, their influence (effects) on the choice of growth strategy used by these chains was assessed. To determine these effects, the experts were also asked, during a third stage, to use proxy variables to create an effects matrix (because, to validate the study, more than two 'effect' variables must be used). In this case, the experts chose 'increased sales' and 'improving the hotel chain's corporate image' as the proxy variables used to refer to equity-based growth strategies, and 'a modified market share', 'increased earning capacity', 'reduced payback period' and 'increased economy of scale' as the proxy variables for non-equity growth strategies.

Because each of these causes influences the different effects to be achieved to a differing extent, an experton-type was then performed with a view to constructing a direct incidence matrix. The concept of incidence is associated with the effects of the elements of one set on the elements of another or on themselves. Incidence is a subjective notion and it is generally hard to measure, so we will use fuzzy matrices to assign values (awarding a numeric value from a suitable scale), ranging from no incidence (zero) to the highest possible incidence (one) (Gil, 1995). Because this system of assigning values is more detailed, compared with classic binary methods, it offers a truer vision of the reality we wish to analyse.

For this reason, the experts were asked, during the fourth stage, to express their opinions by choosing real interval values [0,1], based on the following scale: 0 no influence; 0.1 virtually no influence: 0.2 hardly any influence; 0.3 a very weak influence; 0.4 a weak influence; 0.5 a medium influence; 0.6 a considerable influence; 0.7 quite a strong influence; 0.8 a strong influence; 0.9 a very strong influence; 1 a full impact. Subsequently, second-order influences were defined in order to capture equally important effects that had not been taken into account (forgotten effects).

The results of the direct or first-generation incidence matrix (matrix A) by the experts are shown in Table 5. To establish the accumulated first-generation and second-generation (or indirect) effects, we use Kaufman and Gil's algorithm (1988). To do this, the same experts that developed the matrix shown in Table 5 were asked, during a fifth stage, to express their opinions on the possible direct influences of each of the initiatives (causes) shown in the rows of the this matrix on both each other and all the other factors. Thus, each cause that influences a hotel chain's growth strategy is a cause and an effect of itself and all the other causes. The results of this new matrix (matrix B) are shown in Table 6.

Finally, during the sixth stage, the experts were also asked to express their opinions on possible relations between the effects of the first matrix on these same effects and on all the others. The results of this new matrix (matrix C) are shown in Table 7.

To find the accumulated first and second-generation effects (Gento et al, 1999; Lazzari et al, 2000), it is now sufficient to develop a new fuzzy incidence matrix, which we will call D, derived by composing matrices B, A and C, using the max-min composition (Lazzari et al, 1994b). The results of this composed matrix (Matrix D) are shown in Table 8.

Empiric investigation of the franchise contract and other growth strategies

The Table 9 illustrates how the previous growth strategies have been applied by the world's TOP 35 hotel chains, as driving forces behind the tourist industry. As can be seen from Table 9, the franchise system is the most common growth policy used by the these hotel chains with the biggest room portfolios, accounting for 60% of all rooms and practically 75% of all hotels operated by the TOP 35. In contrast with the results observed by Alexander and Lockwood (1996), the franchise system has become the main growth strategy used by hotel chains with the world's biggest room portfolios. When Table 9 is analysed, it can be seen that the franchise system is that which is most widely used by 15 of the chains that make up the TOP 35. Other growth strategies used by the TOP 35 fall far behind, with management contracts holding second place and accounting for 20% of the rooms run by this group of leaders. From an analysis of the table, it can be seen that strategies that do not involve capital-based transactions now exceed the percentage given by Contractor and Kundu (1998a), since franchise and management contracts alone now account for over 80% of all the rooms run by the TOP 35. The franchise system has been used by 27 of these 35 chains, while management contracts have only been used by 24 of them. However, only 4 of the world's 35 biggest chains have not included the franchise or management systems in their growth plans.

Table 9 confirms the statements made by Altinay (2005), as most of the rooms run under franchise by the TOP 35 are operated by hotel chains based in the USA or UK, whilst those rooms run under franchise by the remaining hotel chains are much more limited in number. In fact, the TOP 35's 18 US hotel chains run 70% of all the rooms they operate under franchise. The TOP 35's 3 UK chains run 73% of all their rooms under franchise, whilst the rest of the chains in the TOP 35 only run 23% of their rooms under this system. The evidence suggests that European chains and Asiatic ones should increase the number of franchise contracts they use (either by taking over hotel chains that use this system or by subscribing to franchise agreements with individual hotels) if they wish to expand further and achieve greater economies of scale. If we only focus on hotel chains from the world's TOP 8 with the biggest room portfolios, we can see that the franchise system continues to be the main growth strategy that is used, accounting for 68% of all the rooms they run. Consequently it can be seen that the franchise system is becoming more and more popular with mega-chains wishing to expand even further. It is important to point out that franchises have been used as a growth strategy by all the hotel chains that make up the world's TOP 8. Something similar has occurred with management contracts, which have been used by five hotel chains. That is to say, all the chains of the TOP 8 except for pure franchisors (Wyndham Corporation, Choice Hotels International and Bestwestern International).

Franchising is more popular in the economy (small size) or middle (medium size) market, while management contracts are more popular in the luxury (large size) market. As shown in Table 10, leading middle market hotel companies used franchising much more than management contracts as their expansion strategy. Erramilli and Rao (1993) and Erramilli et al, (2002) forecasted that companies would prefer to enlarge by using franchise agreements (shared control) when they are directed at segments in which quality did not provide a competitive edge, regardless of the size of the company. Nonetheless, they also pointed out that service companies could exercise a level of control that is more than proportional to their shareholding. This has allowed franchise and management contracts to extend to all segments of the market. Dev et al. (2002: p 3) found that 'generally speaking, when quality competence is an important source of competitive advantage, the tendency to choose a management contract becomes stronger as the hotel increases in size. However, when quality is not an important source of competitive advantage, management contracts are less preferred and the use of franchising becomes more likely as the hotel size increases'.

Empiric investigation of the market concentrations and mobility: an analysis and trends in hotel chains

One of the main outcomes of the wider use of contractual arrangements that do not require high payments of capital is a higher concentration of hotels under the chain brand. Table 11 shows the number of rooms run by the world's 300 leading hotel chains, classified into groups for the purposes of comparison. By late 2005, the hotel portfolios of the TOP 8 hotel chains had risen by over 575,000 rooms in comparison with the final months of the year 2000. That is, the growth of these 8 hotel chains represents over 82% of the growth of the TOP 300. This means that the Gini Index for hotel chains from the TOP 300 with the world's biggest room portfolios went up from a figure of 73.9% in the year 2000 to 76.5%

in late 2005. The values of this index show the high level of market concentration (Gastwirth, 1972; Shalit and Shlomo, 1984) that hotel chains have achieved and that this concentration has continued to rise in recent years, although the most spectacular growth occurred between 2004 and 2005, as shown in Table 12. All this has widened the already huge differences between hotel chains that hold world's major room portfolios and all others. If we take the results obtained by Zhao and Olsen (1997) as a starting point for an analysis of concentrations in the hotel industry, we can see that an even more spectacular change has occurred in last 10 years, because in 1995 the world's 15 biggest hotel chains only operated just over 2.2 million rooms, while they now run over 4.2 million.

Something else to be taken into account is the fact that increasing market concentrations by hotel chains can be directly attributed to a growth, between 1996 and 2005, in what were listed as the world's TOP 35 hotels with the biggest room portfolios in 2005. Indeed, if we analyse Spearman's rank correlation coefficient and the Kendall Tau rank correlation coefficient, we can see a high correlation between the positions occupied by the world's TOP 35 hotel chains in late 2005 and their positions back in late 1996 (see Table 13). All the correlations that were analysed gave very high, significant values. In fact, the lowest correlation corresponded to the period spanning 1997 and 2005: a period when a correlation of 79% was obtained in the case of Spearman's rank correlation coefficient and 62% in the case of the Kendal Tau rank correlation coefficient. These lower correlations, compared with other periods that were analysed, can be attributed to greater mobility among the TOP 35 in 1997. Firstly, during this period, 6 hotel chains joined the TOP 35 with very different evolutions from the rest of the group. Thus while the American chain, Columbia Sussex, and the French chain, Club

Mediterranée, managed to move up the ranks of the TOP 35, Extended Stay, Westmont, MGM Mirage, Hospitality Properties and Jin Jiang all dropped down it. During this period, NH Hotels and the Japanese chain, Prince Hotels, both moved firmly up the ranks. Nevertheless, with the exception of 1997, the results of Table 13 show that the ranks of the world's TOP 35 hotel chains did not change significantly between 1996 and 2005, highlighting how hard it is for hotel chains to try and move up the ranks. All this is due to the huge market concentrations held by the biggest chains and the very limited market share held by other hotels in the TOP 300 in comparison with the TOP 35. It is therefore evident that most of the latter have set themselves similar expansion targets, leading to increased market shares but no mobility, over the course of time, or changes in the identities of the top-ranking hotel chains. In short, the huge international scope of these companies and their brand images pose big entry barriers for other hotels wishing to enter the TOP 35, allowing the TOP chains to consolidate their position in the ranks.

Two hotel chains alone have headed the TOP 35 over the last 20 years. Holiday Inn (now InterContinental Hotels) was the leader until 1991. Hospitality Franchise System took over in 1992, staying at the top until 1996 (because it merged with CUC International in 1997, leading to the birth of Cendant Corporation, which is now called Wyndham International). Since 2003, InterContinental Hotels has once again headed the ranks. This lack of mobility in the top two positions of the world's hotel chains has also occurred in the TOP 35. In fact, 22 of the hotel chains in the TOP 35 in 2005 were also members of this top group between 1996 and 2005. Additionally, if we analyse the coefficients that these 22 chains obtained during the period under analysis for Spearman's rank correlation and the Kendall Tau rank correlation (see Table 14), it can be seen that they occupied the same relative positions year after year. The period with the greatest mobility among these 22 hotel chains were the years 2004 to 2005. This was because, during this period, US chains saw a big growth in their room portfolios while European ones kept them the same size, generating significant changes in the relative positions of the 22 chains.

If, instead of analysing yearly periods, we analyse the whole period from 1996 to 2005, we can see that the group of hotel chains that have remained in the TOP 35 year after year continue to obtain very high correlations (88% in the case of Spearman's rank correlation coefficient and 71% in the case of the Kendall Tau rank correlation). These values are even higher if, instead of analysing a 10-year period, we just analyse five-yearly correlations, which give correlations of 95% in the case of Spearman's rank correlation coefficient and 86% in the case of the Kendall Tau rank correlation. (See Table 14).

If we focus on an analysis of the world's TOP 8, the results are even more spectacular because the same hotel chains that made up the TOP 8 in 1996 have stayed in this group year after year, showing very little mobility. Within this group of chains, the one that has risen up the ranks the most is Marriott International, which moved up from sixth position in 1996 to third position in 2005. In contrast, Best Western International is the one that has dropped the most, falling from third to eighth position during the period under analysis. Consequently, the results of Spearman's rank correlation coefficient and the Kendall Tau rank correlation only serve to confirm statements based on the Gini Index, since they also demonstrate that the growth experienced by the hotel chains can be attributed to the individual growth of hotel chains in the TOP 35. Moreover, it can also be observed that, with the exception of the year 2003, the growth of the 35 chains with the biggest room portfolios was higher than that of any other TOP group.

This indicates that the growth of the hotel industry can be accounted for by an increase in the number of rooms operated by the TOP 35 (as analyzed previously). This, in turn, is attributable to a sharp rise in the number of franchise agreements.

Futhermore, it can also be observed that, with the exception of the year 2003, the growth of the TOP 35 with the biggest room portfolios was higher than that of any other TOP group. This indicates that the growth of the hotel industry is based on an increase in the number of rooms operated by the TOP 35 (as it has been analyzed previously). This, in turn, is attributable to a sharp rise in the number of franchise agreements.

The level of concentration of the hotel industry is expected to go up in the next few years. This can be inferred from a study by Slattery (2003), which shows that only 31% of the world hotel supply is in the hands of hotel chains. The European continent is the most fertile area for hotel chains to expand the number of hotels they run. Indeed certain UK, French and Spanish hotel chains (that is Intercontinental, Accor and Sol Meliá) have a very high potential for increasing the number of hotels they run, either by acquiring new ones or, more particularly, by entering into franchise and management agreements with individual hotels, especially if we bear in mind that there are only 17 brands with more than 100 hotels in Europe and none with more than 1,000 hotels, but 182 brands, with less than 10 hotels each. Nonetheless, the USA and UK will also continue to see higher market concentrations. We must remember that in the past decade in the US and UK almost 95% of all capital invested in new rooms was invested in hotels affiliated to chains (Slattery 2003).

Factors that have led to the growth of franchise agreements

Once it has been demonstrated that non-equity growth strategies, in particular franchise agreements, have revolutionised the world hotel industry, we then move on to analyse the main causes that have led to this change. To do so, from the data obtained by our panel of experts, we shall analyse the extent to which some (direct or first-generation and second-generation) causes have influenced the change in the development strategy used by the world's top hotel chains.

Matrix D contains the accumulated first and second-generation influences. To isolate the effects of second-generation influences, also known as detecting indirect causes, a procedure must be found via which the direct influences inferred from the original matrix (matrix A) can be separated from the accumulated influences that appear in matrix D. Several procedures may be used to achieve this goal. The simplest way, which we believe to be the most suitable for this study, is to find the algebraic difference between matrices D and A. In this way, an indirect fuzzy incidence matrix (matrix E) can be obtained, as shown in Table 15.

This new matrix only brings to light second-generation effects. To interpret the results properly, the highest values of this matrix must be observed, because values close to 1 indicate the presence of a forgotten (or second-generation) effect, while values close to 0 indicate the opposite. Values equal to or higher than 0.8 (showing, at minimum, a strong second-generation influence) indicate cause-effect relations that had not initially been taken into account by the experts consulted or that had only been taken into slight consideration. In accordance with the results, a backtrack procedure is then established. This consists of finding all the values in fuzzy matrix E which meet the chosen criterion (in this case, values of over

0.8), removing the column and row where this value is located from matrix A and amending it with the value obtained in matrix E (the value of the forgotten variable or one that was not taken into account). All this leads to the development of a new first-order incidence matrix, matrix F (see Table 16).

This new matrix was given to the experts for them to ratify or rectify their opinions. In this study, in a high percentage of cases the experts answered by rectifying their opinions and bringing them in line with the evidence presented, since only some of them cast any doubt over whether an increase in a hotel chain's advertising activities could increase its economies of scale.

When the initial matrix developed by the experts, matrix A, is analysed, it can be observed that the main reasons that have led to the growth in non-equity contractual agreements, particularly franchise agreements, by the world's top hotel companies are the internationalisation of hotel chains and the possibility of restructuring investments. In contrast, the main influences on the use of equity-based growth strategies are the modernization of facilities, staff training, service innovation, and improvements to booking systems. Meanwhile, advertising campaigns, an increase in the size of a hotel chain, and the location of hotels are all variables that might influence the use of either equity or non-equity modes. As a result, the panel of experts decided that most of the causes that were analysed allowed hotel chains to expand through equity-based growth strategies.

In contrast, if we analyse the last incidence matrix (matrix F), we can see that the experts consulted had 'forgotten' several relations between each of these causes and the mode of expansion chosen by the hotel chains.

Most of them can lead to a proliferation of non-equity contractual agreements, particularly franchise agreements. Thus after analysing this last matrix, it can be observed that internationalisation allows hotel chains to expand using non-equity modes, not only because it can alter a hotel company's market share and increase its economies of scale, but because it also allows the chain to reduce its payback period. All this makes internationalisation one of the main reasons for the expansion of the world's top hotel groups through non-equity growth schemes. In fact, the 10 hotel chains with the biggest world presence in terms of countries (Hotels, 2008) have all expanded through this mode.

The same occurs with the restructuring of investments. As well as the increased earning capacity and reduced payback period that this policy can generate for hotel chains, it should also be taken into account that it allows them to increase their economies of scale. If, in the hotel business, economies of scale are associated with logistics or common architectural designs, and these can be shared by a franchise network and local partners at a relatively low cost in terms of the transfer of know-how, then these economies can be obtained without direct investment in the ownership of real estate or even without the presence of executives from the parent company (Contractor and Kundu, 1998a). Consequently, another incentive for this top group of chains to expand through non-equity growth plans is the potential that this mode offers to transform hotels into other businesses (such as condo-hotels, timeshare properties etc). One important factor to highlight is the repercussions of the service innovation variable. According to the initial matrix developed by the experts (matrix A), this variable was only important when this top group expanded through equity modes. However, matrix F shows that this variable also plays a considerable role in reducing hotel chains' payback period, which, as commented previously, is influential in the adoption of non-equity growth strategies. Something similar is true in the case of improvements to hotel chains' booking systems. As well as increasing sales and improving a chain's corporate image (as shown in the direct incidence matrix developed by the experts, matrix A), this variable is also specifically influential in increasing economies of scale and modifying a hotel chain's market share (matrix F). In the hotel industry, a worldwide booking system and brand name are both considered to be strategic advantages normally owned and controlled by the parent company (Dunning and McQueen, 1981). These advantages also boost the possibility of successful alliances (Contractor and Kundu, 1998a). Companies with well-known trade names and important booking systems therefore tend to increase the number of franchise operations and management contracts, thus also managing to modify their market share.

As for the variable relating to an increase in the size of a hotel chain, it can be seen to have already been very influential as an incentive for non-equity growth approaches. To add to this, it also allows hotel chains to reduce their payback period. Thus the results of our analysis of this variable confirm those of other studies, for example, Gatignon and Anderson (1988) and Agarwal and Ramaswami (1992), indicating that policies that involve close control over operations in newly penetrated markets are less frequent in the case of large-scale foreign investment. This argument is based on the idea that, given the scale of international operations in the hotel industry, hotel chains are forced to accept partners so as to share the high cost of investment. This tends to compel hotel chains to accept many partners, thus reducing their control over operations, leading to a greater number of non-equity operations (such as franchises).

When the results of the initial matrix drawn up by the experts (matrix A) are compared with the final incidence matrix (matrix F), it can be seen that the only effects that have not varied quantitatively are those relating to staff training and the location of the hotel. This demonstrates that the consulted experts had initially captured all the relevant influences for these effects in their first assessment, since in the analysis no second-generation effects were generated that display a strong influence or higher (values equal to or higher than 0.8). Consequently, the initial matrix drawn up by the experts (matrix A) has not altered with regard to these two effects.

Lastly, it should also be highlighted that the ‘modernization of hotel facilities’ variable is only taken into account by some of this top group of chains when increasing the number of equity-based contractual agreements they use, because the analysis of second-generation effects only serves to reinforce the opinions held by the panel of experts. Originally in matrix A, the experts already predicted that the modernization of facilities had a strong first-generation influence on ‘improving a hotel chain’s corporate image’ (the proxy variable used by the experts to refer to equity-based growth modes). Now, in the final incidence matrix (matrix F), it can be seen that this variable has a strong second-generation influence on the ‘increase in sales’ variable, which was also defined by the experts as a proxy variable referring to equity-based growth modes. In contrast, the modernization of facilities does not generate any strong first and/or second-generation influence on the proxy variables used to refer to non-equity growth strategies.

3. CONCLUSIONS

In this paper, the three main objectives posed at the beginning have all been met. Firstly, it has been demonstrated that the franchise system has become the main growth strategy used by hotel chains. Consequently, despite the continuing wide variety of systems that were observed by Alexander and Lockwood (1996), there is now a growth stratagem that prevails among hotel chains. Thus, with the methodology used in this study, particularly the cut-off method, it can be seen that franchise agreements are the favourite growth tactic for the world's top hotels with the major room portfolios. More specifically, 60% of all rooms and 75% of all hotels run by the TOP 35 are operated under a franchise system. If we look at hotel chains in the TOP 8, the corresponding percentages are 68% and 80%. These percentages are expected to rise in the next few years. Recent operations by these top hotel chains demonstrate the trend outlined above, confirming that hotel ownership and leaseholds are giving way to a development policy that is not based on capital transactions, with franchises leading the field. For example, in 2007 InterContinental Hotels Group decided to sell the last 25 hotels that it owned, while in just one month it has added 11 hotels from the Know Green Hotels chain to its portfolio through a licensing agreement for the next 20 years. Accor, the chain with the biggest portfolio of owned hotel property in the world, is also carrying out a policy of disinvestment with the sale of 121 hotels which it will continue to run by managing them for renewable periods of 12 years. The company will also continue its disinvestment program, because between March 2007 and December 2008, it expects to get rid of 376 of the hotels it owns and another 550 by late 2009.

The region formed by Europe, the Middle East and Africa appears to offer enormous opportunities for franchising, with around only 24% of the industry operating branded hotels, compared to 60% in the US (Knabe et al, 2000), so we can expect a sharp rise in franchises in the region over the next few years. Nevertheless, implementing franchise agreements in countries such as Italy and Spain for example is complex, as it is not common practice to subscribe to franchise agreements in some countries (Altinay, 2005). Once this barrier has been overcome, the franchise system will become much more popular, because Europe, with the highest tourism receipts worldwide, seems to offer fertile ground.

The biggest hotel chains in the world are strong defenders of franchising business internationally, and they continuously look for partners in order to expand through franchising and benefit from the advantages of employing this business format: fast growth with low risks. Through this mode, international expansion provides a secure and fast return on investment for shareholders. (Altinay 2005). Additionally, if there is uncertainty due to a highly volatile political and/or economic situation, the agency theory suggests that franchises are the best form of investment (Shane 1996). The relationship between a hotel chain's growth strategy and its progress in the ranks is directly proportional. The biggest hotel chains in the world, InterContinental, Wyndham Worldwide, Marriott International, Hilton Hotels Group and Choice Hotels International, are also the world's biggest hotel chain franchisors. Franchise contracts facilitate the growth and internationalization of hotel products, ensuring greater brand-name familiarity without the big financial commitments that acquisitions involve. The proliferation of contracts that do not involve capital investment, particularly franchises, mean that within the next 8 years, we will see the first hotel chains with over one million rooms (Slattery 2003). This will lead to even higher market concentrations. As an example we can cite the plans of the French group Accor, which has announced the launch of a new

2-star brand for which it has already signed 19 franchise agreements, with a potential 10,000 rooms by the year 2010. In addition to this, the development program planned by Accor for 2007 also involves 30,000 new beds.

Secondly, it can be seen that market concentration by hotel chains have grown substantially in recent years, reaching levels of over 75%. These higher concentrations are particularly prevalent among the chains that make up the TOP 35, which have seen spectacular growth thanks to the proliferation of the franchise system. From the Gini Index, it is clear that the market concentrations of the world's top hotels businesses are rising sharply. The 2.6% increase in the market concentration held by the TOP 300 hotel chains represents a huge rise, because it comes on top of an existing concentration in the year 2000 of 73.9%. Consequently, the greater proliferation of non-equity modes of expansion, particularly franchise agreements, has widened the already huge gap between the TOP 35 and other hotel chains in the TOP 300. Furthermore, the increasing popularity of this type of strategy has led to a high correlation between the positions occupied by the TOP 35 hotel chains in late 2005 and those held in late 1996, showing that during this ten-year period no significant changes occurred in the mobility of hotel chains, in this top segment at least.

The level of concentration of the hotel industry is expected to rise in the next few years. This can be inferred from a study by Slattery (2003), which shows that only 31% of the world's hotel supply is in the hands of hotel chains. The European continent is the most fertile area for hotel chains to expand the number of hotels they run. Indeed certain UK, French and Spanish hotel chains (that is Intercontinental, Accor and Sol Meliá) have a very high potential for increasing the number of hotels they operate, either by acquiring new ones or, more particularly, by entering into franchise and management agreements with individual hotels, especially if we bear in mind that there are only 17 brands with more than 100 hotels in Europe, none with more than 1,000 hotels, but 182 brands with less than 10 hotels each. Even so, the USA and UK will continue to see higher market concentration. It must be remembered that in the past decade in the US and UK almost 95% of all capital invested in new rooms was invested in hotels affiliated to chains (Slattery 2003).

Lastly, we have determined the direct and second-generation causes that have led to the spectacular growth in franchise agreements by the world's top hotel groups in terms of hotel rooms. Through the incidence matrices, different cause-effect relations have been revealed that cannot easily be directly discovered through intuition or experience, which is why they have come to be known as second-generation effects. In highly simplified situations, it is possible to determine not just direct relations but second-generation ones through intuition, but during the course of normal activities by hotel chains, numerous factors are interrelated in various different ways, sometimes acting as causes and other times as effects. As a result, a complicated network of relations is created that makes it practically impossible to detect each and every one of the indirect links among all of them. It is therefore natural for us to overlook some relations using intuitive means, although they can be detected using the techniques presented in this study because they help us to reach conclusions that transcend the initial opinions of our panel of experts. True, there will always be some grey areas; unexplored avenues and variables that are not taken into account, because this is characteristic of human activities, given how dynamic they are and the fact that they are subject to sizeable, often unforeseen changes. Above all, this study has brought to light variables that encourage a greater trend toward franchise agreements by the world's top hotel companies by room volume. These include the internationalisation of hotel chains, the launching of advertising campaigns, the possibility of restructuring investments, service innovation, and improvements to hotel chains' booking systems. Each of these variables has different indirect effects, not taken into account by the experts, which act as a greater or lesser incentive for hotel chains to opt for non-equity expansion stratagems.

Having analysed the objectives of this study, it can be concluded that franchise agreements have become the most popular growth mechanisms for the world's hotel chains, since it leads the field by a long way compared with other development policies. Due to their expansion through franchises, these chains have increased their market concentration.

Growth strategies that do not involve capital shareholdings are the only means of reaching the required size for effective economies of scale and scope (Contractor and Kundu, 1998a). In perceived risky environments, contractual arrangements are extremely attractive, as the high capital costs associated with hotel property development are thus borne by the real estate companies, although there may be a requirement for a minority equity stake so as to gain the contract in the first instance.

Market concentrations will continue to rise in the world's leading chains. The major hotel chains expect to add an even higher number of rooms to their portfolios over the next few years. For instance, Hilton Hotels Corporation has announced that it expects to extend its portfolio by adding a total of 2,000 new hotels over the next ten years. At present the hotel company is in the midst of adding 775 new hotels, representing an increase of over 110,000 rooms. Accor also plans to carry out a substantial expansion plan involving 30,000 new rooms in 2007 out of a total of 77,000 that it is currently aiming to create. Increased market concentration by the top hotel chains will strengthen the entry barriers that they have already created. Increased market concentrations by top hotel chains will strengthen the big entry barriers that leading hotel chains have already created. Consequently, it can also be anticipated that there will be no significant change in their mobility, at least with regard to the very top ranks. Indeed, given the fact that the world's leading hotel chains seek similar expansion targets, their already limited mobility can be expected to become even more reduced, generating an increase in market concentrations held by the top group of hotel chains. Consequently, it may also be anticipated that there will be no significant change in their order, at least with regard to the very top ranks.

The opening out of franchise agreements can partly be explained by a transaction-cost analysis (TCA). A TCA starts out from the assumption that markets are competitive and that market pressures minimize the need for monitoring and enforcing supplier behaviour (Hennart, 1989). Under these conditions, market-contracting arrangements such as franchising, or low-control modes, are favoured because the threat of replacement dampens opportunism and forces suppliers to perform efficiently (Anderson and Coughlan, 1987; Anderson and Gatignon, 1986).

This study has helped to explain why the hotel industry is characterised by such a high growth rate and market concentration, and it has determined the main direct and indirect causes of the marked proliferation in non-equity growth strategies, particularly franchise agreements, by the world's top chains.

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Table 1. Franchise fees for brands operated by Choice Hotels International. Year 2005.

Brand	Initial fee per room / minimum	Royalty fees	Marketing fees	Reservation fees
Comfort Inn	*$ 300/ $ 50 000*	*5.25%*	*2.1%*	*1.75%*
Comfort Suites	*$ 300/ $ 50 000*	*5.25%*	*2.1%*	*1.75%*
Quality Inn	*$ 300/ $ 35 000*	*4%*	*2.1%*	*1.75%*
Quality Suites	*$ 300/ $ 50 000*	*4%*	*2.1%*	*1.25%*
Sleep Inn	*$ 300/ $ 40 000*	*4.5%*	*2.1%*	*1.75%*
Clarion	*$ 300/ $ 40 000*	*3.75%*	*1%*	*1.25%*
Econo Lodge	*$ 250/ $ 25 000*	*4%*	*3.5%* [i]	-
Mainstay Suites	*$ 300/ $ 30 000*	*4.5%*	*2.5%* [i]	-
Rodeway	*$ 250/ $ 25 000*	*3.5%*	*1.25%*	*1.25%*

Source: *Annual report of Choice Hotels International. Year 2005.*
Accessed: *http://www.choicehotels.com*

Table 2. Franchise fees for brands operated by InterContinental Hotels Group. Year 2005.

Brand	Initial fees	Yearly fees	Service fee*
Holiday Inn, Holiday Inn Hotels and Suites, Holiday Inn Select	*500 dollars per room, with a minimum of $40,000.*	*4.5–6% of the gross room revenue.*	*2.5% of the gross room revenue.*
Holiday Inn Sunspree	*500 dollars per room, with a minimum of $40,000.*	*4.5–6% of the gross room revenue.*	*3% of the gross room revenue.*
Holiday Inn Express	*500 dollars per room, with a minimum of $40,000.*	*5% of the gross room revenue.*	*3% of the gross room revenue.*
Staybridge Suites	*500 dollars per room, with a minimum of $40,000.*	*5% of the gross room revenue.*	*2.5% of the gross room revenue.*

* *The fee includes both the marketing and reservation fees.*
Source: *Annual report of* InterContinental Hotels Group.
Accessed: *http://www.ichotelsgroup.com*

Table 3. Advantages of non-equity modes over equity modes.

EQUITY MODES	NON-EQUITY MODES
The company bears the investment costs and expenses of opening a new hotel.	*The outsourced hotel will be directly responsible for the investment costs and expenses relating to its inauguration.*
Growth through ownership of new hotels will require an increased workforce, with a spectacular rise in staff costs.	*Expansion will be performed by staff from another company.*
Company staff are less committed to guaranteeing good business results	*Greater motivation in working toward the success and prosperity of the business.*
Growth will be dependent upon the availability of financial and human resources.	*The brand name's presence in different markets will be consolidated through rapid growth and the multiplier effect.*
The company will have to invest substantial time and money in supervising the management of its network of hotels.	*Given the hotel's incentive to be successful and achieve good business results for the company that runs it, supervision of the management process will be easier.*
The slow growth of its hotel network will lead to smaller economies of scale, and so the company will have problems competing with other chains.	*Swifter growth will allow for bigger economies of scale, thus improving on the planning of supplies.*
The company will be solely responsible for the advertising costs of its network of hotels, locally, nationally and internationally.	*Because the outsourced hotels contribute toward the cost of advertising, regardless of any local advertising, more advantage can be taken of marketing initiatives.*

Source: Author's own.

Table 4. The main causes that affect the type of growth strategy chosen by hotel chains.

CAUSES
The hotel chain's further internationalization
The modernization of facilities
Staff training
Advertising campaigns
Restructuring investments
Service innovation
The increased size of the hotel chain
Improvements to the chain's booking system
A hotel's location

Source: Author's own.

Table 5. Results of the direct incidence matrix (Matrix A).

	Increased sales	Modified market share	Increased earning capacity	Reduced payback period	Improved corporate image	Increased economies of scale
The hotel chain's internationalization	0.6	1	0.6	0.2	0.8	0.8
Modernization of facilities	0.2	0.2	0.7	0.2	0.8	0.2
Staff training	0.4	0.3	0.4	0.3	1	0.2
Advertising campaigns	0.8	0.4	0.9	0.4	0.8	0
Restructuring investments	0.5	0.2	1	1	0.1	0
Service innovation	0.6	0.2	0.3	0.1	0.8	0.4
Increased size of the hotel chain	0.9	1	0.7	0.2	0.7	1
Improved booking system	1	0	0.7	0.2	0.9	0
Location of hotel	0.9	0.3	1	0.8	1	0.3

Source: Author's own.

Table 6. Results of matrix B (cause-cause relations).

	Hotel chain's internatio-nallization	Moderni-zation of facilities	Staff training	Adver-tising campaigns	Restruc-turing invest-ments	Service innova-tion	Increa-sed size of hotel chain	Impro-ved booking system	Loca-tion of hotel
Hotel chain's internationa-lization	1	0	0.4	0.8	0.2	0	1	0.8	0.6
Modernization of facilities	0	1	0.1	0.9	0.3	1	0.1	1	0
Staff training	0	0.1	1	0.4	0.9	1	0.1	0	1
Advertising campaigns	0.4	0	0.3	1	0.8	0.3	0	0.3	0.9
Restructuring investments	0	0.8	0.6	1	1	0	0	0	0.9
Service innovation	0.8	0.6	0.9	1	0.6	1	0.2	1	0.3
Increased size of hotel chain	1	0.2	0.1	0.9	0	0	1	0.4	0
Improved booking system	1	0.3	0.1	0.4	0	0.1	0.6	1	0
Location of hotel	0	0.1	0.8	1	0.9	0.3	0.1	0	1

Source: Author's own.

Table 7. Results of matrix C (cause-effect relations).

	Increased sales	Modified market share	Increased earning capacity	Reduced payback period	Improved corporate image	Increased economies of scale
Increased sales	1	0.1	0.8	0.7	0.6	0
Modified market share	0.9	1	0.7	0.1	0.2	0.1
Increased earning capacity	0	0.9	1	1	0.6	0.9
Reduced payback period	0	0.8	0.9	1	0.4	0.8
Improved corporate image	0.8	0.2	0.6	0.4	1	0.1
Improved economies of scale	0.1	0.8	0.9	1	0.7	1

Source: Author's own.

Table 8. Results of the composition of matrices B, A and C (Matrix D).

	Increased sales	Modified market share	Increased earning capacity	Reduced payback period	Improved corporate image	Increased economies of scale
Hotel chain's internationalization	0.9	1	0.9	1	0.8	1
Modernization of facilities	1	0.9	0.9	0.9	0.9	0.9
Staff training	0.9	0.9	1	1	1	0.9
Advertising campaigns	0.9	0.9	0.9	0.9	0.9	0.9
Restructuring investments	0.9	0.9	1	1	0.9	0.9
Service innovation	1	0.9	0.9	0.9	0.9	0.9
Increased size of hotel chain	0.9	1	0.9	1	0.8	1
Improved booking system	1	1	0.8	0.8	0.9	0.8
Location of hotel	0.9	0.9	1	1	1	0.9

Source: Author's own.

Table 9. The TOP 35's growth strategies in terms of rooms. Year 2005.

	Rooms			
Hotel Chain	**Franchises**	**Management contracts**	**Other**	**Total**
InterContinental*	75%	23%	3%	537,533
Wyndham*	100%	-	-	532,284
Marriott*	46%	54%	-	499,165
Hilton*	62%	21%	18%	485,356
Choice*	100%	-	-	481,131
Accor*	19%	20%	61%	475,433
[1]Best Western*	100%	-	-	315,875
Starwood*	34%	46%	20%	264,000
Carlson**	96%	4%	-	147,129
Global Hyatt**	63%	8%	29%	134,296
TUI*	5%	37%	57%	82,422
Sol Meliá*	11%	44%	45%	81,282
Extended Stay**	60%	25%	15%	74,936
Interstate*	5%	95%	1%	68,946
Société du Louvre*	68%	29%	3%	55,538
Westmont**	57%	43%	-	55,000
MGM Mirage*	-	-	100%	47,921
Golden Tulip*	75%	25%	-	47,661
La Quinta*	30%	-	70%	46,739
Rezidor SAS*	34%	43%	23%	45,000
Hospitality Properties*	-	-	100%	42,376
Jin Jiang*	-	40%	60%	41,130

	Rooms			
Hotel Chain	**Franchises**	**Management contracts**	**Other**	**Total**
Harrash's**	-	33%	67%	40,285
Vantage*	100%	-	-	37,939
NH Hoteles*	14%	-	86%	38,054
Walt Disney*	-	-	100%	36,990
Riu Hoteles**	6%	31%	63%	37,052
Club Mediterraneé*	-	21%	79%	36,000
Fairmont**	55%	21%	24%	33,768
Barceló Hotels*	1%	46%	53%	30,035
Whitbread**	100%	-	-	30,000
Iberostar Hotels**	5%	49%	46%	28,238
Prince Hotels**	-	-	100%	27,715
Millennium*	14%	27%	60%	27,369
Columbia Sussex**	39%	34%	26%	26,320
	TOTAL	**TOTAL**	**TOTAL**	**TOTAL**
	3,001,388	**1,014,176**	**975.354**	**4,990,918**

[1]*Best Western International is a hotel consortium that functions like a low-cost franchise operation.*

Source: *Annual report of the hotel chains marked with * (you can find these website in the e-references) and survey with hotel chains marked with ***

Table 10. The TOP 8's growth strategies in terms of rooms for market. Year 2004.

	Rooms			
	Franchise	***Management contract***	***Other***	***total***
Small size	1,006,987	15,935	137,521	1,160,443
Medium size	863,572	210,435	76,540	1,150,547
Large size	209,073	261,797	93,423	564,293
Other	193,375	110,550	124,593	428,518
Total	2,273,007	598,717	432,077	3,303,801

Source: *Own, based on Annual report of the hotel chains of the world TOP 8*

Table 11. Number of rooms operated by the world's TOP 300 chains.

HOTEL CHAINS BY GROUPS	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
TOP 8	3,014,703	3,137,864	3,201,925	3,275,625	3,302,792	3,590,777
TOP 35	4,220,662	4,430,556	4,541,926	4,609,046	4,760,501	4,990,918
TOP 50	4,528,301	4,748,735	4,862,572	4,955,566	5,090,736	5,268,638
TOP 100	5,087,741	5,334,084	5,461,211	5,572,611	5,681,938	5,792,678
TOP 150	5,429,644	5,675,777	5,804,755	5,942,496	6,030,457	6,117,491
TOP 200	5,660,420	5,907,962	6,036,945	6,193,440	6,271,907	6,350,193
TOP 250	5,820,889	6,071,633	6,201,023	6,371,200	6,455,439	6,520,124
TOP 300	5,934,809	6,186,428	6,315,395	6,497,132	6,585,015	6,632,810

Source: *Magazine Hotels.* Accessed: *http://www.hotelsmag.com*

Table 12. Evolution of the Gini Index for hotel chains from the top 300.

Year	***Gini Index***
2000	73,9%
2001	74,4%
2002	74,7%
2003	73,8%
2004	74,5%
2005	76,5%

Source: *Own, based on the magazine Hotels*

Table 13. Evolution of the Spearman's rank correlation coefficient and Kendall Tau rank correlation coefficient for hotel chains from the top 35.

Year	**Spearman's rank correlation coefficient**	**Kendall Tau rank correlation**
2005-2004	89%	77%
2005-2003	89%	76%
2005-2002	89%	76%
2005-2001	87%	73%
2005-2000	85%	69%
2005-1999	84%	69%
2005-1998	84%	68%
2005-1997	79%	62%
2005-1996	88%	71%

Source: *Own, based on the magazine Hotels*

Table 14. Evolution of the Spearman's rank correlation coefficient and Kendall Tau rank correlation coefficient for the 22 hotel chains that have been part of the TOP 35 from the year 1996. Year period and five-year period.

Year	**Spearman's rank correlation coefficient**	**Kendall Tau rank correlation**
2005-2004	93%	81%
2004-2003	97%	91%
2003-2002	99%	95%
2002-2001	98%	94%
2001-2000	97%	91%
2000-1999	97%	91%
1999-1998	99%	96%
1998-1997	99%	93%
1997-1996	99%	95%
2005-2001	93%	82%
2004-2000	95%	86%
2003-1999	91%	78%
2002-1998	91%	77%
2001-1997	91%	75%
2000-1996	93%	76%

Source: *Own, based on the magazine Hotels*

Table 15. Results of indirect or second-generation incidence matrix (Matrix E).

	Increased sales	Modified market share	Increased earning capacity	Reduced payback period	Improved corporate image	Improved economies of scale
Hotel chain's internationalization	0.3	0	0.3	0.8	0.2	0.2
Modernization of facilities	0.8	0.7	0.2	0.7	0.1	0.7
Staff training	0.5	0.6	0.6	0.7	0	0.7
Advertising campaigns	0.1	0.5	0	0.5	0.1	0.9
Restructuring investments	0.4	0.7	0	0	0.8	0.9
Service innovation	0.4	0.7	0.6	0.8	0.1	0.5
Increased size of hotel chain	0	0	0.2	0.8	0.1	0
Improved booking system	0	1	0.1	0.6	0	0.8
Location of hotel chain	0	0.6	0	0.2	0	0.6

Source: Author's own.

Table 16. Results of the new direct incidence matrix (Matrix F).

	Increased sales	Modified market share	Increased earning capacity	Reduced payback period	Improved corporate image	Improved economies of scale
Hotel chain's internationalization	0.6	1	0.6	0.8	0.6	0.8
Modernization of facilities	0.8	0.2	0.7	0.2	0.8	0.2
Staff training	0.4	0.3	0.4	0.3	1	0.2
Advertising campaigns	0.8	0.4	0.9	0.4	0.8	0.9
Restructuring investments	0.5	0.2	1	1	0.8	0.9
Service innovation	0.6	0.2	0.3	0.8	0.8	0.4
Increased size of hotel chain	0.9	1	0.7	0.8	0.7	1
Improved booking system	1	1	0.7	0.2	0.9	0.8
Location of hotel chain	0.9	0.3	1	0.8	1	0.3

Source: Author's own.

APPENDIX I

Hotels' Corporate 300 ranking:

Rank 2005	Hotel Chain	Rooms 2005	Headquarters
1	InterContinental Hotels Group	537,533	England
2	Wyndham Worldwide	532,284	USA
3	Marriott International	499,165	USA
4	Hilton Hotels Corp	485,356	USA
5	Choice Hotels International	481,131	USA
6	Accor	475,433	France
7	Best Western Internationnal	315,875	USA
8	Starwood Hotels & Resorts Worldwide	264,000	USA
9	Carlson Hospitality Worldwide	147,129	USA
10	Global Hyatt Corp	134,296	USA
11	TUI AG/TUI Hotels & Resorts	82,422	Germany
12	Sol Meliá SA	81,282	Spain
13	Extended Stay Hotels	74,936	USA
14	Interstate Hotels & Resorts	68,946	USA
15	Société du Louvre	55,538	France
16	Westmont Hospitality Group	55,000	USA
17	MGM Mirage	47,921	USA
18	Golden Tulip Hospitality	47,661	Netherlands
19	La Quinta Corp	46,739	USA
20	Rezidor SAS Hospitality	45,000	Belgium
21	Hospitality Properties Trust	42,376	USA
22	Jin Jiang International Hotels	41,130	China
23	Harrash's Entertainment	40,285	USA
24	Vantage Hosptality Group	37,939	USA
25	NH Hoteles SA	38,054	Spain
26	Walt Disney World Co	36,990	USA
27	Riu Hoteles Group	37,052	France
28	Club Mediterraneé	36,000	Spain
29	Fairmont Hotels & Resorts Inc	33,768	Canada
30	Barceló Hotels & Resorts	30,035	Spain
31	Whitbread Hotel Co	30,000	England
32	Iberostar Hotels & Resorts	28,238	Spain
33	Prince Hotels	27,715	Japan
34	Millennium & Copthorne Hotels Plc	27,369	England
35	Columbia Sussex Corp	26,320	USA
36	CHE Group PLC	25,927	England
37	Tharaldson Enterprises	25,856	USA
38	Shangri-La Hotels & Resorts	22,468	China
39	JAL Hotels Co. Ltd	20,259	Japan

Rank 2005	Hotel Chain	Rooms 2005	Headquarters
40	Ocean Hospitalities	20,060	USA
41	MeriStar Hospitality Corp	18,272	USA
42	Royal Host Hotels & resorts	18,000	Canada
43	Sunstone Hotel Properties	17,333	USA
44	Four Seasons Hotels & Resorts	17,296	Canada
45	Grupo Posadas Management	17,268	Mexico
46	Occidental Hotels	15,421	Spain
47	John Q. Hammons Hotels	15,366	USA
48	Tokyu Hotels	15,000	Japan
49	Rewe Touristik Hotels & Investment	14,771	Germany
50	Hospitality International	14,423	USA
51	Drury Inns	14,125	USA
52	Omni Hotels	14,000	USA
53	White Lodging Services	13,753	USA
54	Lodgian Inc	13,468	USA
55	Capital Hotel Management	13,200	USA
56	Steigenberger Hotels AG	13,000	Germany
57	Mövenpick Hotels & Resorts	12,757	Switzerland
58	Southern Sun Hotels	12,732	South Africa
59	Husa Hotels Group	12,672	Spain
60	Maritim Hotels	12,513	Germany
61	Rica Hotels	12,200	Norway
62	Orbis SA	12,000	Poland
63	Fujita Kanko	11,972	Japan
64	Fiesta Hotels Group	11,919	Spain
65	Washington Hotel	11,612	Japan
66	Red Lion Hotels	11,330	USA
67	American Property Management	11,231	USA
68	AmericInn International	11,014	USA
69	GSM Hoteles	10,949	Spain
70	America's Best Franchising	10,741	USA
71	The Procaccianti Group	10,371	USA
72	Atlantica Hotels International	10,300	Brazil
73	Outrigger Enterprises	10,145	USA
74	Kempinski Hotels	10,070	Switzerland
75	Highgate Hotels	10,000	USA
76	Innkeepers Hospitality	9,997	USA
77	Boyd Gaming	9,960	USA
78	ANA Hotels	9,954	Japan
79	Janus Hotels	9,900	USA

Rank 2005	Hotel Chain	Rooms 2005	Headquarters
80	Protea Hospitality	9,880	South Africa
81	Raffles International	9,826	Singapore
82	APA Hotel	9,763	Japan
83	Sunroute Co	9,511	Japan
84	Danubius Hotels	9,377	Hungary
85	Jianguo International	9,266	China
86	Gaviota SA	9,176	Cuba
87	Princess Hotels	9,154	Spain
88	Ringhotels	9,000	Germany
89	Taj Hotels	8,836	India
90	Innkeepers USA	8,825	USA
91	Mandarin Oriental	8,725	China
92	Thistle Hotels	8,600	England
93	Hospitality Alliance	8,576	Germany
94	Destination hotels	8,570	USA
95	Lopesan Hotels	8,532	Spain
96	Merritt Hospitality	8,358	USA
97	AC Hotels	8,233	Spain
98	Tishman Hotel	8,038	USA
99	Jurys Doyle	7,990	Ireland
100	HEI Hospitality	7,919	USA
101	Boykin Management	9,912	USA
102	Remington Hotel	7,888	USA
103	Jameson	7,807	USA
104	Pandox AB	7,800	Sweden
105	HNA Hotels	7,764	China
106	Solare Hotels	7,709	Japan
107	Loews Hotels	7,700	USA
108	Hankyu Hotels	7,623	Japan
109	Pestana Hotels	7,587	Portugal
110	Guangdong Hotel	7,583	China
111	GF Management	7,574	USA
112	Hoteles Hesperia	7,492	Spain
113	Winegardner & Hammons	7,360	USA
114	Cham Palaces	7,350	Syria
115	Kimpton Hotels	7,331	USA
116	Okura Hotels	7,317	Japan
117	Hostmark Hospitality	7,120	USA
118	Davidson Hotel	7,012	USA
119	Aramark Harrison	7,000	USA

Rank 2005	Hotel Chain	Rooms 2005	Headquarters
120	Jolly Hotels	6,700	Italy
121	Restel Hotels	6,645	Finland
122	New Otani	6,587	Japan
123	First Hotels	6,569	Norway
124	Park Management	6,526	USA
125	Driftwood Hospitality	6,442	USA
126	Macdonald Hotels	6,374	Scotland
127	Romantik Hotels	6,221	Germany
128	Sage Hospitality	6,185	USA
129	Noble Investment	6,000	USA
130	Grupo Cubanacan	5,989	Cuba
131	Louis Hotels	5,592	Cyprus
132	Gaylord Entertainment	5,798	USA
133	Corinthia Hotels	5,787	Malta
134	Aztar Corp	5,757	USA
135	Domina Hotels	5,723	Italy
136	Atahotels	5,700	Italy
137	Budget Host	5,650	USA
138	ITC Welcomgroup	5,596	India
139	Prism Hotels	5,532	USA
140	Rydges Hotel	5,524	Australia
141	Concord Hospitality	5,514	USA
142	Dusit Hotels	5,506	Thailand
143	Horizon Hotels	5,505	USA
144	Aqua Sol Hotels	5,500	Cyprus
145	Paradores de Turismo	5,492	Spain
146	Blue Tree Hotels	5,464	Brazil
147	Cornerstone Hospitality	5,452	USA
148	Stonebridge Companies	5,435	USA
149	Sonesta International	5,401	USA
150	Windsor Hospitality	5,358	USA
151	Taradia Hotels	5,345	USA
152	CSM Lodging	5,290	USA
153	Dimension Development	5,271	USA
154	Jinling Hotels	5,247	China
155	Benchmark Hospitality	5,198	USA
156	Othon Hotels	5,187	Brazil
157	Richfield Hospitality	5,166	USA
158	Coast Hotel	5,136	Canada
159	SuperClubs Super-Inclusive Resorts	5,063	Jamaica

Rank 2005	Hotel Chain	Rooms 2005	Headquarters
160	Jarvis Hotels	5,037	England
161	Kintetsu Hotels	5,014	Japan
162	Guesthouse Intl	4,884	USA
163	The Oberoi Group	4,884	India
164	Adm's Mark Hotels	4,868	USA
165	De Vere Group	4,840	England
166	Rosen Hotel & Resort	4,837	USA
167	First Hospitality Group	4,816	USA
168	JHM Hotels	4,786	USA
169	Meyer Jabara Hotels	4,777	USA
170	Langham Hotels International	4,764	China
171	Rotana Hotel Management	4,723	United Arab Emirates
172	RockResorts	4,682	USA
173	Thayler Lodging	4,657	USA
174	Pan Pacific Hotels	4,647	Singapore
175	Shilo Management	4,626	USA
176	Warwick International	4,594	France
177	The Silken Hotel	4,581	Spain
178	Stanford Hotels	4,580	USA
179	ResortQuest	4,547	USA
180	Sahid Group of Hotels	4,512	Indonesia
181	Gloria International Hotels	4,500	China
182	AMResorts	4,500	USA
183	Ramkota Companies	4,479	USA
184	Kerzner International	4,476	Bahamas
185	Kinseth Hospitality	4,460	USA
186	Grand Hotels	4,437	Singapore
187	Sun International	4,429	South Africa
188	Sokotel Oy	4,401	Finland
189	Hunguest Hotels	4,400	Hungary
190	Sandals Resort	4,379	Jamaica
191	Camino Real Hotels	4,322	Mexico
192	The Hotel Group	4,309	USA
193	DePalma Hotel	4,249	USA
194	Sunburst Hospitality Corp	4,198	USA
195	Waterford Hotels	4,159	USA
196	Abou Nawas	4,148	Tunisia
197	Berjaya Hotels	4,083	Malaysia
198	Paramount Hotel	4,082	USA
199	Quorum Hotels	4,080	USA

Rank 2005	Hotel Chain	Rooms 2005	Headquarters
200	City Lodge Hotels	4,052	South Africa
201	Dolce International	4,042	USA
202	Austria Trend Hotels	4,016	Austria
203	Regal Hotels	4,008	China
204	Hoteles Islazul	3,992	Cuba
205	Pacifica Companies	3,948	USA
206	Cooper Hotels	3,945	USA
207	Swiss-Belhotel	3,938	Hong Kong
208	RIHGA Royal Hotels	3,927	Japan
209	Sandman Hotels	3,901	Canada
210	Marshall Management	3,832	USA
211	Orascom Hotels	3,757	Egypt
212	Corus Hotels	3,750	England
213	Orient-Express Hotels	3,662	England
214	Daly Seven	3,612	USA
215	Marcus Hotels	3,570	USA
216	Vila Gale Hotels	3,560	Portugal
217	Hotel Lotte Co	3,529	Korea
218	B.F. Saul	3,522	USA
219	MOA Hospitaliy	3,500	USA
220	Singapore Meritus Intl. Hotels	3,472	Singapore
221	Mitsui Kanko	3,447	Japan
222	Hotel Equatorial	3,426	Malaysia
223	Gran Caribe Hotels	3,397	Cuba
224	Starhotels SpA	3,375	Italy
225	Imperial London Hotels	3,355	England
226	Albeck & Zehden Hotels	3,347	Germany
227	Rim Hospitality	3,335	USA
228	Vista Host	3,331	USA
229	Amari Hotels	3,321	Thailand
230	Mirvac Hotels	3,292	Australia
231	Vagabond Franchise	3,258	USA
232	Dan Hotels Corp	3,238	Israel
233	Peabody Hotel	3,219	USA
234	Dedeman Hotels	3,162	Turkey
235	Commonwealth Hotels	3,149	USA
236	SREE Hospitality	3,136	USA
237	MMI Hotel	3,102	USA
238	New Castle Hotels	3,095	USA
239	Shaner Hotels	3,093	USA

Rank 2005	Hotel Chain	Rooms 2005	Headquarters
240	ZMC Hotels	3,078	USA
241	Jumeirah International	3,065	United Arab Emirates
242	Marco Polo Hotel	3,033	China
243	Allson International Hotels	3,032	Malaysia
244	Orea Hotels	2,984	Czech Republic
245	The Generation Companies	2,978	USA
246	Wright Investment	2,914	USA
247	Imperial Hotels	2,814	Thailand
248	Lindner Hotels	2,826	Germany
249	The Dow Hotel	2,819	USA
250	Gouverneur Inc	2,800	Canada
251	Morgans Hotel	2,734	USA
252	Joie de Vivre Hotels	2,725	USA
253	Noble House Hotels	2,718	USA
254	Coaklet & William Hotel	2,632	USA
255	Trump Hotels	2,608	USA
256	Exel Inns	2,597	USA
257	Premier Hotel Corp	2,538	USA
258	JJW Hotels	2,500	England
259	Stamford Hotels	2,500	Australia
260	The Peninsula Hotels	2,467	China
261	Hospitality Management	2,451	USA
262	Gal-Tex Hotel	2,450	USA
263	HI Development	2,446	USA
264	The Falor Companies	2,417	USA
265	Rendezvous Hotels	2,381	Australia
266	Central Hotels	2,355	Thailand
267	Lane Hospitality	2,353	USA
268	The North Central Group	2,342	USA
269	Carlton Group of Hotels	2,340	Singapore
270	Executive Hotels	2,332	Canada
271	Bayview International Hotels	2,319	Singapore
272	Newport Hospitality Group	2,310	USA
273	Minor International	2,299	Thailand
274	HLC Hotels	2,294	USA
275	Oak Hotels	2,278	USA
276	Lucien Barriere Hotels	2,277	France
277	Larkspur Hospitality	2,253	USA
278	Legacy Hotels	2,248	South Africa
279	Woodfin Suites	2,241	USA

Rank 2005	Hotel Chain	Rooms 2005	Headquarters
280	Campbell Lodging	2,235	USA
281	Park Lane Hotels	2,213	China
282	Ayres Hotel	2,183	USA
283	Leisure Hotels	2,182	USA
284	Tecton Hospitality	2,150	USA
285	HPL Hotels	2,097	Singapore
286	Denihan Hospitality	2,061	USA
287	Kokusai Kogyo	2,045	Japan
288	Rxpotel Hospitality	2,044	USA
289	Integral Hospitality	2,043	USA
290	Decatour Hotels	2,009	USA
291	Raymond Management	2,000	USA
292	Federal Hotels	1,983	Malaysia
293	Lodging Unlimited	1,980	USA
294	Zimsun Leisure	1,953	Zimbabwe
295	Seymour N. Logan Associates	1,934	USA
296	Castle Resorts	1,900	USA
297	Serena Hotels	1,843	Kenya
298	Kelly Inns	1,837	USA
299	Furama Hotels	1,799	Singapore
300	Lionstone Hotels	1,780	USA

APPENDIX II

Survey

We would be most grateful if you could facilitate us the development method or growth strategy chosen for the hotel chain, which means: number of hotels and rooms owned and leased by the chain, management contracts and franchise at the dates December 31st 2005.

Golbal hotel and room count hotels rooms

	ROOMS 2005
OWNED AND LEASED	
MANAGED	
FRANCHISED	
OTHER	
TOTAL	

APPENDIX III

Results of the Cluster analysis

Cluster initial centers (a)

	Cluster	
	1	2
RANKING	1	300
ROOMS	536,318	2,094

Record of iterations (a)

Iteration	Changes in the cluster centers	
	1	2
1	101,121.143	9,684.418
2	2,5743,732	744.759
3	.000	.000

a Convergence in values has been achieved because the cluster centers do not present any changes or these are small. The maximum change in coordinates is .000. The present iteration is 3. The minimum distance between initial centers is 534,224.084

Cluster initial centers (b)

	Cluster		
	1	2	3
RANKING	1	7	300
ROOMS	536,318	310,245	2,094

Record of iterations (b)

Iteration	Changes in the cluster centers		
	1	2	3
1	36,560.000	8,903.250	8,939.742
2	.000	.000	.000

a Convergence in values has been achieved because the cluster centers do not present any changes or these are small. The maximum change in coordinates is .000. The present iteration is 2. The minimum distance between initial centers is 226,073.000

Belong to the conglomerates

Number of case	Cluster (a)	Distance	Cluster (b)	Distance
1	1	126,864.875	1	36,560.000
2	1	109,293.875	1	18,989.000
3	1	81,110.875	1	9,194.000
4	1	43,949.875	1	46,355.000
5	1	20,835.125	2	69,469.750
6	1	60,970.125	2	29,334.750
7	1	99,208.125	2	8,903.250
8	1	180,206.125	2	89,901.250
9	2	136,591.519	3	136,591.519
10	2	87,656.561	3	87,656.561
11	2	78,569.573	3	78,569.573
12	2	69,461.588	3	69,461.588
13	2	64,967.596	3	64,967.596
14	2	55,323.620	3	55,323.620
15	2	54,217.621	3	54,217.621
16	2	39,947.682	3	39,947.682
17	2	39,207.683	3	39,207.683
18	2	33,967.716	3	33,967.716
19	2	32,424.725	3	32,424.725
20	2	28,967.754	3	28,967.754
21	2	25,600.790	3	25,600.790
22	2	25,073.792	3	25,073.792
23	2	24,556.794	3	24,556.794
24	2	23,425.805	3	23,425.805
25	2	23,251.802	3	23,251.802
26	2	22,967.801	3	22,967.801
27	2	21,789.815	3	21,789.815
28	2	21,667.811	3	21,667.811
29	2	21,207.813	3	21,207.813
30	2	19,884.832	3	19,884.832
31	2	17,967.866	3	17,967.866
32	2	17,352.874	3	17,352.874
33	2	16,525.888	3	16,525.888
34	2	16,520.881	3	16,520.881
35	2	16,451.876	3	16,451.876
36	2	15,967.881	3	15,967.881
37	2	15,909.876	3	15,909.876
38	2	14,866.898	3	14,866.898
39	2	14,217.911	3	14,217.911
40	2	14,081.907	3	14,081.907
41	2	13,967.903	3	13,967.903

Number of case	Cluster (a)	Distance	Cluster (b)	Distance
42	2	13,700.904	3	13,700.904
43	2	12,826.926	3	12,826.926
44	2	12,368.935	3	12,368.935
45	2	9,988.042	3	9,988.042
46	2	9,719.047	3	9,719.047
47	2	9,195.070	3	9,195.070
48	2	8,716.092	3	8,716.092
49	2	7,968.140	3	7,968.140
50	2	7,544.166	3	7,544.166
51	2	7,132.193	3	7,132.193
52	2	6,779.217	3	6,779.217
53	2	6,542.229	3	6,542.229
54	2	5,834.307	3	5,834.307
55	2	5,595.327	3	5,595.327
56	2	5,064.400	3	5,064.400
57	2	5,001.392	3	5,001.392
58	2	4,685.436	3	4,685.436
59	2	4,468.462	3	4,468.462
60	2	4,221.500	3	4,221.500
61	2	3,467.703	3	3,467.703
62	2	2,739.004	3	2,739.004
63	2	2,509.111	3	2,509.111
64	2	2,321.207	3	2,321.207
65	2	2,235.234	3	2,235.234
66	2	2,218.208	3	2,218.208
67	2	2,094.270	3	2,094.270
68	2	2,069.251	3	2,069.251
69	2	1,979.289	3	1,979.289
70	2	1,355.079	3	1,355.079
71	2	1,293.140	3	1,293.140
72	2	1,151.401	3	1,151.401
73	2	994.786	3	994.786
74	2	982.744	3	982.744
75	2	923.869	3	923.869
76	2	855.053	3	855.053
77	2	845.999	3	845.999
78	2	796.126	3	796.126
79	2	716.431	3	716.431
80	2	433.886	3	433.886
81	2	136.854	3	136.854
82	2	79.475	3	79.475
83	2	150.612	3	150.612

Number of case	Cluster (a)	Distance	Cluster (b)	Distance
84	2	291.221	3	291.221
85	2	383.902	3	383.902
86	2	536.946	3	536.946
87	2	721.722	3	721.722
88	2	790.361	3	790.361
89	2	944.831	3	944.831
90	2	1,207.282	3	1,207.282
91	2	1,299.111	3	1,299.111
92	2	1,433.921	3	1,433.921
93	2	1,455.858	3	1,455.858
94	2	1,513.768	3	1,513.768
95	2	1,552.699	3	1,552.699
96	2	1,625.611	3	1,625.611
97	2	1,640.566	3	1,640.566
98	2	1,833.429	3	1,833.429
99	2	2,289.231	3	2,289.231
100	2	2,295.205	3	2,295.205
101	2	2,333.172	3	2,333.172
102	2	2,485.113	3	2,485.113
103	2	2,499.089	3	2,499.089
104	2	2,683.034	3	2,683.034
105	2	2,722.008	3	2,722.008
106	2	2,731.989	3	2,731.989
107	2	2,759.967	3	2,759.967
108	2	2,782.947	3	2,782.947
109	2	2,804.927	3	2,804.927
110	2	2,804.911	3	2,804.911
111	2	2,837.892	3	2,837.892
112	2	2,893.870	3	2,893.870
113	2	2,992.846	3	2,992.846
114	2	3,012.830	3	3,012.830
115	2	3,030.816	3	3,030.816
116	2	3,032.803	3	3,032.803
117	2	3,097.785	3	3,097.785
118	2	3,209.766	3	3,209.766
119	2	3,305.749	3	3,305.749
120	2	3,332.737	3	3,332.737
121	2	3,350.726	3	3,350.726
122	2	3,416.713	3	3,416.713
123	2	3,532.699	3	3,532.699
124	2	3,586.688	3	3,586.688
125	2	3,591.679	3	3,591.679

Number of case	Cluster (a)	Distance	Cluster (b)	Distance
126	2	3,680.669	3	3,680.669
127	2	3,705.660	3	3,705.660
128	2	3,732.652	3	3,732.652
129	2	3,732.645	3	3,732.645
130	2	3,766.638	3	3,766.638
131	2	3,832.630	3	3,832.630
132	2	3,860.624	3	3,860.624
133	2	3,961.617	3	3,961.617
134	2	3,993.611	3	3,993.611
135	2	4,101.605	3	4,101.605
136	2	4,155.599	3	4,155.599
137	2	4,192.595	3	4,192.595
138	2	4,261.590	3	4,261.590
139	2	4,353.586	3	4,353.586
140	2	4,457.582	3	4,457.582
141	2	4,474.579	3	4,474.579
142	2	4,615.575	3	4,615.575
143	2	4,632.572	3	4,632.572
144	2	4,639.570	3	4,639.570
145	2	4,675.568	3	4,675.568
146	2	4,696.566	3	4,696.566
147	2	4,773.564	3	4,773.564
148	2	4,802.563	3	4,802.563
149	2	4,864.561	3	4,864.561
150	2	4,954.560	3	4,954.560
151	2	5,044.559	3	5,044.559
152	2	5,054.559	3	5,054.559
153	2	5,062.558	3	5,062.558
154	2	5,132.558	3	5,132.558
155	2	5,234.558	3	5,234.558
156	2	5,338.558	3	5,338.558
157	2	5,348.559	3	5,348.559
158	2	5,401.559	3	5,401.559
159	2	5,502.560	3	5,502.560
160	2	5,532.561	3	5,532.561
161	2	5,533.562	3	5,533.562
162	2	5,562.563	3	5,562.563
163	2	5,566.565	3	5,566.565
164	2	5,632.566	3	5,632.566
165	2	5,673.568	3	5,673.568
166	2	5,717.570	3	5,717.570
167	2	5,722.572	3	5,722.572

Number of case	Cluster (a)	Distance	Cluster (b)	Distance
168	2	5,741.574	3	5,741.574
169	2	5,803.576	3	5,803.576
170	2	5,822.579	3	5,822.579
171	2	5,881.581	3	5,881.581
172	2	5,882.584	3	5,882.584
173	2	5,904.587	3	5,904.587
174	2	5,930.590	3	5,930.590
175	2	6,011.593	3	6,011.593
176	2	6,032.597	3	6,032.597
177	2	6,047.600	3	6,047.600
178	2	6,067.604	3	6,067.604
179	2	6,080.608	3	6,080.608
180	2	6,195.611	3	6,195.611
181	2	6,209.615	3	6,209.615
182	2	6,228.619	3	6,228.619
183	2	6,247.623	3	6,247.623
184	2	6,308.627	3	6,308.627
185	2	6,377.631	3	6,377.631
186	2	6,390.636	3	6,390.636
187	2	6,405.641	3	6,405.641
188	2	6,467.645	3	6,467.645
189	2	6,532.649	3	6,532.649
190	2	6,555.654	3	6,555.654
191	2	6,628.659	3	6,628.659
192	2	6,654.664	3	6,654.664
193	2	6,686.669	3	6,686.669
194	2	6,729.674	3	6,729.674
195	2	6,745.680	3	6,745.680
196	2	6,745.686	3	6,745.686
197	2	6,745.692	3	6,745.692
198	2	6,751.698	3	6,751.698
199	2	6,898.702	3	6,898.702
200	2	6,910.708	3	6,910.708
201	2	6,926.714	3	6,926.714
202	2	6,949.721	3	6,949.721
203	2	6,966.727	3	6,966.727
204	2	6,982.734	3	6,982.734
205	2	7,024.740	3	7,024.740
206	2	7,058.746	3	7,058.746
207	2	7,058.753	3	7,058.753
208	2	7,074.761	3	7,074.761
209	2	7,074.768	3	7,074.768

Number of case	Cluster (a)	Distance	Cluster (b)	Distance
210	2	7,090.775	3	7,090.775
211	2	7,096.783	3	7,096.783
212	2	7,096.791	3	7,096.791
213	2	7,113.799	3	7,113.799
214	2	7,125.807	3	7,125.807
215	2	7,132.815	3	7,132.815
216	2	7,136.823	3	7,136.823
217	2	7,141.832	3	7,141.832
218	2	7,156.840	3	7,156.840
219	2	7,158.849	3	7,158.849
220	2	7,206.856	3	7,206.856
221	2	7,231.864	3	7,231.864
222	2	7,441.864	3	7,441.864
223	2	7,532.870	3	7,532.870
224	2	7,532.879	3	7,532.879
225	2	7,553.887	3	7,553.887
226	2	7,563.896	3	7,563.896
227	2	7,565.906	3	7,565.906
228	2	7,570.915	3	7,570.915
229	2	7,594.924	3	7,594.924
230	2	7,606.933	3	7,606.933
231	2	7,654.940	3	7,654.940
232	2	7,703.948	3	7,703.948
233	2	7,708.958	3	7,708.958
234	2	7,712.968	3	7,712.968
235	2	7,727.978	3	7,727.978
236	2	7,731.988	3	7,731.988
237	2	7,795.995	3	7,795.995
238	2	7,826.004	3	7,826.004
239	2	7,833.014	3	7,833.014
240	2	7,853.024	3	7,853.024
241	2	7,890.032	3	7,890.032
242	2	7,895.043	3	7,895.043
243	2	7,911.053	3	7,911.053
244	2	7,912.064	3	7,912.064
245	2	7,966.072	3	7,966.072
246	2	7,966.084	3	7,966.084
247	2	7,967.095	3	7,967.095
248	2	8,002.104	3	8,002.104
249	2	8,022.115	3	8,022.115
250	2	8,033.126	3	8,033.126
251	2	8,033.138	3	8,033.138

Number of case	Cluster (a)	Distance	Cluster (b)	Distance
252	2	8,063.148	3	8,063.148
253	2	8,090.158	3	8,090.158
254	2	8,160.165	3	8,160.165
255	2	8,162.177	3	8,162.177
256	2	8,166.189	3	8,166.189
257	2	8,173.201	3	8,173.201
258	2	8,177.213	3	8,177.213
259	2	8,231.222	3	8,231.222
260	2	8,231.234	3	8,231.234
261	2	8,233.247	3	8,233.247
262	2	8,239.260	3	8,239.260
263	2	8,250.272	3	8,250.272
264	2	8,263.284	3	8,263.284
265	2	8,282.295	3	8,282.295
266	2	8,309.306	3	8,309.306
267	2	8,324.318	3	8,324.318
268	2	8,337.331	3	8,337.331
269	2	8,342.344	3	8,342.344
270	2	8,363.356	3	8,363.356
271	2	8,385.368	3	8,385.368
272	2	8,405.380	3	8,405.380
273	2	8,413.393	3	8,413.393
274	2	8,480.400	3	8,480.400
275	2	8,533.409	3	8,533.409
276	2	8,540.423	3	8,540.423
277	2	8,571.434	3	8,571.434
278	2	8,585.447	3	8,585.447
279	2	8,587.461	3	8,587.461
280	2	8,618.472	3	8,618.472
281	2	8,638.484	3	8,638.484
282	2	8,656.497	3	8,656.497
283	2	8,683.509	3	8,683.509
284	2	8,702.522	3	8,702.522
285	2	8,704.537	3	8,704.537
286	2	8,726.549	3	8,726.549
287	2	8,746.562	3	8,746.562
288	2	8,757.576	3	8,757.576
289	2	8,821.584	3	8,821.584
290	2	8,844.596	3	8,844.596
291	2	8,844.612	3	8,844.612
292	2	8,855.626	3	8,855.626
293	2	8,863.640	3	8,863.640

Number of case	Cluster (a)	Distance	Cluster (b)	Distance
294	2	8,866.656	3	8,866.656
295	2	8,866.671	3	8,866.671
296	2	8,879.686	3	8,879.686
297	2	8,919.697	3	8,919.697
298	2	8,932.711	3	8,932.711
299	2	8,933.727	3	8,933.727
300	2	8,939.742	3	8,939.742

Source: Author’s own elaboration from the statistical packages SPSS and Eviews.

CHAPTER 2

THE RELATIONSHIP BETWEEN HOTEL CHAIN GROWTH STRATEGIES AND THEIR RETURN ON INVESTMENT

The relationship between hotel chain growth strategies and their return on investment

Abstract: Hotel chains have widely differing rates of return and growth rates. The conclusions of this paper show that franchise agreements and management contracts offer much higher returns and higher growth rates than other growth strategies. It also demonstrates that US and British hotel groups are the best exponents of these two systems.

Keywords: Growth strategies; return on investment; hotel chain; TOP 8; TOP 35.

1. INTRODUCTION

Hotels can be linked to a hotel chain in many different ways. Hotel chains can expand through operations where no capital investment is required, such as through franchise agreements or management contracts. Alternatively, they can opt for other systems where capital must be injected, through hotel ownership, leaseholds, mergers and take-overs or a combination of any of the said growth strategies (Tse and Olsen, 1990; Olsen et al. 1990; Okumus, 2004).

The tendency to expand by extending a chain's portfolio of owned property has begun to change in favor of strategies that do not involve capital-based transactions (Zhao and Olsen, 1997; Contractor and Kundu, 1998 a; Contractor and Kundu, 1998 b), particularly since one of the main goals of hotel chains has become to speed up the expansion process (Altinay, 2005).

The initial goal of this paper is to try and demonstrate whether there has been a sharp rise in hotel chain growth strategies that do not involve capital-based transactions. That is, non-equity transactions as Contractor and Kundu (1998 a; 1998 b) and Zhao and Olsen (1997) claim.

The article shows that these types of growth strategies are becoming increasingly prevalent among top hotel chains to the extent that they are becoming the most widely used systems.

The second aim of this paper is to ascertain where the top hotel chains that use these systems are from. In this case, the prime exponents of systems based on non-equity transactions are the big US and British groups, which have come to monopolize leading positions in the world ranks of the hotels with the biggest room portfolios. In this way, these groups have strengthened their positions as the world's largest hotel chains.

In contrast, European chains still insist on using strategies like ownership or leaseholds. This means that they cannot achieve the high growth rates of their American or British counterparts due to the high level of finance that is required for such big hotel portfolios, when these systems are used. Additionally, this type of strategy has a direct effect on the low returns that these chains offer their shareholders (Martorell, 2006).

Finally, the third (and main) aim of this study is to explore how the use of these different growth strategies affects the return on investment that the chains achieve, because, as we will see later, none of them achieves the same results.

This paper helps to demonstrate that higher returns are achieved by hotel chains which mainly use growth systems not based on capital transactions, in comparison with hotel chains that do use them. It also highlights how US and British chains have become the TOP 8's biggest hotel chains with the highest earning capacities.

The article is organized as follows. The following section contains a review of the theory behind the main growth strategies used by hotel chains, focusing particularly on systems that do not entail capital-based transactions. The third section describes the methodology that was used in this study, while the fourth analyses whether growth strategies based on non-equity transactions have become the most widely used systems by hotel chains. In continuation, an analysis is made of the nationalities of hotel chains that have mainly opted for this type of strategy, while the sixth section explores the relationship between the growth strategies of the world's TOP 8 chains and the returns that these strategies offer. Finally, the last section outlines the conclusions of the study.

2. GROWTH STRATEGIES IN THE HOTEL INDUSTRY. THE THEORETICAL FRAMEWORK

2.1. Hotel franchise agreements

There have been numerous debates on the issue of business format franchising definitions (Hoy and Stanworth, 2002) but a broad definition, framed to meet the points commonly raised in debates, has defined franchising as: «the granting of a license for a predetermined financial return by a franchising company (franchisor) to its franchisees, entitling them to make use of a complete business package, including training, support and the corporate name, thus enabling them to operate their own businesses to exactly the same standards and format as the other units in the franchised chain» (Grant, 1985; Stanworth and Curran, 1999). This definition covers most modern varieties of franchising and, in principle, no barriers appear to exist to incorporating quasi-forms. It is essentially ideal-typical in approach.

Originating in the USA, franchising emerged as a powerful new way of facilitating the growth of service organizations. The origins of modern-day hotel franchising can be traced back to the 1950s when Holiday Inn established itself as the economy segment’s primary business format franchisor (Shook and Shook, 1993). Hotel companies that applied stricter operating standards than had previously been common among independent hotels have subsequently expanded and grown in the economy segment by means of franchising (Lee, 1985). Lashley and Morrison (2000) pointed out that business format franchising has become an established global enterprise trend within the service sector, in general, and, more specifically, within the hospitality services sector. Meanwhile Ingram (2001) stated that developing franchises through new franchise operations would not just be common to the service sector (hotels, restaurants, pubs etc.), but that it would also extend to other new businesses.

In the hospitality industry, a franchise strategy could be as simple as granting a licence to a small company with one single accommodation unit, or it could be as complex as master franchising, where a company is given rights to develop a certain brand name in a particular region of the world.

A franchise contract usually covers a period of twenty to thirty years in exchange for the payment of a fixed yearly sum (Roh, 1998; Johnson, 1999), with the extension of the agreement on its expiry if both parties are satisfied with their mutual collaboration. However, the franchisor carries out regular inspections to ensure full compliance with rules regarding corporate unity and the production process. Irregularities of either or both kinds constitute sufficient grounds for the contract's termination, due to the possible damage that the franchisor's reputation may suffer as a result of the hotel's non-compliance.

As well as giving initial assistance to their franchisees, hotel franchisors also offer them a finance programme for the business and advice on the design and construction of the hotels. A review of relevant literature indicates that such support services are a prime factor in franchising decisions (Hing, 1996; Roh, 1998).

Three key documents must be drafted before a franchise is granted. Firstly, an operating manual must be created, with instructions regarding the management process once the franchise has started operating. A franchise contract must then be drawn up, stipulating the legal obligations of both parties. Lastly, a franchise prospectus must be drafted aimed at recruiting the right kind of franchisee. Once the three documents have been drawn up, the process of recruiting and training the new franchisees begins, together with the selection of the premises and subsequent launch of the franchise outlets (Stanworth et al, 2004).

If a franchisee is given an accommodation franchise and joins a specific business, it will take on a number of responsibilities, such as compliance with the chain's quality control standards, participation in all compulsory marketing programmes etc. Failure to comply with the chain's policies in this respect may lead to the termination of the franchise contract, and the chain's global image and the value of its brand name may be damaged (Martorell, 2006).

With a franchise contract, franchisors request the payment of royalties from their franchisees. In many cases, these fees are the second highest expense faced by most franchisees after their top expense, personnel costs. More specifically, the franchisor charges an initial fee, which is normally a fixed sum per room. In addition, it also charges a yearly royalty and an annual fee for advertising and marketing, which involves a percentage sum based on room revenue. Finally, it also charges a reservation fee that usually involves a fixed sum for each reservation made. As discussed by Bhattacharyya and Lafontaine (1995), the contract between franchisor and franchisee is typically linear, including an initial fee to join the organization (between $20 000 and $50 000) and a percentage of revenue meant to reimburse for advertising, marketing, and the use of centralized reservation systems (between 6 and 9.25%). In addition, it may also be costly for motels to provide the services that are required to meet the organization's quality standards.

2.2. Hotel Management Contracts

Business management contracts can be traced back to practices in the British colonies. The concept was subsequently developed into a management contract system in the United States by the motel industry of the 1960s (Eyster, 1977). In the hotel trade itself, management contracts were introduced as a result of losses incurred by Hilton Hotels Corporation, which ran a hotel in Havana in the 1960s under a leasehold agreement when the Cuban Revolution occurred. From this event, they learnt that, in developing countries, hotel investment entails big risks. Taking advantage of the firm's international positioning, it converted most of its leasehold agreements into management contracts.

A business contract can be defined as: «a contract via which one company agrees to manage another on behalf of the latter and at the risk of this second company in exchange for financial remuneration» (Sharma, 1984).

A similar definition to the previous one is given by other authors, but with a greater focus on the hotel trade: «A hotel management contract is basically an agreement between a hotel management company and an owner company, under the terms of which the former runs the hotel. The owner does not take operational decisions but is responsible for supplying the necessary capital and for the payment of expenses and debts» (Eyster, 1993). The management company receives a fee for its services and the owner normally keeps the remaining profits after expenses have been deducted (Negotiating International Hotel Chain Management Agreements, 1990).

With a management contract, the hotel chain has full operational control over earnings and expenditure, but the financial burdens (and even the responsibility for meeting any operational costs) are the owner's. In the early days of management contracts, this was true to such an extent that it was the owner who had to provide all the inventories and working capital, as well as continuing to inject capital in the event of losses when operations went wrong. This was fully in the management company's favour and quite clearly it was an unfair type of agreement, because the management company's business profits were implicitly guaranteed thanks to the payment of a fixed basic fee that was paid regardless of the real profits. This meant that the management company did not need to worry much about keeping costs down. However, because it is becoming increasingly common for big hotel chains to offer their services under management contracts, the rivalry that this engenders means that owners and developers can be choosier, demanding a fairer division of operational and financial responsibilities (Johnson, 1999; Iha 1993), even demanding an amount of capital from the company running the hotel. The main thing that differentiates management contracts in the 1960s and management contracts now is hotel owners' increasing capacity to negotiate their involvement in management, budgeting and marketing plans (Johnson, 1999).

Each management contract must be designed to suit each particular situation and special care must be taken with the agreement of fees. The contract's stipulations should include the following details: what capital, if any, must be provided by the management company, budget and expenditure limits, accounting and financial conditions, the contract's length, a renewal clause (if appropriate), the conditions for the cancellation of the contract, services to be provided by the management company, and the minimum yearly amounts to be spent on advertising, maintenance, and replacing furnishings, equipment and other similar and/or related items. It should be made very clear in the contract that this is an agreement between an owner and a hired management company and that it is not a leasehold contract. The owner supplies the hotel (i.e. the building, furnishings, decoration, equipment and working capital) and is financially and legally liable for the business. The management company agrees to run the hotel, paying all expenses on behalf of the owner. It retains a commission from the revenue it makes, handing over the surplus to the owner.

On many occasions, management contracts are subscribed to when a brand new hotel is built (or even prior to its construction). In this way, the company running the hotel can offer advice and guidance on important aspects like the location, financing and design of the hotel, the negotiation of licences for shops in the hotel building, the organization of pre-opening activities and the selection, hiring and training of staff (Martorell, 2006).

This capital can be paid in various different ways. The management company can be asked to pay the pre-opening costs and/or to supply the initial working capital required, and this might even be extended to include the cost of furnishings and/or complementary items and/or equipment. Some financial contributions may take the form of a strategic alliance between the owner and the management company, where both supply a certain amount of cash and sign a joint mortgage on the property.

The payment system for management contracts tends to consist of a basic type of fee and profit-related ones (Witt, 1995). This has led to the development of three general payment systems: a basic fee (a percentage of the hotel's total turnover), a basic fee and an incentive fee (a percentage of the GOP), and a basic or incentive fee, depending on the higher of the two.

2.3. Hotel Ownership and Leaseholds.

Ownership means the total or partial acquisition of a hotel. Its main advantage is the fact that the owner or owners retain the hotel's entire profits. However, due to the high level of financial assets that are needed for this growth strategy, it is almost unviable in the case of hotel chains the size of United States' ones, for instance, where Wyndham Worldwide alone has more hotel beds than an entire country with a big tourism industry like Spain.

A leasehold contract entails renting a hotel for a period of time that is normally never less than three years, subject to automatic renewals. In the case of the hotel industry, the object of the contract is the leasehold of the business itself rather than the actual hotel, including all its belongings, fittings and fixtures and equipment. Normally the leaseholder is a hotel group, and so the leasehold tends to involve the use of the said chain's corporate image and production process. Annual amortization fees are usually paid by the lessor, and the latter is also responsible for maintaining and keeping the building in optimum condition.

As for the financial remuneration paid by the leaseholder to the lessor, several forms of payment are possible but the most common examples are the payment of a fixed yearly sum, which is reviewed annually in accordance with certain conditions, normally the price index; a percentage payment of the hotel revenue (about 5%); a percentage payment of the cash flow generated (about 15%); or either of the last two systems combined with a fixed sum of money.

At the lessor’s instigation, it is customary for an agreement to be made whereby the leaseholder pays a fixed yearly sum to cover any replacement costs for the hotel’s different services. Consequently, an initial inventory is usually made of all the belongings, fixtures and fittings that are leased, with a view to the settlement of any possible future disputes.

The hotel owner is entitled to inspect the property in order to check the condition in which the facilities have been kept. Once the contract has expired, the hotel chain must return the buildings, fixtures and fittings to the owner in the same state they were in at the beginning of the contract. The hotel chain usually pays for any repairs needed to keep the buildings, fixtures and fittings in good repair during the period in which the contract remains in force, although generally speaking it is not responsible for any repairs of an extraordinary nature.

We should add that a hotel chain acting as leaseholder might decide to subscribe to a management contract with another chain without necessarily having to obtain the hotel owner’s consent, if these are the conditions stipulated in the leasehold contract.

3. METHODOLOGY

A two-step methodology was used in this study. Firstly, an analysis was performed using the cut-off point method in order to determine the number of hotel chains that were necessary to achieve the first and second goals of this paper. (That is, to analyse whether growth models that do not involve capital-based transactions have become the most widely used growth strategies by hotel chains and to ascertain where leading chains that use this type of system are from).

This method has been widely applied in research into the business sector and it consists of ordering companies from the largest down to the smallest. Businesses are added until the sample covers at least 75% of the total market (Kuhn and Fankhauser, 1996). In this study, 35 hotel chains were included, covering 75% of the rooms operated by the world's TOP 300 hotel chains with the biggest room portfolios. The number of rooms controlled by the TOP 35 comes to a total of 4,990,918 rooms. That is, more than 30% of the world hotel supply (Johnson and Vanetti, 2005).

Secondly, a cluster analysis was performed to determine the number of hotel chains that should be analysed to achieve our third goal. That is, to pinpoint links between growth strategies and the returns obtained by hotel chains.

As can be inferred from databases or specialist journals like "Hotels", which publishes an annual list, 300 hotel chains control about 6.6 million rooms worldwide (Hotels, 2005). "Hotels" (2005) was the chosen source of data for the study. A cluster analysis is helpful in identifying segments because individuals (hotels) can be grouped into different clusters based on a given set of variables or similar characteristics, using a centroid model to define the whole group by minimizing the distance between the centre of the cluster and each individual via the k-means algorithm. From this analysis, we can conclude that the TOP 8 hotel chains have a very different behaviour from the other 292.

The global room portfolio controlled by these 8 companies amounts to 3,590,777 rooms. That is, about 22% of the world supply (Johnson and Vanetti, 2005). These 8 companies are sufficient to achieve our first goal, since this figure is similar to those cited in other research studies of the hotel sector, like the study by Johnson and Vanetti (2005) which is based on companies that account for a total of 3,987,595 rooms.

In their study, Johnson and Vanetti (2005) also conclude that to compete successfully in the broader hotel market, a minimum of at least 100,000 rooms is needed: a figure that all members of the world's TOP 8 easily surpass.

In the case of both the cluster and cut-off point analyses, data relating to the hotel chains was taken from their websites (10-K Annual Reports).

4. HOTEL CHAINS AND GROWTH STRATEGIES. AN ANALYSIS OF THE TOP 35 AND TOP 8

Table 1 shows the nationalities and growth strategies used by the world's TOP 35 hotel chains with the biggest room portfolios.

As can be seen from Table 1, the franchise system is the most common growth strategy used by the world's TOP 35 hotel chains with the biggest room portfolios, accounting for 60% of all rooms operated by these leaders. This is followed by management contracts, which account for 20% of the TOP 35's joint room portfolio. The remaining systems only account for a small share of the total room portfolio, just 20% of all the rooms operated by the TOP 35.

Hotel chains from the TOP 8 run over 80% of all the rooms from the TOP 35 that are operated under franchises. Something similar also occurs with management contracts, although in this case the percentage is 69%.

Growth strategies that involve capital-based transactions are the ones preferred by hotels in the second half of the TOP 35. This explains the huge difference in size between the portfolios of hotel chains in the second half of the TOP 35 and those in the first half. Indeed InterContinental Hotels' room portfolio is equal to over 75% of all the rooms jointly operated by all the chains in the second half of the TOP 35.

The franchise system has been used by 27 of the 35 chains that make up the TOP 35, while management contracts have only been used by 24 of them. However, only 4 of the world's 35 biggest chains have not included the franchise or management system in their growth strategies.

If we only focus on hotel chains from the world's TOP 8 with the biggest room portfolios, we can see that the franchise system continues to be the main growth strategy that is used, accounting for 68% of all the rooms they run. Management contracts represent 19.50% of all the rooms operated by the TOP 8, and this percentage has gone up in recent years. The remaining growth strategies account for 12.50% of the rooms run by the world's TOP 8. In contrast with management contracts, these systems have become less prevalent in recent years.

It is important to point out that franchises have been used as a growth strategy by all the hotel chains that make up the world's TOP 8. Something similar has occurred with management contracts, which have been used by five hotel chains. That is to say, all the chains in the TOP 8 except for the pure franchisors (Wyndham Corporation, Choice Hotels International and Bestwestern International). In contrast, ownership and leaseholds have only been used as strategies by 4 hotel chains (Intercontinental Hotels, Hilton Hotels, Accor and Starwood Hotels). Moreover, with the exception of the French chain Accor, these systems account for an insignificant part of their total room portfolio.

5. GROWTH STRATEGIES VERSUS NATIONALITY

From Table 1 it can be seen that there is a direct proportional link between the growth strategy that is used by a hotel chain and its evolution in the ranks of the top hotel chains. The world’s largest companies are also the world’s biggest franchisors. This means that US and British chains are the ones that head the list of the hotel chains with the largest room portfolios.

Only 10 countries are present in the TOP 35. The country that is most heavily represented is the United Status, accounting for 18 of the 35 chains, followed at a considerable distance by Spain with 5 chains. Within the TOP 35, only the United States, Spanish, British and French have more than one chain.

The big differences in nationality in the TOP 35 begin from halfway up the list. In fact, 10 of the world’s 15 biggest hotel chains are from the United States, whilst in the last 20 chains that make up the TOP 35 we can find 9 different nationalities.

If we analyse the nationalities of the world’s TOP 8, we can see that 6 of the chains are from the United States, while the other two are British and French.

Table 3 also confirms statements made by Altinay (2005), since most of the rooms in the TOP 35 that are run under franchises are operated by hotel chains based in the United States and the UK, while few rooms are run under franchises by the remaining hotel chains. In fact, the 18 United States’ hotel chains that form part of the TOP 35 run 70% of all the rooms they operate under franchises. The 3 UK hotel chains that form part of the

TOP 35 run 73% of all their rooms under franchises, while the remaining chains in the TOP 35 run just 23% of them under this system.

The remaining European chains clearly go for growth strategies that involve capital investment, because these strategies account for 52% of all the rooms they operate.

Asiatic chains use investment-based strategies to an even greater extent. In this case, 76% of the rooms they operate are run under these systems.

6. LINKS BETWEEN HOTEL CHAIN GROWTH STRATEGIES AND THE RETURNS THEY MAKE

Table 2 shows the growth strategies used by the world's TOP 8 chains with the biggest room portfolios in 2006.

From the above table, it can be seen that growth strategies that do not involve capital investment are the ones most widely used by the world's TOP 8. More specifically, these systems account for 88% of all the rooms run by the TOP 8.

This trend in the growth strategies used by hotel chains is repeated year after year. Indeed, in early 2002, franchises already accounted for 69% of the total rooms run by the TOP 8. Management contracts and other strategies accounted for 18% and 13% of their joint room portfolio. Consequently, it can be seen that the trend is to reduce systems involving capital-based transactions in favour of ones that do not involve capital investment, particularly management contracts.

Table 3 shows the profit and loss accounts of the hotel chains in the world TOP 8. As mentioned previously, these profit and loss accounts have been filtered so that they only reflect information relating to the hotel divisions and not the holdings of the companies to which these divisions belong.

An analysis of their turnovers

The hotel chains' turnovers are not directly associated with the total number of rooms they run, although these turnovers do depend on the growth strategy that is chosen. Thus hotel chains that include ownership and leaseholds in their growth strategies have a higher turnover than chains that do not use them. This is because with these systems the owner does not share the hotel income with other partners, whereas with franchises and management contracts the hotel chain just receives a percentage of the hotel sales and GOP.

The hotel chains' turnovers are also directly proportional to the RevPars of the hotels' corresponding brand names. Hilton Hotels Corporation, which has a smaller portfolio of rooms run under the ownership and leasehold systems than Accor, has a higher turnover than the latter due to the high RevPars that its brand names reap.

An analysis of their gross profit margins (GOP/Sales)

Hotel chains whose growth strategies do not involve capital-based transactions obtain the highest gross profit margins. This is not because they have higher GOPs but because of the low operating costs that franchises and management contracts represent compared with the turnover they generate.

Chains that opt for management contracts have higher gross profit margins than pure franchisors. This is because of the incentive fees, which generate a margin of 98% of the turnover.

An analysis of their net profit margins (PBTI/Sales)

As with their gross profit margins, hotel chains whose growth strategies do not involve capital investment are the ones that obtain the highest net profit margins.

Increasingly high differences can be observed in the net profit margins and gross profit margins of chains that opt for management contracts or franchises compared with those that include ownership and leaseholds in their strategies. This is because the depreciation that is recorded is relatively unimportant compared with the hotel chains' turnovers since these chains do not own hotels. This means that the PBTI does not drop in percentage in relation to the GOP. Quite the opposite occurs with hotel chains that use growth strategies based on capital investment.

An analysis of their turnover ratios (PBT/Sales)

Chains that opt for franchises and management contracts have higher turnover ratios than chains with a higher percentage of rooms that are either owned or run under leaseholds. This is due to the fact that, because the former do not own the hotels, they have few financial burdens in relation to the turnover they make.

An analysis of their returns on investment (PBTI/Assets)

The hotel chains' return on investment is inversely proportional to the percentage of rooms that they own or run under leaseholds. This is not because chains that do not go in for ownership or leaseholds obtain better PBTIs than the other chains under analysis but because they have far fewer assets.

Hotel chains that only use growth strategies where no capital-based transactions are involved have two or three-figure ROIs. In contrast, other chains that include capital-based transactions in their growth strategies only obtain one-figure ROIs.

The ROIs of chains that avoid equity-based transactions are the result of very high net profit margins and impressive asset turnover rates. To give an example, Marriott International's ROI (108%) is the outcome of an asset turnover rate of 192% and a net profit margin of 56%.

An analysis of their returns on equity (PBT/own resources)

The ROEs of chains that opt for franchises and management contracts are higher than those that include ownership and leaseholds in their growth strategies. In this case, these chains' ROEs cannot just be explained by the fact that they have a lower volume of owned resources but because they also have high PBTs, since, within the profit and loss account, they have relatively low operating costs, depreciation and financial expenses. This means that the PBT does not drop in relation to the chain's turnover.

Hotel chains that only use growth strategies where no capital investment is involved obtain three-figure ROEs, while the remaining chains only have two-figure ROEs, with the exception of the French firm Accor which only achieves a 7% ROE.

All the chains in the TOP 8 have a higher ROE than ROI. This is explained by these chains' excellent financial leverage. Even Best Western International, with a 4.71% ROI, has a positive financial leverage.

Marriott International heads the TOP 8 for all the concepts analysed here except for the ROE, where Wyndham Worldwide tops the list. This is because Wyndham Worldwide has excellent financial leverage since its own resources only account for a minor part of its liabilities.

7. CONCLUSIONS

In this paper we have met the three goals that we proposed at the beginning. Firstly, we have demonstrated that growth strategies that do not entail capital investment (that is franchises and management contracts) are the most widely used strategies by the TOP 35 hotel chains.

Secondly, we have shown that US and British chains from the TOP 35 lead the world hotel industry, since they are the prime exponents of strategies based on non-equity transactions.

Lastly, we have demonstrated that the different growth strategies that are used by the hotel chains lead to very different results and returns. The best are achieved by hotel chains whose growth strategies do not involve capital investment. The results of this paper show that franchises and management contracts provide much higher returns than those that revolve around capital-based transactions.

Because systems that are not based on capital investment provide much higher returns than the other growth strategies, many hotel chains are currently trying to separate hotel ownership from the running of the hotel business, particularly since shareholders have begun to show a greater interest in investing in chains with a high earning capacity (Dockery and Taylor, 2000).

Of all the growth strategies, ownership is the slowest, least profitable and riskiest, both operationally and financially. At the same time, due to the high volume of financial resources that are needed, ownership is practically unviable for hotel chains the size of United States ones.

Management contracts and franchises involve lower investment risks and a lower cyclical business risk in comparison with ownership. Indeed, in this last case, if the hotel has had a bad season with low occupancy rates, should losses be made it is the owner who is liable. In contrast, with franchise or management contracts, even if the season is a bad one, the company running the hotel or the franchisor will still make a profit because, with the fee system, they receive a fixed percentage based on room numbers and another fixed fee based on the hotel turnover.

The hotel chains' turnover is directly proportional to the ownership or leasehold component of their portfolios. In fact, the companies that combine ownership with other systems, like InterContinental Hotels, Accor, Hilton Hotels and Starwood Hotels & Resorts Worldwide, have a higher turnover than pure franchisors or management companies such as Wyndham Worldwide, Choice Hotels International and Marriott International. This is because, when a chain owns hotels, it does not have to share the earnings with other associates. On the other hand, with management contracts or franchises, the chain only earns a percentage of the hotel turnover.

There is a proportionally inverse relationship between margin and property ratios. The company with the lowest profit margin on sales (GOP/Sales) is Accor (15.5%), the company with the highest percentage of owned property.

Growth strategies that do not involve capital shareholdings, based on franchising and management contracts, are the only means of reaching the required size for effective economies of scale and scope (Contractor and Kundu, 1998b). In perceived risky environments, contractual arrangements are extremely attractive, as the high capital costs associated with hotel property development are thus borne by the real estate companies, although there may be a requirement for a minority equity stake so as to gain the contract in the first place.

As systems that involve capital-based transactions account for a larger share of a hotel chain's room portfolio, so the number of rooms that they operate decreases. Thus US and British hotel groups are the ones that occupy the top positions in the world ranks of the hotels with the biggest room portfolios, because these chains are the maximum exponents of strategies that do not entail capital-based transactions. Indeed, over 80% of all the rooms run by these chains are operated in this way. The remaining European and Asian chains contrast with the latter, since most of their room portfolios are run under systems that involve capital investment.

In the light of all this, European and Asiatic hotel chains should increase the number of hotels that they run under franchises if they wish to achieve the growth rates and profit levels that US and UK hotel chains are seeing while also improving their competitive edge within the hotel industry. The franchise system also involves a lower investment risk (Elango and Fried, 1997).

European hotel chains are currently starting to change the growth strategies they use and take more of an interest in ones that do not involve capital-based transactions. For example, the French chain Accor is carrying out a programme of disinvestment in which it plans to get rid of nearly 1,000 of the hotels it owns. Another example is the Mallorcan chain Barceló Hotels & Resorts, a chain that has recently recognized that it is impossible to continue expanding by purchasing more and more hotels.

This paper has helped to demonstrate that US and British chains have become the world’s biggest, most profitable hotels. This has mainly been achieved by using growth strategies that do not entail capital-based transaction. This, in turn, has allowed them to achieve far higher returns than hotel chains that do use systems based on equity transactions.

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Table 1. Headquarters and growths strategies of the TOP 35. Year 2005.

	Rooms			
Hotel Chain	**Franchises**	**Management contracts**	**Other**	**Total**
InterContinental	75%	23%	3%	537,533
Wyndham	100%	-	-	532,284
Marriott	46%	54%	-	499,165
Hilton	62%	21%	18%	485,356
Choice	100%	-	-	481,131
Accor	19%	20%	61%	475,433
Best Western*	100%	-	-	315,875
Starwood	34%	46%	20%	264,000
Carlson	96%	4%	-	147,129
Global Hyatt	63%	8%	29%	134,296
TUI	5%	37%	57%	82,422
Sol Meliá	11%	44%	45%	81,282
Extended Stay	60%	25%	15%	74,936
Interstate	5%	95%	1%	68,946
Société du Louvre	68%	29%	3%	55,538
Westmont	57%	43%	-	55,000
MGM Mirage	-	-	100%	47,921
Golden Tulip	75%	25%	-	47,661
La Quinta	30%	-	70%	46,739
Rezidor SAS	34%	43%	23%	45,000

	Rooms			
Hotel Chain	**Franchises**	**Management contracts**	**Other**	**Total**
Hospitality Properties	-	-	100%	42,376
Jin Jiang	-	40%	60%	41,130
Harrash's	-	33%	67%	40,285
Vantage	100%	-	-	37,939
NH Hoteles	14%	-	86%	38,054
Walt Disney	-	-	100%	36,990
Riu Hoteles	6%	31%	63%	37,052
Club Mediterraneé	-	21%	79%	36,000
Fairmont	55%	21%	24%	33,768
Barceló Hotels	1%	46%	53%	30,035
Whitbread	100%	-	-	30,000
Iberostar Hotels	5%	49%	46%	28,238
Prince Hotels	-	-	100%	27,715
Millennium	14%	27%	60%	27,369
Columbia Sussex	39%	34%	26%	26,320
	TOTAL	**TOTAL**	**TOTAL**	**TOTAL**
	3,001,388	**1,014,176**	**975.354**	**4,990,918**

**Best Western International is a hotel consortium that functions like a low-cost franchise operation.*

Source: *Own, based on the websites of the TOP 35.*

Table 2. The TOP 8's growth strategies in terms of rooms in 2006.

	Rooms on December 31st 2006			
Hotel chain/Growth strategy	**Franchises**	**Management Contracts**	**Others**	**Total**
Intercontinental Hotels	422,572	125,214	8,460	556,246
Wyndham Worldwide	527,700	-	-	527,700
Marriott International	243,334	270,498	-	513,832
Hilton Hotels	306,660	97,536	97,282	501,478
Accor	98,254	102,160	286,098	486,512
Choice Hotels	437,385	-	-	437,385
Best Western	316,095	-	-	316,095
Starwood Hotels	95,800	142,000	34,700	272,500

Source: *Own, based on the websites of the world TOP 8*

Table 3. Profit and loss accounts of the TOP 8 (sales in millions of $) in 2006.

Hotel chain/Profit & loss account	SALES	GOP	PBTI*	PBT	ROI	ROE
InterContinental Hotels	1,881.6	24%	17%	23%	9%	32%
Wyndham Worldwide	661.0	31%	27%	14%	13%	466%
Marriott International	2,801.0	56%	56%	55%	108%	248%
Hilton Hotels	8,219.0	21%	16%	10%	8%	22%
Accor	7,107.1	16%	9%	8%	5%	10%
Choice Hotels	544.6	55%	53%	44%	96%	412%
Best Western	146.6	5%	2%	2%	5%	26%
Starwood Hotels	5,979.0	19%	14%	11%	9%	23%

**Profit before tax and interest*

Source: *Own, based on the websites of the world TOP 8*

CHAPTER 3

VALUING GROWTH STRATEGY MANAGEMENT BY HOTEL CHAINS BASED ON THE REAL OPTIONS APPROACH

Valuing growth strategy management by hotel chains based on the real options approach

Abstract: This paper proposes a method for valuing of growth strategies by hotel chains, especially when the investment project involves a high degree of uncertainty. To do this, firstly the opportunity risks that are inherent in this type of investment project have to be defined and the shadow options ascertained. The second step is to describe the strategies available to hotel chains and the combinations of real options that they have implemented. The third step is to propose an investment strategy valuation method that will enable us to select the strategy that maximizes the value of the company. The most important contribution of this paper is the fact that it highlights the problem that failure to recognize the real options inherent in hotel investment strategies where uncertainty is involved will lead to under-valuation. Whilethe recognition of options that are not key factors (over recognition) can be misleading. This emphasizes the importance of only recognizing options that are keys to the investment project.

Keywords: Real options approach, growth strategies, hotel chains and uncertainty**.**

1. INTRODUCTION

As Dunning and Kundu (1995, p. 108) state, in their article that highlights the factors that are responsible for the fast-moving internationalization of multinational hotel chains, “demand and supply driven factors have led to the growing internationalization of service firms”. Their primary conclusion is that “it is not always necessary to own a foreign entity in order to capture the economic rent on the resources and capabilities transferred to it”. In other words, foreign direct investment (FDI) is one means of international growth, but there are others. In fact, in the case of hotel chains the most noteworthy growth strategies in recent years have been franchises, management contracts, leaseholds, hotel ownership and even joint ventures (Martorell, 2002; Okumus, 2004). That is to say, FDI has been just one means of internationalization for the hotel sector. Nevertheless, franchises and management contracts allow top hotel chains to expand faster and to a greater extent, primarily because these systems are more flexible. Flexibility is a very important factor in international investment projects. Thus multinationals need to assess how to penetrate new markets when a significant level of uncertainty is involved. This means that one must find a suitable valuation method for these strategies, taking into account the opportunity risk that each investment strategy entails.

The classic project valuation approach is based on the net present value (NPV) (or internal rate of return, IRR) (Brealey and Myers, 1991).With this approach, investment projects are priced using the static discounted cash flows (DCF) that the investment project is expected to generate, minus the initial investment capital. This involves discounting the expected cash flows at a discount rate which is set to reflect the project's perceived risk. According to Herath, Jahera and Park (2001), there are three basic limitations to the static DCF approach when applied to an environment of uncertainty: a) setting the right discount rate for the project so that the most appropriate risk premium for the project's level of uncertainty can be considered; b) the static DCF approach ignores the flexibility of being able to change your mind when further information is acquired (this is the implicit assumption of managerial inflexibility); c) they are passive methods, because if the NPV is positive, it is thought to mean that the project should go ahead, with no consideration for the fact that postponing the project might yield better results. In other words, it offers a static vision of the project.

Thus the classic approach regards investment projects involving real assets as bond-type investments, where the cash flows and discount rate are known ahead of time. This assumption is somewhat astounding, because investments of such characteristics with real assets are virtually non-existent and even harder to find in the case of investment projects characterized by uncertainty, due to the high volatility of the project's value in such cases. Moreover, with this classic approach, cash flows are estimated under the assumption that they have a symmetrical distribution. In other words, they follow a predetermined process, regardless of real developments (Luehrman, 1998). Therefore no flexibility is taken into consideration. Due to these drawbacks, other approaches have been developed such as contingent claims analyses (CCA) or dynamic programming. Both lead to the same results and both are analyses of financial options applied to real options (Meier et al, 2001).

The definition of a real option arose from Myers (1977) when he related the concept of a financial option to a real option. With real options, the options involve “real” assets as opposed to financial ones. Having a real option means being faced with the possibility, for a certain period of time, of either choosing to make an investment decision or to reject it, without binding oneself upfront (Carlsson and Fullér, 2003). That is to say, a real option is a decision that creates the right, but not the obligation, to pursue a future decision (McGrath, 1997) (a growth option or option to defer, expand, enter into a contract, abandon, shut down, restart, etc.) at a pre-established cost (strike price) during a certain period of time (timing) (Mascareñas et al, 2004). Options pricing technology determines the theoretical value of an option, with approaches based on different markets, stock price behaviour and the individual preferences hypothesis. In order to provide an analytical solution, the most important theories are based on the principles of replication and arbitrage, which can be applied when the dynamics of the underlying asset takes certain forms (see for example Black and Scholes, 1973). While the replication theory gives a consistent value for the option, arbitrage guarantees that the estimation of the contingent value, based on the stock value, is that of the equilibrium value (De la Fuente, 1999). The simplest theory is based on the general multiplicative binomial option pricing approach to fluctuations in stock prices, popularized by Cox, Ross and Rubinstein (1979).

The ROA (Real options approach) considers that cash flows can have a skew distribution; once an investment project is underway, the manager can change his mind (active management). In other words, this dynamic method takes into account managerial flexibility, evaluating the opportunities of an investment project (Herath, Jahera and Park, 2001; and

Herath and Park, 1999), Kensinger (1987, p. 31) refers to this type of management as “built-in manageability”. The ROA allows these management rules to be assessed (Kensinger, 1987; Trigeorgis and Mason, 1987; Edelson, 1994 and Trigeorgis, 1996). Nevertheless, the real options approach should not be construed as a substitute for the classic approach. In fact, the NPV should be used to assess investment projects with simple business structures and unsophisticated projects entailing unchanging environments, whereas the ROA should be used in decisions based on the value of additional information (Miller and Park, 2002). In the case of the internationalization of hotel chains, uncertainty is an important factor, making it all the more appropriate to use the real options approach.

The classic approach ignores the real options (flexibility) of an investment project and it can lead to under-valuation. Nevertheless the ROA can over-estimate the number of real options, implying: a) a more complex valuation, without it offering any more information; and b) a higher cost. Undertaking a multi-stage project will always be more costly than a single-stage one (Kort, Murto and Pawlina, 2004; and Grenadier and Weiss, 1997). In other words, there is a trade-off between flexibility (which implies that it is better to carry out the investment project gradually) and the cost of the project (it is less expensive to undertake a single-stage investment project). From this standpoint, valuations should take this trade-off into consideration so that the results fall more in line with reality. In this paper we focus on an analysis of alternative investment strategies applied to the hotel industry, considering that more flexible strategies involve higher investment costs or lower cash flows.

Barnett (2005) groups the use of real options into three types:

a) Individual options, in which it is considered that each type of real option adds value by increasing the number of workable alternatives available to management (Myers and Majd, 1990, Majd and Pindyck, 1987 and Trigeorgis and Mason, 1987)

b) Multiple interactive options. These options, although derived from a single independent project, may interact in complicated ways, therefore affecting the amount of managerial flexibility and total value created by the project (Brennan and Schwartz, 1985; Trigeorgis, 1991, 1993 and 1996)

c) Strategy as a real options portfolio. Recent literature on real options has moved beyond the valuation of independent projects into promoting real options analysis as a normative framework for corporate strategy. Bowman and Hurry (1993, p. 777) argued that the option lens offers a distinctive view of organizational strategy. In fact, Amram and Kulatilaka (1999) state that the ROA helps managers to implement corporate strategies. Furthermore, Son and Trigeorgis (1995) acknowledge that once investment opportunities have been appropriately considered as a set of real options, strategic planning can be explained as the involvement, creation and management (in other words, optimal exercising) of a real options portfolio associated with a set of current and future investment opportunities.

Real options valuation represents a bridge between strategy and finance (Amram and Kulatilaka, 1999a) and “a business strategy is much more like a series of options than a series of static cash flows” (Luehrman, 1998, p. 90). Managers can make decisions as a sequence, so they can optimize their choices according to the circumstances. Yet the costs of paying attention to real options needs to be considered, as otherwise the company might be tempted to over-invest (Barnett, 2005). When choosing a growth strategy for a company the only real options to be maintained are those that the company intends to exercise (providing they show favourable progress), because the more real options a company has, the greater its flexibility, yet the lower the probability that each option needs due attention.

Compound options are the most appropriate real options valuation technology for valuing strategies. Compound options are highly complex to price, because when both options reduce the negative ends (puts) or both increase the positive ends (calls), their value is non-additive (Trigeorgis, 1993). The log-transformed binomial lattice approach proposed by Trigeorgis (1991) is the best approach for valuing compound options because it allows risk-adjusted probabilities to be replaced by risk-neutral probabilities and permits the use of the *hedging* argument in a short amount of time (see Appendix 1).

In this paper we propose this method to analyse the growth strategies of hotels chains, and we propose a model for valuing the growth strategies followed by the hotel industry in recent years (Martorell, 2002) using the ROA to identify which strategy (seen as a real options portfolio) maximizes the value of the hotel company, given the different opportunities that it is presented with. To do so, we will follow Benaroch's methodology (2001), which states that first the investment project and its risk profile need to be defined, and secondly it is important to determine which shadow options are worth recognizing in order to identify investment-structuring alternatives. Finally, the strategic option that maximizes the value of the strategy is chosen.

2. HOTEL CHAIN GROWTH STRATEGIES

In today's business environment, crucial factors in an organization's success are adaptability and ability to manage at the speed of change, which in turn require creativity and innovation (Carr and Johansson, 1995). Creativity and using creativity to support innovation are vital factors in long-term corporate success (Wong and Pang, 2003). Firms that distribute the same products and services in the same ways will not survive for long, especially in the growing global economy, which continually emphasizes creativity (Gautschi, 2001). As a result, executives responsible for hotel planning, management and operations need now to be more creative and innovative than ever before.

As González and León (2001) remark, hotels involve substantial investment into physical infrastructure. The hotel industry is competitive and based on growth strategies (Go et al, 1990), but hotels chains can expand in several ways, not only in real state. According to Martorell (2002) and Martorell and Mulet (2003), the growth strategies of the top 10 hotel chains are based on: a) *market penetration*, which consists of incorporating new hotels of the same type as those already owned by the chain, geared towards the same customers; b) *vertical integration*, either forwards (the acquisition of travel agencies or tour operators) or backwards (the acquisition of supplier companies); c) *horizontal diversification* (incorporating new businesses with different features from those of the chain's existing ones), whether related (the acquisition of business activities connected with the tourist industry) or unrelated (when the new business activity is not connected with the tourist industry); and d) *internationalization*.

Top hotel chains have used franchises, management contracts, ownership, leaseholds, mergers and acquisitions, joint ventures and any combination of the latter as growth strategies (Martorell, 2002). For the purposes of our study, we will group these strategies into cooperative strategies (franchises, management contracts, joint ventures and leaseholds) and non-cooperative strategies (ownership, mergers and acquisitions) (Andreu, 2005). Martorell (2002) concludes that cooperative strategies allow for greater growth, given their flexibility, and he observes that leading hotel chains (the top 10) have expanded by using these strategies.

To price this flexibility we propose to use the real options approach (ROA). In this section, we illustrate how the ROA works when a hotel chain invests in penetrating a new market. To do so, we use the following methodology (Benaroch, 2001): a) *define the investment project and its risk profile*. The option bundle contains several options awaiting recognition (shadow options, Bowman and Hurry, 1987). If these options are to be struck, they must first be recognized (Bowman and Hurry, 1993); b) *recognize the shadow options* and use them to identify investment strategies; c) *evaluate the different strategies* to identify the options that maximize the value of the investment project. There is a disjunction: real options alone do not maximize the value of a company but unless managers keep real options, the maximum value will not be reached through simple passive management (Barnett, 2005).

a) Defining the investment project and acknowledging risk profile

The first step is to define the investment project and ascertain the opportunity risks that are or may be involved in it. To do so, the scenario of the company in question must be examined. We will evaluate an investment project by a hotel chain consisting of the penetration of an unfamiliar market. With the classic investment project valuation approach (DCF), this information is sufficient. However for the ROA, once the investment project has been defined, the inherent opportunity risks must be evaluated, as well as the different shadow options that are available.

To do this, in this paper we use the same framework that Barnett (2005) used to estimate the value of a website as a new distribution channel. We apply this framework to a hotel chain wishing to penetrate a new market. According to Barnett (2005), an investment project can be divided into the following stages: recognition, building and operation. To carry out the three aforementioned stages, we used a Delphi analysis, performed in two stages. During the first stage, a questionnaire was sent out to experts, the results of which are shown in Table 1, in order to estimate the interquartile space. During the second stage, the different experts were sent the opinions of their colleagues so that they could reach a consensus on the results. Initially and during the first stage, the questionnaire was sent to 12 experts. Later, the number of experts was reduced to 8, since some of the results were inconsistent with those of the first analysis.

During the *recognition phase* of an investment project, when faced with a substantial risk of an organizational, competitive, or technological nature or relating to demand expectations, the most important real option is to defer.

During the *constructive phase* of an investment project, the opportunities that arise are the cooperative versus non-cooperative construction of the hotel. Cooperation is less costly, less risky, and more swiftly adaptable, requiring less organizational complexity and allowing for greater specialization. It also reduces exit barriers, implies a more reversible commitment, avoids the acquisition of unnecessary assets, and reduces the difficulties of cultural, legal and organizational integration. Nevertheless it can erode the competitive position of a hotel company, implying a loss of independence and time and financial costs, and it can lead to agency problems. Thus a more flexible cooperative constructive system is more appropriate when: there are risks relating to money, strong competition and the complexity or design of the project; the tourism-related and general regulations are unknown or complex; the environment changes substantially; or there are problems concerning the access to the destination. Leaseholds and joint ventures are also cooperative opportunities, yet they allow for greater control, making them key solutions only when the investor chain has a greater interest in control. On the other hand, a non-cooperative constructive system is the best option when there are substantial risks of an organizational nature or risks inherent in the need for specialist staff or a specialist demand.

Finally, during the *operative phase* of an investment project, the most important key opportunities are: to abandon or to shut down; and to expand the investment project. These opportunities are substitutes, so recognition of each one is essential in reactions to different future scenarios. The possibility of abandoning a hotel investment project is particularly important when there are these risks: the investment costs might be excessively high; the investment project has been badly designed; the competition is very aggressive; and the environment is highly threatening. Conversely, it is wise to take an investment to expand when there is an opportunity of an over-demand or favourable environment.

Table 1 illustrates how each opportunity risk can be addressed by the different shadow options that this kind of investment project offers.

b) Recognizing Shadow Options and Identifying Investment Strategies

When the opportunity risks have been ascertained, together with the shadow options that are available to take advantage of such opportunities, the next step is to identify alternative investment strategies. If the strategy is regarded as a real options portfolio, alternative strategies can be considered by simply combining the real options. If we are looking at a project in which the hotel chain invests in a hotel, we can consider the following strategies: *direct investment* strategy, or any of the existing *cooperative options* (a franchise, management contract, leasehold, joint venture).

A direct investment strategy implies ownership of the new hotel, which means recognition of the options to defer, expand and shut down. Conversely, cooperative strategies entail recognition of the options to defer and abandon, given their greater flexibility. Once different combinations of shadow options have been defined, different growth strategies can be established. Then, based on the data from the Delphi analysis, an investment project consisting of the access of an unfamiliar market by a hotel chain is valued. The data from the Delphi analysis gives us the value of a 3-star hotel with an average of 300 rooms, situated in the second row of buildings from the sea with a useful life of 50 years. Experts priced the hotel as having an average value of 60,000 euros per room: a price that has already been adjusted proportionally to take into account investment into communal areas of the hotel (the hall, kitchen, facilities, etc). Consequently the cost of investing in this hotel amounts to 18,000,000 euros. Given that the average pay-back period for this type of hotel is about 14.69 years (Martorell, 2002), at an discount rate of 5%, we obtained a Discounted Cash Flow (DCF) of 22,369,411 euros.

With the classic methodology, this information is sufficient and the investment project would immediately go ahead (the NPV is 4,369,411 euros). However, with the real options approach this information is insufficient because the opportunity risks have not been recognized. So, the next step is to define alternative investment strategies. A hotel investment project can be based on the following strategies:

a) *Ownership*. In this case, the project could be deferred for a period of three years. Every five years, if the future prospects looked good, the hotel could increase its size by 30% with a prior outlay of 9,000,000 € or, in the opposite case, reduce it by 30% and recover 2,160,000 €;

b) *A cooperative strategy*. In this case, the hotel chain could abandon its cooperative agreement every five years. Each cooperative growth strategy has its own set of characteristics. In all cases, when the option to abandon is recognized, it is assumed that the initial investment capital has been recovered (or its value capitalised for future moments in time). (See

Figure 1). Most joint ventures are based on a 50/50 agreement, and so the initial investment capital for this project would amount to 9,000,000 euros and the DCF would be 11,184,705 euros. In the case of a franchise, the hotel chain usually only invests 0.95% (Martorell, 2002) (171,000 euros) of the purchase price of the property, and the corresponding proportion of the DCF is 4.48% (1,002,150 euros). With a management contract, an average of 1.1% (Martorell, 2002) of the value of the property investment is needed (5,686,304 euros) and a DCF of 25.42% (30,500 €) can be expected. Finally, in the case of a leasehold, an average of 56% (Martorell, 2002) (10,080,000 euros) of the direct investment costs are made, and a DCF of 61.6% (13,779,558 euros) is expected.

Recognition of the different shadow options gives rise to different growth strategies. To price the growth strategies, we used the ROA, taking the log-transformed binomial approach (see the Appendix). To estimate the value using the proposed method, a continual discount rate of 5% was used with a volatility for the profitability of the investment project of 50%, since these are the most widely used values in most studies.

Table 2 shows the values of the options. In this table we can see that the more real options that are recognized, the greater is the flexibility, since the option value is never negative (Trigeorgis, 1993). In particular, combining the options to expand or reduce is cumulative, because the option to expand is a call option and the option to reduce is a put option. When options of the same type are combined (when both options reduce the negative ends “the puts” or both increase the positive ends “the calls”), their value is non-additive (Trigeorgis, 1993). Thus, individually the defer option adds less value than when it is combined with the option to expand.

However, when it is combined with the option to shut down, its value is lower than it is individually, given the similarities between the two.

Tables 3, 4, 5 and 6 show the values of the cooperative strategies. Since ownership represents 100% of the investment capital, we performed an options analysis using a ratio that compares the value of the real option with the invested capital, because otherwise the ownership strategy would always have results, in absolute values results that were higher than the other strategies. We can see that the option to defer is the most important in leasehold and joint venture strategies, whereas for franchise and management contracts, the option with the highest value is the option to abandon. In all cases, the value of the combined options is less than the sum of the individual options. If a strategy is based on a management contract or franchise, it is highly recommendable to recognize the option to abandon. Nevertheless, in the case of a leasehold or joint venture strategy, it is not so important to acknowledge these options.

c) Evaluating the Different Investment Strategies and Maximizing the Value of the Investment Project

Once the values of the alternative strategies have been obtained, according to Meier et al. (2001) there are two possible ways of selecting the strategies that will maximize the value of the investment project. The first model establishes a portfolio (a strategy) that maximizes the total option value. The properties of this model are: the projects within the chosen portfolio may not materialize during a given horizon; and the results tend to accept large-scale, highly volatile projects. An alternative model is to maximize the value of the whole project, which overcomes the drawbacks of the previous model, so we propose a model where the combined options give a higher value in relation to the initial investment capital, because in our hypothetical example the volatility is the same.

A comparison of the growth strategies was made, using the ratio between the option value and the initially invested capital, because in the study by Meier et al. (2001) it was shown that this is the best of the two alternatives, as already mentioned.

Analyzing Table 2, we can see that recognizing that the investment project could be deferred means that the project has a value of 9.4 million euros more than if this opportunity were not available. In the case of the option to expand, the project's value would go up by almost 62 million euros. However, the option to reduce scarcely adds any value. Obviously, the option to expand has a higher value than the option to reduce because we are talking about an optimistic scenario. The remaining options are combinations of two or three of the former ones. In some cases, the value of the joint option is greater than the sum of the corresponding individual options (as is the case of the options to defer and reduce) because they are options that complement one another, while in the case of the options to expand and reduce, the sum of the individual options gives the same result as the combined ones because they are opposing options. The information in the remaining tables (3, 4, 5 and 6) was analysed in the same way as above.

From the result of Tables 2, 3, 4, 5 and 6, we can see that the management contract strategy is the one that achieves the highest option value/invested capital ratio (13.17), followed by the ownership strategy, which obtained a ratio of 5.45. The franchise system came next with a value of 3.39, followed lastly by the leasehold and joint venture strategies with values close to 1.5.

If the ownership strategy is compared with cooperative strategies, we can see that a management contract has a flexibility value that is more than double the initial investment, in comparison with ownership. The strategy that maximizes the investment value is therefore the management contract system.

In summary, when the first and second steps are taken, alternative investment strategies are identified, and the risks of the investment project are defined together with the shadow options that can control these risks. Later on, in step three, the best investment strategy is selected by means of the real options valuation method, distinguishing key options depending on their contributions.

3. CONCLUSIONS

Hotel chain investment projects are sophisticated projects in a fast-changing environment. In summary, they entail decisions that depend on the value of additional information, so classic valuation methods are not comprehensive enough since they do not capture flexibility. In this paper we propose a methodology for valuing growth strategies by hotels chains based on the real options approach (ROA).

Acknowledging a strategy to be a real options portfolio makes it necessary to find a valuation model based on compound real options. Although the compound options approach is more complex than individual pricing, we use the log-transformed binomial lattice approach because its logical decision-tree structure shows decision makers how to make the best decision at any time under any set of circumstances. That is, *active management*.

The main contribution of this paper is the proposal of a methodology for valuing growth strategies by hotel chains. The results of the study are only intended to shed light on the international practice of decision-making on the best growth strategy for the expansion of a hotel chain.

The analysis that is performed in this paper is based on data supplied by experts. Using this data, a valuation of hotel chain growth strategies was made, based on the average type of strategy used by these chains. Consequently, the results might vary substantially depending on the initial values that are used. As a result, the best option will not always be to use management contracts as a growth strategy. Even so, the methodology that is used is useful for any valuation of this kind because it does not depend on a pre-established initial situation.

The results are therefore only aimed at shedding light on international growth decisions in Europe, the Middle East and Africa.

In this paper we present an example of how this methodology ought to be applied to a hotel chain investment project. Firstly we defined the investment project, recognizing the shadow options. With different combinations of shadow options, we defined different growth strategies for the hotel chain. Finally, we ascertained which of these allows the hotel chain to maximize the value of the investment project. The most important conclusion is the fact that if the inherent options involved in this type of investment project are ignored, it can lead the project to be substantially under-valued, so classic valuation methods can be inadequate for this type of investment project. Nevertheless, not all the project's inherent options should be acknowledged, but only those that play a key role in maximizing its value. After the strategies that maximize the value of the investment project have been selected, it is important to analyse the value of the investment project as a whole, not just the real options. In fact, in the example that is presented in this paper, we can see that cooperative strategies (which are the most flexible in terms of the option to abandon) do not always achieve a higher value than investment projects based on ownership, because this has flexibility to increase or decrease the size of the investment project. Consequently, recognizing shadow options is not always efficient, since maintaining them can be more costly than the additional value that their flexibility offers.

When hotel chains analyse new unknown destinations, they must price the flexibility that each alternative strategy offers. Sometimes, this means choosing a strategy that is not attractive when a classic approach is taken, but it can offer the company more flexibility.

Finally, the approach that is presented in this paper can be used to analyse other issues in the hotel industry, for example pricing and comparing hotel strategies aimed at diversification and non-diversification.

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Table 1. Risk factors inherent in hotel investment projects, using real options that can control them.

Risk	Options / Typical Risk Factors	Defer	Franchises	Management contracts	Leaseholds	Ownership	Mergers and Acquisitions	Joint Ventures	Abandon or shut down	Expand
Monetary (Financial)	Firm cannot afford the project, financial exposure is not acceptable.	x	x	x	x			x		
	Expected costs are not in line with projected benefits.		x	x	x			x		
	Costs are no longer in line with projected benefits.		x	x					x	
Project	Staff lacks required technical skills.				x	x	x	x		
	Project is too complex.		x	x	x			x		
	Project design is wrong.		x	x	x			x	x	
Organizational	Uncooperative internal parties.	x				x	x			
	Parties slow to adopt system.	x				x	x			
Competition	Competition act before the firm.	x	x	x	x		x	x	x	
	Response by competition could eliminate the firm's strategic advantage.	x	x	x	x		x	x	x	
Environment	Unfavourable regulations.	x	x	x	x			x	x	
	Failure to react to higher demand than expected.				x	x	x			
	Overbooking.						x		x	x
	Demand is lower than expected.	x					x		x	
	Changeable environment		x	x	x			x	x	x
Technological	The destination is impracticable with its current characteristics.	x								
	The destination may be impracticable in the future.		x	x	x			x	x	

Source: Author's own elaboration.

Table 2. All recognized option combinations with the ownership strategy (€).

Options	Value of the option combination	(Value of the option) / Investment	Defer	Expand	Shut down	Total
Defer	9.392.286.88	0.52	9.392.286.88			9.392.286.88
Expand	61.930.170.31	3.44		61.930.170.31		61.930.170.31
Shut down	0.15	0.00			0.15	0.15
Defer + Expand	98.083.866.51	5.45	36.153.696.19	88.691.579.62		124.845.275.82
Defer + Shut down	9.949.809.28	0.55	9.949.809.13		557.522.39	10.507.331.5 2
Expand + Shut down	61.930.170.46	3.44		61.930.170.31	0.15	61.930.170.46
Defer + Expand + Shut down	98.083.866.62	5.45	36.153.696.19	88.134.057.35	0.11	124.287.753.62

Source: Author's own elaboration.

Table 3. All recognized option combinations with the joint venture strategy (€).

Options	Value of the option combination	(Value of the option) / Investment	Defer	Abandon	Total
Defer	8.081.891.10	0.90	8.081.891.10		8.081.891.10
Abandon	4.974.904.58	0.53		4.974.904.58	4.974.904.58
Defer + Abandon	12.892.515.50	1.43	7.917.610.92	4.810.624.40	12.728.235.33

Source: Author's own elaboration.

Table 4. All recognized option combinations with the franchise strategy (€).

Options	Value of the option combination	(Value of the option) / Investment	Defer	Abandon	Total
Defer	135.490.48	0.80	135.490.48		135.490.48
Abandon	445.751.45	2.62		445.751.45	445.751.45
Defer + Abandon	576.408.17	3.39	130.656.72	440.917.69	571.574.41

Source: Author's own elaboration.

Table 5. All recognized option combinations with the management contract strategy (€).

Options	Value of the option combination	(Value of the option) / Investment	Defer	Abandon	Total
Defer	132.486.39	0.66	132.486.39		132.486.39
Abandon	2.529.241.49	12.55		2.529.241.49	2.529.241.49
Defer + Abandon	2.654.552.82	13.17	125.311.33	2.522.066.43	2.647.377.76

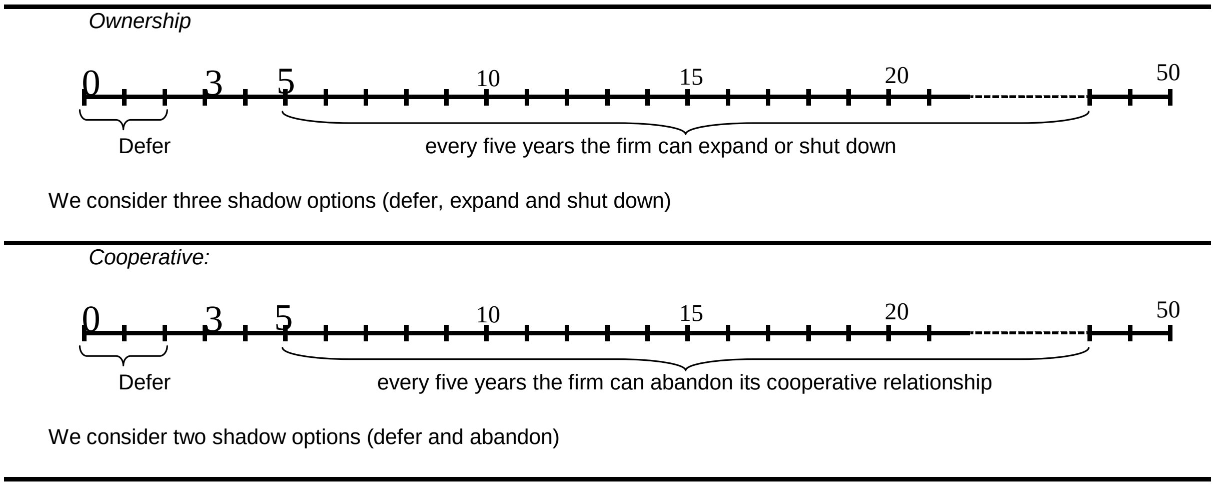
Source: Author's own elaboration.

Table 6. All recognized option combinations with the leasehold strategy (€).

Options	Value of the option combination	(Value of the option) / Investment	Defer	Abandon	Total
Defer	8.999.401.00	0.89	8.999.401.00		8.999.401.00
Abandon	6.131.072.41	0.61		6.131.072.41	6.131.072.41
Defer + Abandon	14.939.932.67	1.48	8.808.860.27	5.940.531.68	14.749.391.95

Source: Author's own elaboration.

Figure 1. Alternative investment strategies in a foreign hotel investment project.



Source: Author’s own elaboration.

APPENDIX

The log-transformed binomial approach.

We assume that the risk-neutral valuation argument is valid, and we regard the options pricing issue as a problem of numerical analysis. Given the neutrality of the risk, the value of the discounted cash flows or investment value (V) follows a geometric Brownian motion (GBM). The stochastic equation for its variation with time t is:

$$dV = rVdt + \sigma Vdz$$

where is the risk-free interest rate, σ is the constant instant typical deviation (the volatility) of the profitability of the investment project, and dz is a generalised Wiener process. Following Dixit (1993), if we define a new variable $G = \ln V$ and use the Îto lemma, we will get the following equation:

$$dG = \left(r - \frac{1}{2}\sigma^2 \right) dt + \sigma dz$$

In other words, $\ln V$ is defined by an Arithmetic Brownian Motion (ABM), and thus the expected value of the $\ln V$ variation and its variance are:

$$E[dG] = \left(r - \frac{1}{2}\sigma^2 \right) dt = \alpha dt$$

$$Var[dG] = \sigma^2 dt$$

In other words, $dG \approx N(\alpha dt, \sigma^2 dt)$. To deal with the continuous stochastic process, G. we take a log-transformed binomial lattice approach G_i^n. Thus, we define *T* as the maturity time of the option and we divide it by n equal periods of time $\left(h = \frac{T}{n} \cong \Delta t\right)$. The G_i^n process can be defined as:

$$G_{i+1}^n = \begin{cases} G_i^n + U \rightarrow up \rightarrow pr = p \\ G_i^n + D \rightarrow down \rightarrow pr = 1 - p \end{cases}$$

In order for this binomial lattice to be a good approximation of the continuous process of ln*V*, we need to make some assumptions as to the first two moments. Moreover, these restrictions are also sufficient to guarantee convergence with the partial differences equation (PDE) of Black and Sholes (see Cox, Ross and Rubinstein, 1979; and Rendelman and Bartter, 1979):

1. $Up + D(1 - p) = \mu \Delta t$
2. $U^2 p + D^2 (1 - p) = \sigma^2 \Delta t + (\mu \Delta t)^2$

Thus, risk-neutral pricing brings us to the next option value:

$$F(S_t, t) = e^{-rh} \left[pF(V_t e^U, t + h) + (1 - p) F(V_t e^D, t + h) \right]$$

Hence Cox, Ross and Rubinstein (1979) propose the following solutions for the parameters:

$$p = \frac{1}{2} + \frac{\mu}{2U} \text{. } U = \sqrt{\sigma^2 \Delta t + (\mu \Delta t)^2} \text{. } D = -U$$

Only when Δt is small enough can it be considered a good approximation.

CHAPTER 4

CHOICE OF MARKET ENTRY MODE INTO A FOREIGN MARKET. THE CASE OF BALEARIC HOTEL CHAINS IN THE CARIBBEAN REGION AND GULF OF MEXICO

Choice of Market Entry Mode into a Foreign Market. The case of Balearic Hotel Chains in the Caribbean Region and Gulf of Mexico

Abstract: One major focus of attention in studies of internationalization is the choice of entry mode into a foreign market. The region formed by the Caribbean and Gulf of Mexico is currently the top destination chosen by Balearic hotel chains in their international expansion strategies. These hotel chains can choose from among a variety of different entry modes, ranging from wholly owned hotels to strategies based on inter-company collaboration. This study attempts to pinpoint the factors that play a decisive role in the decision process of Balearic hotel chains when choosing a growth strategy for expansion into the Caribbean or Gulf of Mexico in order to ascertain whether principles associated with the transaction cost and agency theories or strategic concepts regarding companies' organizational capacity and know how can explain the growth strategy chosen by these chains in the said region. The conclusions show that to analyse the choice of entry mode, the transaction cost theory (TCT) must be modified, incorporating factors of an institutional and cultural nature. This study also facilitates a comparison of the results of this paper and the results of other similar studies of the international hotel industry.

Keywords: choice of entry mode, internationalization, syncretic theory, hotel chains, Balearic Islands, Caribbean and Gulf of Mexico, agency theory, transaction cost theory, LOGIT.

1. INTRODUCTION AND OBJECTIVES

When a company expands into a foreign market, one important decision that must be made is the choice of entry mode, choosing between equity and non-equity modes. Certain authors (like Erramilli et al, 2002) also believe that the major decision to be taken by companies when expanding into a foreign market is how to choose from among the different non-equity entry options.

Non-equity modes, defined as modes that do not entail equity investment by a foreign entrant, are becoming increasingly popular among service firms for organizing overseas ventures/operations.

Non-equity modes are especially popular among consumer-services firms (such as hotel and restaurant firms) as compared to professional-services firms (such as consulting firms) (Erramilli, 1990). Non-equity modes are essentially contractual modes, such as leasing, joint-ventures, franchising, and managements contracts (Dunning, 1988).

Although several studies have analysed this decision in the context of the manufacturing sector (e.g., Gatignon and Anderson, 1988; Kogut and Singh, 1988; Hill et al., 1990; Agarwal, 1994; Tse et al., 1997; Arora and Fosfuri, 2000; Pan and Tse, 2000), their conclusions cannot necessarily be extended to the hotel industry because literature shows that the manufacturing sector displays significant differences when compared with the service sector.

Literature focusing on the service sector (Agarwal and Ramaswami, 1992; Erramilli and Rao, 1993; Fladmoe-Lindquist and Jacque, 1995;

Erramilli, 1996; Contractor and Kundu, 1998a, 1998b; Ramón, 2002) is much less abundant than literature on the manufacturing sector. As a result, in this paper, we aim to contribute to the number of studies devoted to the former, concentrating particularly on hotel companies so that they have greater information at their disposal when choosing from among different equity and non-equity entry modes. Thus one of the objectives of this paper is to make greater theoretical headway and explore the whole gamut of different entry modes. The results show that factors relating to the host country and strategic factors concerning the company in question both influence the latter's choice of entry mode.

To analyse the subject, this paper uses the internationalization of the Balearic hotel sector in the Caribbean region and Gulf of Mexico as a context. The hotel industry is one of the maximum exponents of non-equity entry modes, since 65.4% of all multi-national hotels are run under one of these systems (Contractor and Kundu, 1998b). Balearic chains operating in the Caribbean region and Gulf of Mexico were used as a case study because over 73% of the Spanish hotel industry's hotels in the region and over 78% of their international rooms belong to companies based in the Balearics.

The main aim of this study is to identify factors that play a key role in the choice of entry mode by Balearic hotel chains when expanding internationally into the Caribbean and Gulf of Mexico. This paper therefore focuses on the hotel sector: a particularly appropriate sector when analysing choices of entry modes into international markets, since non-equity modes are just as widespread, if not more so, than equity-based ones (Contractor and Kundu, 1998a).

Once the companies’ entry modes have been ascertained (that is, whether they opt for a strategy that implies full control over operations or prefer to share investment, as is the case of a franchise or management contract), a comparison will be made between the results of this study and the results of other analyses of the international hotel trade. In keeping with other studies (Contractor and Kundu, 1998a, 2000; Ramón, 2002), a multinomial logit regression was performed with data relating to hotels run by Balearic hotel chains in the Caribbean and Gulf of Mexico.

In the following section, an analysis is made of the expansion process of Balearic hotel chains, with special reference to the Caribbean and Gulf of Mexico. Next, a description is made of the methodology and model used in this study. In continuation, the fourth section describes the hypotheses to be tested with the said model, while the fifth section outlines the results that were obtained. Lastly, the closing section summarizes the conclusions of this study that might serve as a basis for further research.

2. INTERNATIONAL EXPANSION BY BALEARIC HOTEL CHAINS: AN ANALYSIS OF THE CARIBBEAN REGION AND GULF OF MEXICO

Before analysing expansion by Balearic hotel chains into the Caribbean and Gulf of Mexico, it is important to define the terminology that is used. This paper makes a general analysis of five entry modes: franchises, management contracts, leaseholds, joint ventures, and ownership. In continuation, a general outline will be made of their salient features (García, 1989; Tse and West, 1992; Gray and Liguori, 1994; Kaufmann, 1996; Contractor and Kundu, 1998a; Olsen et al, 1998; Martorell, 2006; etc.). A hotel franchise agreement is a contractual agreement under the terms of which a hotel chain (the franchisor) grants a hotel (the franchisee) the use of its trade name, brand image, and production methods in exchange for a fee. In contrast, with a management contract, a company runs a hotel on behalf of its owner, acting as agent. The owner hires the workforce and is liable for the risks of the hotel business, including the financial risks, while the management company receives a fee in exchange for its direct services running the hotel. A hotel leasehold contract is legally not much different from a leasehold contract for any other property, since it entails an agreement under which the lessee pays the leaseholder a fixed monthly sum for the full use of one or several hotels. In contrast, a joint venture consists of an agreement via which two or more hotel companies create a new hotel, both investing in the business. Joint ventures stand out from the rest because they involve the creation of an independent company, with joint investment by both partners, in order to carry out the chosen business activities of the said firms. They invest part of their assets in this new company and are compensated by the profits that it makes. Lastly, with ownership, a hotel chain maintains full or partial possession of assets, plus control of strategic and operational aspects of the business. In this case, the chains commit themselves to heavy investment in the purchase of properties, although generally speaking there is greater clarity in policies regarding the maintenance of the property and its facilities.

By late 2007, Balearic hotel chains had a joint portfolio of 488 hotels outside Spain and over 136,000 rooms (see Table 1). Of this total number, 181 hotels and 73,500 rooms were located in the Caribbean and Gulf of Mexico. This in turn accounted for 37% of all hotels and 54% of all rooms run by the Balearic hotel sector worldwide. As a result, the region made up of the Caribbean and Gulf of Mexico has become a favourite destination for Balearic chains when expanding into foreign markets, due to the substantial experience that the Balearic hotel trade has built up in the sun and sand market, allowing them to develop a holiday product with which they are closely familiar albeit with the natural characteristics of the host destination.

As Table 1 shows, the region that saw the highest growth between 2006 and 2007 is the Caribbean and Gulf of Mexico, with the addition of a total of 11,542 rooms during this period, accounting for 79% of all growth during these two years. Expansion into this region was much higher than that of other regions, although it in no way signifies that this process of growth there has come to an end. More to the point, Balearic hoteliers plan to build or acquire another 10,000 rooms in the short term. To carry out this ambitious expansion plan, they have asked those in charge of tourism policies in the Caribbean and Gulf of Mexico for firmer tax guarantees if they are to invest in the region, because continued changes in tax policies endangers possible further investment by Balearic hoteliers.

If these projects are put into practice, Balearic hotel chains will come to run over 60% of the region's hotel rooms. Consequently, it can be seen that the world's remaining hotel chains have a very low presence in the Caribbean and Gulf of Mexico. Indeed, Spanish hotel chains already possess over 70% of the region's hotel rooms, with this percentage rising to 78% if Balearic chains carry out their expansion plans there.

Table 2 shows the countries where Balearic hotel chains were operating in 2006 and 2007. Evidently they have gradually undergone a process of internationalization and diversification over the years, positioning themselves well up the ranks in leading tourist destinations.

Mexico (where Balearic hotel companies run 26,000 rooms), the Dominican Republic (with 22,000 rooms), and Cuba (with 18,500 rooms) are the countries where Balearic hotel chains have the strongest presence. In each of these three countries, they possess a share of over 10% of the Balearic hotel sector's international portfolio. This means that these three countries have more rooms run by Balearic hotel chains than the said companies' joint room portfolio in Europe, America, Africa and Asia.

The Mayan Riviera has seen the biggest boom in growth in recent years in the Caribbean and Gulf of Mexico according to statistics by the region's Tourism Office (the Fideicomiso de Promoción Turístico). Cancún and Playa del Carmen are its top resorts, although there are also other important ones like Isla Mujeres, Cozumel and Tulum. In fact

Balearic hotel chains have built almost 50% of all the Mayan Riviera's hotel rooms, converting them into the area's top investors.

This aspect of the Balearic hotel sector's process of internationalization can be explained by its cultural links with the Caribbean and Gulf of Mexico's new tourist destinations. These links have acted as a catalyst for Balearic investment into the region. Because all the Balearic hotel companies chose the Caribbean and Gulf of Mexico as their entry point into the international market, it demonstrates that a cultural affinity plays a more important role than geographic proximity in international hotel expansion (Kogut and Sigh, 1988; Weintein, 1977; Erramilli and Rao, 1990).

With the exception of internationalization on the European continent, where Balearic chains have a strong presence due to their long experience running hotels and commercializing them through leading European tour operators, their hotels in other regions are few and far between.

3. SAMPLE AND METHODOLOGY

In this study, we take a syncretic approach to the choice of entry mode (in other words, we do not just take into account factors specific to the host country, but also factors relating to the companies wishing to penetrate these markets and corporate strategic planning and control-related factors), like that used by la de Hill el al. (1990) or Contractor (1990). This study seeks to pinpoint whether the underlying principles of the transaction cost and agency theories and strategic theories associated with a company's capacity and organizational know how can really explain the expansion methods used by Balearic chains in the Caribbean and Gulf of Mexico. Thus it does not just focus on minimizing transaction costs in transactions or the market penetration process, and neither does it just deal with the conditions of the host country (as is the case of conventional literature on market penetration).

Our analysis is based on information obtained from primary and secondary sources. The secondary information is taken from a review of literature on entry modes by international companies, particularly companies from the service sector, and the primary information was taken from a survey of each of the 10 Balearic hotel chains present in the Caribbean and Gulf of Mexico in early 2007. The survey was answered by 8 of the 10 companies, accounting for 80% of the total sample. The two companies that did not answer the survey have a low presence in the region, since the 8 chains used in our study account for 90% of the total number of hotels and 97% of all rooms run by Balearic chains in the Caribbean and Gulf of Mexico. In short, the sample that we use in this study covers a total of 139 hotels, which in turn represent 60,111 rooms.

Our empirical research was also based on a Delphi analysis, performed using executives in charge of the expansion of some of the Balearic Islands' most prestigious chains, like Sol Meliá, Barceló Hotels & Resorts, Iberostar Hotels & Resorts, and Riu Hotels. In the Delphi analysis, the executives were asked to rate the perceived importance given to certain strategic factors (analysed in continuation) when a hotel chain engages in a process of international expansion, using a scale ranging from 1 (not very important) to 5 (very important).

In line with most research on the choice of entry mode (Kogut and Singh, 1988; Agarwal and Ramaswami, 1992; Kogut and Zander, 1993; Contractor and Kundu, 1998a; Pan and Tse, 2000; Luo, 2001 etc), our dependent variable is a categorical one. Given the characteristics of the investment modes that can be used in the Caribbean, we developed a qualitative variable with three categories: M=1 if the hotel is run under a management contract, M=2 if it is run under a leasehold, and M=3 if it is run by the owner. Thus the dependent variable is a polytomous ordinal measure. The higher the variable, the higher the amount of capital invested by multi-national investors and the tighter their control over the foreign company, allowing the parent company to consolidate itself internationally.

Given the nature of the dependent variable, logistic regression (or logit) model were used to verify our hypotheses. Since there were more than two categories involved, a multinomial logit model was applied. The multinomial logit allows the explanatory variables to affect differential odds of choosing one alternative relative to another. Thus, the coefficient vector is specific to the alternative, not to the firm making the choice (Judge et al. 1985, pp. 770-772). By performing a logit analysis, we can find which of the independent variables exerts a stronger influence on the chosen entry mode. For this purpose, the Eviews and SPSS statistical software packages were used. Because all hotel chains are free to vary their choice of growth strategy, depending on the diversity of their international operations, the unit of analysis used in the model is any hotel run in the Caribbean or Gulf of Mexico.

Because almost all the hotels run by Balearic hotel chains in the Caribbean and Gulf of Mexico are analysed, a logarithmic regression was deemed appropriate. In this case, the dependent variable is a variable composed of the Neperian logarithm of the dependent variable defined for the analysis of the multinomial logit regression. With this new variable and the remaining independent variables (which will be defined subsequently), several linear regressions were performed which only serve to confirm and consolidate the results of the multinomial logit regression. These regressions (the results of which are shown in the appendix of this study) were performed maintaining the same format as that used for the multinomial logit regressions, details of which are given later.

As for the independent variables, a comprehensive vision of the choice of entry mode calls for an approach that combines transaction costs, the principles of the agency theory, and specific variables relating to the countries in question and companies, as indicated by Contractor (1990). This was corroborated by Kim and Hwang (1992), and Erramilli and Rao (1993), who used four kinds of factors in their empirical studies. Even prior to that, when studies were based on transaction costs Gatignon and Anderson (1988), specific indicators for countries were used, such as the risk per country.

4. THEORETICAL REVIEW AND THE FORMULATION OF HYPOTHESES

Three groups of independent variables were taken into consideration. The first group is associated with the country in which the hotel is located. The second group concerns corporate factors associated with the hotel chain that influence the choice of entry mode, while the third group concerns the perceived importance that executives lend to strategies and the control of certain variables that influence a hotel chain's entry mode into a foreign market.

4.1 Independent variables

4.1.1 Country-specific variables

In this case, the key question that should be asked is how country-specific variables affect the choice of entry mode. The variables in this group that were incorporated into the model are: the level of risk represented by that country, the cultural gap, the level of economic development, and existing foreign investment into the local economy.

➢ The country's level of risk (political, economic and financial). High volatility in the external environment of the host country, i.e., high country risk, has been demonstrated to promote the use of shared-control arrangements (Goodnow and Hansz, 1972; Mascarenhas, 1982; Gatignon and Anderson, 1988; Kim and Hwan, 1992; Agarwal and Ramaswami, 1992). In high-risk countries, firms must possess the necessary flexibility to shift to a different mode of operation should the original mode be rendered inefficient by unpredictable changes in the environment (Anderson and Gatignon, 1986). Integrated modes are associated with high switching costs and, as a result, are not generally recommended in these environments. Low-control modes, on the other hand, offer the necessary flexibility and are characterized by low switching costs.

Low-specificity firms find little reason to give up control in low-risk countries. However, as countries become riskier and the need for flexibility becomes more important, low-specificity firms will increasingly seek shared-control arrangements. High-Specificity firms, on the other hand, will continue to insist on full-control modes regardless of country risk. In fact, TCA argues that these firms will find control even more desirable in high-risk situations. When specificity is high, the frequent changes in the external environment provide more opportunities for suppliers, irreplaceable as they are, to shirk their obligations and to renegotiate contracts to their advantage (Gatignon and Anderson, 1988; Williamson, 1987). The resultant costs of haggling and maladaptation will further enhance the attractiveness of full-control modes in volatile environments and reduce the desire to share control. The net result is that entry-mode choice by low- and high-specificity firms can be expected to differ minimally in low-risk countries but substantially in high-risk countries.

The measure of risk that was used was obtained from Euromoney magazine and the “ICRG”. This measure is based on a risk scale where the highest risk takes a value of 100 and the lowest a value of 0. Consequently, our hypothesis is as follows

H_1: M (a dependent variable that shows increases in the level of control and shareholder involvement) is positively related with the country's political and/or economic level.

- Cultural Gap. Several studies assume that cultural differences between companies in the country of origin and companies in the host country play a decisive role in the choice of growth strategy. Indeed, empirical studies on mostly domestic acquisitions have shown that post-acquisition costs are substantial and are influenced by what Jemison and Sitkin (1986) call the organizational fit of the two firms. They define organizational fit as "the match between administrative practices, cultural practices, and personal characteristics of the target and parent firms" (Jemison and Sitkin 1986, p. 147). Sales and Mirvis (1984) document in detail the administrative conflicts following an acquisition when both firms differ strongly in their corporate cultures. Nonetheless, in existing literature no conclusive significance has been found in the exact importance of this relationship. Traditional entry-mode literature holds that firms minimize the high information costs associated with operating in culturally unfamiliar countries by seeking collaborative modes (Franko, 1976; Stopford and Wells, 1972; Johanson and Vahlne, 1977; Davidson, 1980; Gatignon and Anderson, 1988; Kought and Singh, 1988; Erramilli, 1991; Kim and Hwang, 1992; Agarwal, 1994).

On the one hand, a series of studies argue that the greater the cultural gap, the smaller the shareholding that will be held in the company and the greater the prevalence of collaborative alliances in growth strategies ceteris paribus (Stopford and Wells, 1972; Franko, 1976; Johanson and Vahlne, 1977; Kought and Singh, 1988; Erramilli, 1991; Kim and Hwang, 1992).

Others authors claim, however, that when different cultures are involved, companies prefer to expand through ownership, thus imposing their own management methods (Davidson, 1980). In an unknown environment, a company does not fully trust local management methods and will prefer to run the hotel itself (Hymer, 1976). Whatever the discrepancy in the impact of the cultural differences, the transaction cost theory suggests that the two visions are correct (Anderson and Gatignon, 1986).

The measures for uncertainty avoidance and cultural distance are derived from the work of Hofstede (1980). Hofstede found that differences in national cultures vary substantially along four dimensions. These dimensions were labelled uncertainty avoidance, individuality, tolerance of power distance, and masculinity-femininity. Hofstede created ordinal scales for countries for each of these dimensions based on a standardized factor analysis of questionnaires administered between 1968 and 1972 to 88,000 national employees in more than 40 overseas subsidiaries of a major American corporation. Bias for differences in occupational positions among subsidiaries was controlled. As the study consisted of two questionnaires separated by a four-year interval, it was possible to test for the reliability in scores over time; only questions showing a greater than .5 correlation in scores were used to derive the scales.

The indices of Hofstede can be criticized for a number of reasons, especially regarding the internal validity of the dimensions and the method of constructing the scales. Whereas the criticism has a sound basis, Hofstede’s study has some appealing attributes, namely, the size of the sample, the codification of cultural traits along a numerical index, and its emphasis on attitudes in the workplace. Our use of the indices are, furthermore, conservative, for if they are poor constructs, they are less likely to be found significant and with the a priori predicted sign.

The second hypothesis to test is as follows:

H_2: M (a dependent variable that shows increases in the level of control and shareholder involvement) is negatively associated with cultural differences between the investor country and host country.

➢ Level of economic development. According to conventional theories, one of the prerequisites for foreign investment is initial investment into public infrastructure (Graham, 1992). Dubin (1975) demonstrated that if a country where foreign direct investment (FDI) is to be made is less developed than the investor company's country of origin, it will reduce the number of acquisitions and use more flexible expansion methods. Other authors also uphold the idea that FDI is much more common in competitive markets, particularly more developed ones (Young et al., 1989). Davidson (1980) also warned that companies prefer to invest where they or their rivals have already invested. According to a study of the hotel industry by Dunning and McQueen (1981, 1982a, b) participation in the share capital of a hotel business is positively related with the level of economic development of the host company, and so the hypothesis that we have formulated is as follows:

H_3: M (a dependent variable that shows increases in the level of control and shareholder involvement) is positively related with the economic development of the place where the hotel is located.

➢ Existing foreign investment into the local economy. Certain studies (for example Teece, 1977; Caves, 1982; Reddy and Zhao, 1990) have suggested that in countries where there is higher investment into infrastructure and training centres specializing in the company's field of business, this can have a high influence on local agents' capacity to absorb know how, and so companies will tend to increase the use of non-equity growth strategies, given that these local agents are more experienced in the know-how transfer process. In contrast, the study of the hotel industry by Dunning and McQueen (1981) proposes that, holding all else constant, hotels will tend to choose a growth strategy that involves shareholder control. As a result, since our study focuses on the hotel industry, our hypothesis is as follows:

H_4: M (a dependent variable that shows increases in the level of control and shareholder involvement) is positively related with the level of foreign investment into a particular host country.

4.1.2 Structural factors of the company

Company-specific factors are associated with the concept of transaction costs, where by the transfer of specialized assets between firms is impeded by market failures, thus necessitating the expansion of the firm (in some cases across borders) in order to internalize the transfer. To the extent that the same variables influence whether to enter by foreign direct investment, licensing, or exporting, the choice of the mode of entry is jointly and simultaneously determined.

➢ The size of the company. The two most commonly used measures for assessing the size of a company are its workforce (Azofra and Martínez, 1999; Durán et Úbeda, 2002; Rialp et al., 2002; Nakos et al., 2002; Brouthers and Brouthers, 2003) and the volume of sales (Contractor and Kundu, 1998a; Campa and Guillén, 1999; Randoy and Dibrell, 2002). We have chosen the second option since it is the most widely used method in studies similar to ours (Contractor and Kundu, 1998a, 2000).

Some studies, like those of Gatignon and Anderson (1988) and Agarwal and Ramaswami (1992), indicate that strategies that involve close control over operations in newly penetrated markets are less frequent in the case of large-scale foreign investment. This argument is based on the idea that, given the scale of international operations in the hotel industry, hotel chains are forced to accept partners so as to share the high cost of investment. This tends to compel hotel chains to accept many partners, thus reducing their control over operations, leading to a greater number of non-equity operations (such as franchises). The agency theory also suggests that staff selection and staff management problems can grow at a faster rate than the size of the firm, particularly in the case of international operations (Shane, 1996a; 1996b).

Nonetheless, it should be pointed out that most studies show that as the size of a company grows, it is more likely to opt for direct investment through ownership (Argarwal and Ramaswami, 1992; Gomes-Casseres, 1989; Horst, 1972; Hymer, 1976, Stopford and Wells, 1972; Yu, 1990; Osborne, 1996, Campa and Guillén, 1999; Rialp et al., 2002; Trevino and Grosse, 2002), whilst smaller companies with more limited resources and/or skills in investing in foreign markets will prefer shared modes of control (Erramilli and Rao, 1993).

Given the substantial investment that is required in the hotel trade, we propose the following hypothesis:

H_5: There is a positive relationship between the size of the companies and M (a dependent variable that shows increases in the level of control and shareholder involvement).

- International experience. Another factor that has a substantial influence on hotel chains' penetration of a certain region is their level of international experience. For Ericksson et al. (1997), experience based on acquired know how is one of the most important factors in internationalization. In effect, this is one of the basic principles of the Uppsala model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990; Erramilli, 1991), according to which, as companies build up experience, they need less help by local agents and so it is less necessary to opt for an alliance.

Concerning the former experience, according to Welch and Luostarinen (1988), if the firm has already been involved in FDIs in several countries, the firm will have accumulated capabilities and know-how concerning such a mode of entry, which may be used in other destinations, and even allow the firm to bypass intermediate stages. In this context, those firms with higher investment abroad also possess a higher level of accumulated distinctive competencies, which allow them to overcome what Zaheer (1995) has called 'the liability of foreignness', i.e. the additional costs incurred by firms operating in foreign markets, which would not be incurred by a local firm. In this respect, Contractor and Kundu (1998a) and Randoy and Dibrell (2002) have detected a positive correlation between the scope of a firm's international operation (number of FDIs in different countries) and its degree of investment commitment.

The Internalization theory (that derives from Transaction Costs Economics) stresses the importance of firm-specific know-how when explaining the competitive advantage that MNCs (Multinational Corporation) enjoy compared to host country firms (Buckley and Casson, 1976; Rugman, 1981; Anderson and Gatignon, 1986; Hill and Kim, 1988). This theory suggests that, the more intangible the assets required for the international transaction, the higher the incentive for a firm to internalize the transaction. In this respect, if the source of a firm's competitive advantage is a know-how, then a potential transaction in the market implies a number of costs (specifying the agreement conditions, the likelihood of disclosing key knowledge, the difficulty of codifying such knowledge, etc.) which may constitute a clear incentive for FDI (Teece, 1986).

To analyze the international experience we use two independent variables. The first, IEX is the number of years since the firm set up its first foreign operation (Luo, 2001). This time-based measure, while commonly used as a surrogate for international experience, has some caveats associated with it. For instance, mere length of time in one cultural setting may not prepare a firm for expansion into another country and culture. For another thing, some firms may have expanded internationally faster than others; a time-based measure may therefore be somewhat biased in a cross-sectional study. For these reasons, a second independent variable, NCP (Number in the countries that the hotel chains have establishments) (Caves and Mehra, 1986) was introduced as an alternative measure for the extent of globalization of the firm. According to these authors, companies with hotels in a greater number of countries will prefer to invest in ways that involve higher direct investment. As a result, the following hypotheses have been formulated for testing:

H_6: M (a dependent variable that shows increases in the level of control and shareholder involvement) is directly related with the company's international experience.

H_7: M and the number of countries in which the company is present are directly related.

4.1.3 *Strategic factors and control factors of the company*

Choosing a growth strategy or entry mode should not just be dependent on the specific features of the corresponding transaction, but on the company's global (worldwide) short and mid-term strategy. This decision can be influenced by executives' perceptions of these variables. As a result, this study examines subjective data taken from surveys of Spanish hotel executives, where they rate the perceived importance lent to the following variables on a scale ranging from 1 (not very important) to 5 (very important):

- The perceived importance of economies of scale. Some literature insists that to achieve economies of scale, companies must maintain a high level of control, and so they will tend to use equity-based growth strategies. At the same time, another opposing vision insists that to achieve a worldwide presence, companies must accept numerous local partners in several different markets. If, in the hotel business, economies of scale are associated with logistics or common architectural designs and these can be shared by a network of franchise operations and local partners, transferring know how at a relatively low cost, then these economies can be achieved without direct investment into hotel ownership and even without the presence of executives from the parent company (Contractor and Kundu, 1998a). Nevertheless, it has been suggested that, in the case of the Spanish hotel sector, there is a certain cost involved in the transfer of specific know how, generated by possible market errors (Ramón, 2002). As a result, our hypothesis is as follows:

H_8: The perceived importance of the scale of a hotel's global (worldwide) operations is positively related with M (a dependent variable that shows increases in the level of control and shareholder involvement).

- The perceived strategic importance of the size of a company's global operations. To define this variable, the executives were asked to rate the importance of a company's size as a strategic variable in worldwide hotel operations. Our analysis of this variable does not clearly indicate whether companies that consider size to be strategically important tend to favour equity or non-equity growth strategies. As a result, in keeping with our previous analysis of the size variable, based on an objective measure, we propose that, in the specific case of the hotel industry, when priority is given to larger-scale global operations, hoteliers will tend to invest more direct capital in ownership, holding all else constant. Thus our hypothesis is as follows:

H_9: M (a dependent variable that shows increases in the level of control and shareholder involvement) is positively related to the perceived importance of a company's size.

- The perceived strategic importance of an international booking system and trade name or brand. In the hotel industry, a worldwide booking system and brand name are both considered to be strategic advantages, which the parent company normally owns and controls (Dunning and

McQueen, 1981). These advantages also boost the possibility of successful alliances (Contractor and Kundu, 1998a). Thus companies with well-known trade names and important booking systems tend to increase the number of franchise operations and management contracts they use. Consequently, our hypotheses are as follows:

H_{10}: The perceived importance of a booking system is negatively associated with M (a dependent variable that shows increases in the level of control and shareholder involvement).

H_{11}: The perceived importance of a brand name is negatively associated with M (a dependent variable that shows increases in the level of control and shareholder involvement).

- The perceived strategic importance of investment into training. Companies that invest heavily in training tend to choose equity-based growth strategies such as ownership, because the profits that can be reaped from staff training are better put to use under systems that guarantee stricter control (Anderson and Gatignon, 1988). Also, according to the agency theory, staff selection and management problems can grow at a faster rate than the size of a company, particularly in the case of international operations (Shane, 1996a; 1996b). For this reason, the more know how a company has, the greater the cost of transferring this know how to its partners, thus reducing the possibility of an alliance. This hypothesis was tested by Kim and Hwang (1992). Consequently:

H_{12}: The perceived strategic importance of investment into training is positively related with M.

➢ The perceived strategic importance of management controls and quality controls. To define this variable, the executives were asked to rate the perceived importance lent to management controls and quality controls. Our analysis of this variable shows that companies that do not consider it to be very important prefer to use growth strategies based on shareholder investment. Thus generally speaking, holding all else constant, the more importance that executives lend to management controls and quality controls, the more likely it is that the company will opt for a shareholder-based growth strategy. Consequently:

H_{13}: M (a dependent variable that shows increases in the level of control and shareholder involvement) is positively associated with the perceived importance lent to management controls and quality controls.

➢ The perceived strategic importance lent to diversifying operations. To define this variable, the executives were asked to rate how important it is to be able to diversify operations or, in other words, reconvert a hotel into another business (like a condo-hotel or timeshare businesses). Our analysis shows that chains that consider this variable to be very important use shareholder-based growth strategies. In general terms, holding all else constant, it can therefore be expected that the more importance that is lent to diversifying operations, the more likely it is that the company will opt for a growth strategy involving shareholder investment. Consequently:

H_{14}: M (a dependent variable that shows increases in the level of control and shareholder involvement) is positively related to the perceived importance lent to diversifying operations.

- The perceived strategic importance of a company's skill at centralizing and decentralizing its operations. To define this variable, the executives were asked to rate the perceived importance given to this skill and also to the company's facility in transferring know how relating to the hotel management process. Our analysis shows that those chains that consider this variable to be very important prefer to use non-equity growth strategies. Thus in general terms, holding all else constant, it can be expected that the more importance that is lent to a company's capacity to centralize and decentralize operations, the more likely it is for the company to choose a non-equity form of growth. Therefore:

H_{15}: M (a dependent variable that shows increases in the level of control and shareholder involvement) is negatively related to the perceived importance lent to a company's capacity to centralize and decentralize its operations.

Table 3 summarizes the independent variables that were used and the expected sign of each in the regression.

5. RESULTS

Before outlining the results of the multinomial logit analysis, a series of comments should be made. Firstly, a synthetic index was drawn up to test the assumptions concerning the qualitative variables. The synthetic index was created in order to avoid problems of multicollinearity with some of these variables. In addition, when an analysis is made of explanatory factors relating to the entry mode chosen by Balearic chains in the Caribbean and Gulf of Mexico, it must be taken into account that some of the answers by some of the hotel chains in the sample could be conditioned by what they might expect another hotel chain to answer, since they are very familiar with one another. As a result, in order to try and prevent exogenous circumstances from affecting the answers of the Delphi analysis, the synthetic index was used to neutralize biases that might occur with these variables.

This synthetic index (the results of which are shown in the appendix) groups together all the qualitative variables, with the exception of variables relating to the perceived importance of economies of scale and the perceived importance of a hotel chain's capacity to centralize and decentralize its operations. For this reason, the results have been presented in two different models. Model 1 excludes the qualitative variables that did not prove to be significant when the synthetic index was drawn up. In contrast, model 2 includes these two variables separate from the synthetic index.

Likewise two different adjustments were made, introducing 6 hotels from the sample run under leaseholds by Spanish hotel chains operating in the Caribbean and Gulf of Mexico in regression A and not including them in regression B. It is interesting to see that the obtained results were consistent in both cases, although the results of regression B must be highlighted for several reasons: firstly because the results display better values and secondly in order to compare them with the results obtained by Ramón (2002) for the Spanish hotel industry and Contractor and Kundu (1998a) for the international hotel trade.

The following table shows the results of the multinomial logit analysis. The results allow us to test the hypotheses formulated above and identify those independent variables that are most influential in Balearic hotel chains' choice of entry mode when penetrating the Caribbean and Gulf of Mexico.

All the regressions were significant ($p<0.001$) and their goodness of fit was acceptable for this type of model ($0.27<\text{Pseudos-}R^2<0.37$), confirming that the syncretic theory can be applied in the case of the Balearic hotel industry. That is, the theory that includes specific factors relating to the host country and company, plus strategic corporate planning and control-related aspects when choosing an entry mode into a foreign country. Additionally, the results of Table 4 show a high level of significance for the chi-square value. The number of cases that were correctly forecast by the models is also very high (Table 5), with a percentage of 79.4% in the case of hotels run under a management contract and 70% in the case of hotels run by the owner company for model 1 of regression A and 81% for hotels run under a management contract and 72.9% for hotels run by the owner company for model 2 of regression A. Logically, the cases that were correctly forecast for hotels run under leaseholds were very low in the case of both regressions, given the limited number of available observations for this particular growth strategy. For regression B (Table 6), 76.2% of all cases were correctly forecast for hotels run under management contracts and 72.9% for hotels run by the owner company in the case of model 1 and 79.4% for hotels run under management contracts and 78.6% for hotels run by the owner company in the case of model 2. Furthermore, 11 of the 15 variables in the model were significant. It is important to note that the results of the regression differ from those obtained by Contractor and Kundu (1998a) and Ramón (2002), mainly due to the fact that our study is directed at a very specific tourist destination, while the aforementioned studies focus on internationalization in a broader sense, since they cover all international destinations.

Interpretation of the results:

Before commenting on the results of this study, it must be taken into account that the interpretation of the results of the regression for each variable must be performed in a context in which everything else is held constant.

Country-specific factors play a very important role in Balearic hotel chains' choice of entry mode when penetrating the Caribbean and Gulf of Mexico. This is because three of the four related variables are significant. The only variable in this group that is not significant is the risk relating to the country. In the case of our study, in contrast with the results obtained by Contractor and Kundu (1998a) and Ramón (2002) where this variable was found to be significant ($p<0.05$), it is logical not to expect it to be significant since most countries in the Caribbean and Gulf of Mexico have very similar risk rates (only the Bahamas and Venezuela have higher risk rates than other countries in the region). Nonetheless, the sign of the regression is as expected and so Balearic hotel chains prefer to share control of their interests in the Caribbean and Gulf of Mexico with local agents when the risk is high, thus reducing the risk of foreign investment, as put forward in the first hypothesis (H_1) of this study.

As for the cultural gap (H_2), this variable is significant in the model ($p<0.05$), giving the expected sign. Consequently, literature that proposes that companies will tend to adopt collaborative strategies when there are more cultural differences between countries (Franko, 1976; Stopford and Wells, 1972; Kought and Singh, 1988; Erramilli, 1991; Kim and Hwang, 1992; Davidson, 1980; Stopford and Wells, Johanson and Vahlne, 1977) is confirmed in the case of the Balearic hotel sector. For the Spanish hotel trade, this variable is also significant, although its sign is different (Ramón, 2002). In the opinion of the author of this study, this is because the Spanish hotel industry aims to minimize agency costs, preferring to supervise the behaviour of its workers directly when cultural differences might induce them to behave in an opportunistic manner. With this, we do not wish to say that Balearic chains fail to bear in mind this possible behaviour, but that they prefer to accept it in exchange for a reduced investment risk.

The variable referring to the host country's level of development (measured by taking the host country's GDP) proved significant ($p<0.10$) although the sign obtained in the regressions does not coincide with that anticipated in the third hypothesis (H_3). Consequently, when the level of development of a country where foreign investment is to be made is low, Balearic hotel companies prefer to seek local partners in order to share the country's risk, leading to an abundance of non-equity agreements. Nonetheless, the coefficient that was obtained from the regression is very low (-0.001), and so although the variable is significant, its influence is only moderate.

As for the amount of foreign investment into a local economy (H_4), this variable is significant ($p<0.05$), showing the expected sign. As a result, it confirms statements about the hotel industry by Dunning and McQueen (1981), and so it is more frequent for direct investment to be found in highly competitive markets with a strong domestic industry where there is a high FDI/GDP ratio. This result coincides with that obtained for the Spanish hotel industry, although to a much greater extent in the case of Balearic hotel chains.

In contrast with country-specific factors, company-specific ones play a more limited role when hotel chains choose an entry mode into the Caribbean and Gulf of Mexico. Indeed, only the variable relating to the hotel chain's international experience is significant (the number of countries in which the company is present in those regressions that do not include qualitative variables relating to the importance of economies of scale and the importance of centralizing/decentralizing the hotel chain's operations, and international experience in the case of regressions that include the two aforementioned qualitative variables). As with the previous case, the results that were obtained in this study differ from those obtained by Contractor and Kundu (1998a), where the variables relating to the hotel chains' international experience have a high level of significance ($p<0.001$). In contrast, the said results seem to confirm those of Ramón (2002) for the Spanish hotel industry.

Although the variable relating to international experience is significant in some regressions, the sign that was obtained in the regressions does not coincide with that of the hypothesis (H_6). Nevertheless, it was discovered that Balearic hotel chains used equity-based strategies to invest in the Caribbean and Gulf of Mexico when they first began to penetrate the region (when the price of land and building work was not very high and so it was relatively cheap to build big hotel complexes). In contrast, today (when the price of land and building work is no longer so attractive), Balearic hotel chains prefer to expand by entering into collaborative alliances, which does coincide with the sign obtained in the regressions. It must also be added that the price of leases tends to be higher in emerging countries (Contractor and Kundu, 1998a).

In contrast, when the variable for the number of countries in which the company is present (H_7) was significant, the sign that was obtained in the regressions was identical to the anticipated one. This is coherent with the suggested hypothesis, which coincides with the underlying theories of the Uppsala model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990; Erramilli, 1991), according to which as companies build up experience, chains need less help from local agents and so it is less necessary to opt for a collaborative strategy.

The combination of the two previous results confirms the singularity of the Balearic hotel industry, because these chains have preferred to invest in the Caribbean and Gulf of Mexico by initially using strategies that involve full control of their hotels, later going on to share control with local partners as the companies expanded their international portfolios (Daniels et al. 1976). This same result was obtained by Ramón (2002) for the Spanish hotel industry, and so it can be seen that this behaviour has been shared by both hotel industries.

Finally, the size of the company was not significant in any of the regressions (H_5) when explanatory factors were analysed in relation to the entry mode chosen by Balearic hotel chains when penetrating the

Caribbean and Gulf of Mexico, and so the size of the company has no bearing on the choice of entry mode. Indeed, as commented above, it seems that, regardless of their size, Balearic hotel chains have opted for direct investment when high returns could be made and collaborative investment when such high returns were trickier.

As for corporate strategic planning and control factors, these factors are influential in the choice of entry mode by Balearic hotel chains in the Caribbean and Gulf of Mexico. They are summarized by the coefficients of the regression of the synthetic index (see Appendix) (for the reasons commented above) and by the values obtained for variables concerning the importance of economies of scale and the importance of being able to centralize/decentralize a hotel chain's operations. All the variables in the synthetic index have a high level of significance ($P<0.001$), except for the variable concerning the perceived importance of a brand name ($P<0.05$). It must also be added that all the signs from the regression of the synthetic index coincide with the expected signs of the different hypotheses used to analyse these factors. The high level of significance of these variables differs from the results obtained by Contractor and Kundu (1998a) and Ramón (2002), in which scarcely half their qualitative variables are significant. The reason for this difference is the fact that Balearic hotel chains analyse and often emulate the behaviour of their main rivals when choosing a growth strategy for international expansion. As can be inferred from the Delphi analysis of top executives from our Balearic sample, the directors of the said chains have imitated the behaviour of their leading Balearic counterparts in search of the same success, since all compete in the same tourist markets and so they can benefit from emulating their rivals there. As a result, Balearic hotel chains have given priority to more subjective facets rather than objective ones when choosing an entry mode into the Caribbean and Gulf of Mexico.

As for the executives' opinions of the size of the company (H_9), we can confirm the assumption that, holding all else constant, the more important it is for a hotel chain to increase its larger-scale global operations, the more it will opt for strategies that imply higher levels of direct investment into hotel ownership.

An analysis of the perceived strategic importance of a worldwide booking system (H_{10}) confirms that hotel chains find it easier to enter into non-equity agreements when their worldwide booking system has a good reputation, since this strengthens their capacity to enter into successful alliances (Contractor and Kundu, 1998a). The same can also be said about the importance of a hotel chain's brand name (H_{11}). The sign of the importance that executives lend to a company's brand image indicates that the more importance that it is given, the greater the likelihood that the chain will use franchises to expand. In this case, the results obtained in this paper differ from those obtained by Ramón (2002). This could be attributed to the fact that the reputation of Balearic hotel chain's brand images is stronger than that of their Spanish counterparts, which would make it easier for the former to enter into non-equity agreements with foreign agents, although it could also be due to the fact that the Spanish hotel sector seeks to boost the prestige of its image and brand names by adopting strategies that involve higher investment into resources, as put forward by Ramón (2002).

As for the perceived strategic importance lent to investment into training (H_{12}), the underlying principles of the agency theory are confirmed in the case of the Balearic hotel industry, according to which the likelihood of cooperative alliances decreases as it becomes more difficult to transmit know how concerning training to local businesses.

The variable for the perceived importance lent by the Balearic hotel industry to quality controls (H_{13}) has become a highly significant factor in encouraging non-equity growth strategies. The results of our paper coincide with those of Ramón (2002) and so, just as the author postulates in the case of the Spanish hotel industry, the Balearic hotel industry also fulfils the proposals put forward by Hennart (1989), according to which choosing between equity and non-equity growth strategies involves a comparison of the following types of costs: the cost of supervising the efforts of the local workforce, and that of specifying and reinforcing the minimum level of quality stipulated in the contractual agreement. When it is hard to specify exact quality standards, the hotel chain will choose to run a hotel directly and vice versa.

The perceived strategic importance that is lent to diversifying operations (H_{14}) highlights how the possibility of converting a hotel into another type of business (such as condo-hotels, timeshares etc.) tends to encourage hotel chains to expand through equity-based growth strategies.

The last qualitative variable that is significant is the executives' perception of the importance of economies of scale (H_8). The sign that was obtained in the regressions confirms the vision reflected in literature that insists that to achieve economies of scale, companies must have a high level of control over their investments.

Lastly, the perceived strategic importance that is lent to the company's skill at centralizing and decentralizing its operations (H_{15}) is neither significant as a variable and nor does it achieve the expected sign in the regression. In other words, this variable does not influence Balearic hotel chains' choice of entry mode into the Caribbean and Gulf of Mexico and, futhermore, if it were ever decisive in a choice of growth strategy, it would influence matters in the opposite way from the expected sign.

6. CONCLUSIONS

In this paper, we have ascertained that choosing an entry mode into a foreign market cannot simply be based on the economic conditions of the host country but also on the principles of what has come to be known as the syncretic theory. This, as we have commented, is founded on certain factors specific to the host country, factors relating to the companies wishing to penetrate the said countries, and corporate strategic planning and control factors.

Our analysis has shown that the different growth options chosen by Balearic hotel chains in the Caribbean and Gulf of Mexico are consistent with the transaction cost and agency theories.

This paper also offers a solid base for Balearic hotel chains and those of the rest of the world planning to operate in the Caribbean and Gulf of Mexico in terms of which factors are most influential in choosing either collaborative growth strategies or equity-based ones in the said region.

Depending on how Balearic hotel chains use these factors and the goals they have set, some chains will choose to keep strict control over the ownership of their hotels while others will prefer to focus their operations on collaborative alliances that allow them to speed up growth by standardizing the terms of contractual agreements and operating methods.

The factors that have been most decisive in equity-based growth strategies, which allow for greater control over hotels, are:

- A secure investment. In this case, the factors that encourage hotel chains to expand through growth strategies that allow them to maintain stricter control over operations are a host country with a reduced risk (whether political, economic or financial) characterized by a high level of foreign direct investment. Consequently, our results confirm Porter's analysis (1990), since it is more common to find direct investment in highly competitive markets with a strong domestic industry

- Uncertainty with regard to the transfer of specialist know how. Investing capital in developing countries where there is a greater risk that local operators will fail to meet the quality standards of the hotel chain and where the transfer of know how on how to run a hotel business involves higher costs for the company also tend to make hotel companies opt for an equity-based entry mode so as to retain greater control over operations.

- Training costs. The results of the variable concerning the training of executives in host countries support the hypothesis that the more capital that hotel chains are forced to invest in training, the more they will opt for equity-based operations, holding all else constant.

- The importance of economies of scale. Balearic hotel companies wishing to increase their economies of scale will tend to maintain a high level of control over their investments, even though this implies higher transaction costs.

The factors that have been most decisive in encouraging strategies based on collaborative alliances are:

- The importance of the hotel chain's booking system and brand names. The results of this study indicate that both factors are crucial in allowing hotel companies to forge worldwide alliances. This not only ensures additional income, but it also reduces the possibility of opportunist behaviour by local partners, through the threat of being able to withdraw these assets (Anderson and Gatignon 1986; Anderson and Coughlan 1987). Unlike other Spanish chains, Balearic hotel chains do not need to strengthen the positioning of their brand names. This is one of the main shortcomings of other Spanish hotel chains, particularly when compared with other leading hotel chains throughout the world (Ramón, 2002).

- Countries those are culturally different from the hotel chain's own country. When the host country has a high level of volatility, companies prefer to share this risk with local partners, since this type of agreement offers the necessary flexibility to operate in such environments. Indeed, Balearic hotel chains are already beginning to become aware of the drawbacks involved in using equity-based strategies in this type of country. For this reason, chains like Barceló Hotels & Resorts have recently acknowledged that it is impossible to increase their international coverage through equity-based systems. As a result, the chain's future strategy will be based on flexibilizing its growth methods, increasing the number of non-equity agreements, particularly in countries that are culturally different from the chain's own country. In other words, entering a market that is culturally different increases the uncertainty of correctly assessing unknown environments, and so companies prefer to share these risks with local partners.

- The evolution of the profit-earning capacity of the original investment. As can be inferred from the analysis of variables relating to international experience and the number of countries in which Balearic hotel chains are present, it is also important to bear in mind that the said chains took advantage of their international experience by initially penetrating the Caribbean and Gulf of Mexico using equity-based growth strategies, then turning to collaborative alliances when the returns on their investment were not so interesting.

- An interest in increasing the size of the hotel chain (measured in terms of the number of rooms that the chain possesses and not in terms of its total earnings) leads to an increase in the number of non-equity agreements, since in this way companies can speed up growth. Furthermore, this type of contractual agreement allows chains to internationalize their hotel product and make their brand names more widely known, without the high financial commitment that purchases entail. The proliferation of non-equity agreements will lead to the emergence of the first hotel chains with over one million rooms within the next eight years (Slattery, 2003).

- Lastly, it is important to point out that specialization by Balearic tourism businesses has been and still is a key factor for those aiming at growth through management contracts. The owner of a hotel will only entrust its management to companies with a prestigious reputation and proven experience in order to maximize profits through the advantages offered by management experience or a recognized brand name, thus gaining a bigger market share, being able to charge a price premium for product differentiation, and guaranteeing improved customer loyalty.

Finally, we must conclude that the results of the regressions of the different models support the validity of the said models and the variables that were used. The results that were obtained for Balearic hotel chains operating in the Caribbean and Gulf of Mexico differ from those obtained in various manufacturing sectors, since, in these sectors, the entry mode is not a crucial decision in international operations (Contractor and Kundu, 1998a).

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Table 1. Balearic hotel supply abroad (2006 and 2007).

	Hotels		Rooms	
GEOGRAPHICAL REGION	**2007**	**2006**	**2007**	**2006**
Caribbean Region and Gulf of Mexico	181	156	73,511	61,969
Europe	186	108	32,558	26,264
America	78	77	17,868	17,837
Africa and Asia	43	48	12,775	16,056
TOTAL	**488**	**389**	**136,712**	**122,126**

***Source*:** Author's own elaboration

Table 2. Target countries for Balearic hotel supply (2006 and 2007).

	Hotels		Rooms	
Country	**2007**	**2006**	**2007**	**2006**
CARIBBEAN AND GULF OF MEXICO	**181**	**156**	**73,511**	**61,969**
Aruba	1	1	450	171
Bahamas	1	1	379	379
Costa Rica	8	8	1,710	1,602
Cuba	48	39	18,496	13,917
Jamaica	5	3	2,758	1,692
Mexico	63	60	25,858	23,898
Nicaragua	1	1	293	293
Panama	1	1	305	287
Porto Rico	1	1	486	490
Dominican R.	50	40	22,112	18,576
Venezuela	2	1	664	664
EUROPE	**186**	**108**	**32,558**	**26,264**
Germany	16	12	1,959	1,489
Belgium	1	1	80	80
Bulgaria	16	14	5,877	4,490
Cyprus	7	6	1,359	1,307
Croatia	21	20	7,860	7,887
France	16	8	722	512
Greece	23	13	3,839	2,722
Holland	3	-	89	-
Ireland	2	-	136	-
Italy	26	7	2,524	1,659
Malta	1	2	266	470
Monaco	1	-	50	-
Montenegro	1	1	578	586
Portugal	31	17	3,718	2,781
United Kingdom	7	1	971	697
Czech R.	2	1	263	213
Romania	2	1	335	305
Sweden	3	-	95	-
Switzerland	2	1	78	88
Turkey	5	3	1,759	978
AMERICA	**78**	**77**	**17,868**	**17,837**
Argentina	3	2	328	182
Brazil	23	22	5,419	5,229
Colombia	1	6	53	781
Ecuador	1	1	95	95
USA	47	43	11,644	11,221
Peru	1	1	180	180

	Hotels		Rooms	
Country	**2007**	**2006**	**2007**	**2006**
Uruguay	2	2	149	149
AFRICA AND ASIA	**43**	**48**	**12,775**	**16,056**
Egypt	5	4	1,332	720
Cabo Verde	2	1	1,000	500
Indonesia	5	5	1,605	1,928
Malaysia	1	1	300	302
Morocco	4	4	1,193	1,192
Tunice	25	32	7,054	11,126
Vietnam	1	1	291	288
TOTAL	**488**	**389**	**136,712**	**122,126**

Source**:** Author’s own elaboration

Table 3. Hypothesis and measurement of the independent variables.

Independent variables	Definition and measurement	Expected sign
Country-specific factors		
RIi	The risk index used for country i taken from the ICRG for the period from March 1986 to September 2004 (the highest risk is = 100 and the lowest is = 0)	(+)
CUL_{ij}	$CUL_{ij} = \frac{\sum_{i=1}^{4} \frac{(I_{ij} - I_{is})^2}{V_i}}{4}$ I_{ij} h=1,2,3,4 are four Hofstede's cultural indexes (1980) and V_h is the variance of the ith index as proposed by Kogut and Sigh (1988)	(-)
$GDPcap_i$	GDP per capita in the country i, measured for the last 4 years of available data from IMF statistics (in euros)	(+)
FDI/GDP_i	The FDI/GDP ratio of the country i measured by the last 4 years, using IMF statistics	(+)
Structural factors of the company		
$SIZE_j$	Measure of income from worldwide sales, in eruos, of the hotel company j over the last 3 years	(+)
IEX_j	The years since company j opened its first hotel abroad.	(+)
NCP_i	The number of countries in which company j is present	(+)
Strategic factors and control factors of the company	Perceived importance of strategic factors (5=very important … 1=not important)	
ISE	Scale economies	(+)
ISIZE	Company size	(+)
IBRAND	Trade names and image	(-)
IRES	Booking system	(+)
IINVT	Investment in formation	(-)
IQUAL	Quality controls	(+)
IDIVER	Diversification of operations	(+)
ICENTRAL	Centralization-decentralization of operations	(-)

***Source*: Author's own elaboration**

Table 4. Estimates regression multinomial logistic ordinal.

	Regression A (with hotels on lease)		Regression B (without leased hotels)	
Variable	**Model 1**	**Model 2**	**Model 1**	**Model 2**
RI_i	0.105 (0.135)	0.085 (0.118)	0.093 (0.121)	0.078 (0.111)
CUL_{IJ}	-1.677 (0.609)**	-0.831 (0.647)	-1.345 (0.585)**	-0.723 (0.605)
$GDPcap_i$	-0.001 (0.000)*	-0.001 (0.000)*	-0.001 (0.000)*	0.000 (0.000)
FDI/GDP_i	0.168 (0.058)**	0.119 (0.052)**	0.136 (0.052)**	0.101 (0.046)**
$SIZE_j$	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
IEX_j	-0.203 (0.686)	-3.400 (2.0133)*	-0.243 (0.688)	-3.131 (1.879)*
NCP_i	0.357 (0.191)*	0.540 (0.334)*	0.315 (0.187)*	0.400 (0.301)
Synthetic index	2.820 (0.631)***	6.827 (2.156)**	2.378 (0.586)***	5.657 (1.648)***
ISE		6.905 (3.381)**		5.422 (2.477)**
ICENTRAL		1.835 (1.122)		1.274 (0.848)
Prob>K^2	**0.000**	**0.000**	**0.000**	**0.000**
Pseudo-R^2	**0.276**	**0.374**	**0.267**	**0.309**
Chi-Square	**64.517 *** **	**87.407*** **	**49.156*** **	**56.929*** **
No observations	**139**	**139**	**133**	**133**

Values of the beta coefficients. Standard errors in brackets.
*** Significance of more than 1%
** Significance of more than 5%
* Significance of more than 10%

Source: Author's own elaboration from the statistical packages SPSS and Eviews.

Table 5. Table of classification for the regression A (with hotels on lease).

		Model 1				Model 2			
		Predicted				**Predicted**			
		Dependent variable			**% Correct**	**Dependent variable**			**% Correct**
Observed		1	4	5		1	4	5	
Dependent variable	1	50	0	13	79.40%	51	0	12	81%
	4	3	0	3	0%	3	3	0	50%
	5	20	1	49	70%	16	3	51	72.90%
Global percentage		52.50%	0.70%	46.80%	71.20%	50.40%	4.30%	45.30%	75.50%

Source: Author's own elaboration from the statistical packages SPSS and Eviews.

Table 6. Table of classification for the regression B (without leased hotels).

		Model 1			Model 2		
		Predicted			Predicted		
		Dependent variable		% Correct	Dependent variable		% Correct
Observed		1	5		1	5	
Dependent variable	1	48	15	76.20%	50	13	79.40%
	5	19	51	72.90%	15	55	78.60%
Global percentage		50.40%	46.80%	74.40%	48.90%	51.10%	78.90%

Source: Author's own elaboration from the statistical packages SPSS and Eviews.

APPENDIX I

Results of the regression of the synthetic index:

ANALYSIS OF VARIANCE

	df	*Sum of Squares*	*Mean Square*	*F Value*	*P-value*
Regression	6	9.5437	1.590608709	8.4560155	1.00068E-07
Resid.	127	23.889	0.188103808		
Total	133	33.433			

PARAMETER ESTIMATES

	Parameter Estimate	*Standard Error*	*T Value*	*Sig. level*
ISIZE	0.625033	0.1796	3.480900019	0.0006856
IBRAND	-0.653604	0.1803	3.624432305	0.0004176
IRES	-0.415694	0.1443	2.880896547	0.0046566
IINVT	0.299686	0.0595	5.038975744	1.572E-06
IQUAL	0.308932	0.0864	3.575187939	0.0004958
IDIVER	0.205077	0.0368	5.578874025	1.395E-07

Source: Author's own elaboration from the statistical packages SPSS and Eviews.

Results of the regression multinomial logarithmic ordinal for the regression A (with hotels on lease) and model 1:

Summary

Model	R	R-squared	Adj R-sq	Stnd. Error of Est.						Durban-Watson statistic
	Change R-sq	Change F Value	df1	df2	Sig. change F Value	Change R-sq	Change R-sq	df1	df2	Sig. change F Value
1	.535(a)	.286	.242	.2304264	.286	6.511	8	130	.000	2.064

a Independent variables: (Intercep), SIZEj, synthetic index, FDItoGDPi, GDPcapi, CULij, NCPi, RIi, IEXj
b Dependent Variable: Ln_decisions

ANOVA(b)

Model		Sum of Squares	df	Meam Square	F Value	*Prob>F*
1	Regression	3.043	10	.304	5.878	.000(a)
	Residual	6.626	128	.052		
	Total	9.668	138			

a Independent variables: (Intercep), SIZEj, synthetic index, FDItoGDPi, GDPcapi, CULij, NCPi, RIi, IEXj
b Dependent Variable: Ln_decisions

Coefficients(a)

Model		Coefficients not standardized		Coefficients standardized	t	Sig.
		B	Standard Error	Beta	Inferior limit	Superior limit
1	(Intercep)	-.723	.319		-2.266	.025
	RIi	.001	.008	.017	.095	.925
	CULij	-.153	.040	-.365	-3.789	.000
	GDPcapi	-3.81E-005	.000	-.251	-1.566	.120
	FDItoGDPi	.011	.002	.486	4.400	.000
	SIZEj	1.86E-009	.000	.691	.958	.340
	IEXj	-.104	.113	-.534	-.916	.362
	NCPi	.033	.014	.361	2.408	.017
	Synthetic index	.697	.259	.585	2.691	.008
	ISE	.765	.393	.905	1.944	.054
	ICENTRAL	.429	.238	.319	1.804	.074

a Dependent Variable: Ln_decisions

Results of the regression multinomial logarithmic ordinal for the regression A (with hotels on lease) and model 2:

Summary

Model	R	R-squared	Adj R-sq	Stnd. Error of Est.						Durban-Watson statistic
	Change R-sq	**Change F Value**	**df1**	**df2**	**Sig. change F Value**	**Change R-sq**	**Change R-sq**	**df1**	**df2**	**Sig. change F Value**
1	.561(a)	.315	.261	.2275151	.315	5.878	10	128	.000	2.025

a Independent variables: (Intercep), ICENTRAL, SIZEj, synthetic index, FDItoGDPi, GDPcapi, CULij, NCPi, ISE, IEXj
b Dependent Variable: Ln_decisions

ANOVA(b)

Model		Sum of Squares	df	Meam Square	F Value	*Prob>F*
1	Regression	2.766	8	.346	6.511	.000(a)
	Residual	6.903	130	.053		
	Total	9.668	138			

a Independent variables: (Intercep), SIZEj, synthetic index, FDItoGDPi, GDPcapi, CULij, NCPi, RIi, IEXj
b Dependent Variable: Ln_decisions

Coefficients(a)

Model		Coefficients not standardized		Coefficients standardized	t	Sig.
		B	Standard Error	Beta	Inferior limit	Superior limit
1	(Intercep)	-.017	.089		-.192	.848
	RIi	.004	.008	.089	.514	.608
	CULij	-.152	.040	-.364	-3.826	.000
	GDPcapi	-5.15E-005	.000	-.340	-2.176	.031
	FDItoGDPi	.011	.002	.481	4.365	.000
	SIZEj	-6.61E-010	.000	-.245	-1.373	.172
	IEXj	.027	.027	.139	.997	.321
	NCPi	.028	.012	.306	2.420	.017
	Synthetic index	.181	.096	.152	1.894	.060

a Dependent Variable: Ln_decisions

Results of the regression multinomial logarithmic ordinal for the regression B (without hotels on lease) and model 1:

Summary

Model	R	R-squared	Adj R-sq	Stnd. Error of Est.						Durban-Watson statistic
	Change R-sq	Change F Value	df1	df2	Sig. change F Value	Change R-sq	Change R-sq	df1	df2	Sig. change F Value
1	.588(a)	.345	.292	.2230927	.345	6.440	10	122	.000	2.024

a Independent variables: (Intercep), SIZEj, synthetic index, FDItoGDPi, GDPcapi, CULij, NCPi, RIi, IEXj
b Dependent Variable: Ln_decisions

ANOVA(b)

Model		Sum of Squares	df	Meam Square	F Value	*Prob>F*
1	Regression	3.205	10	.321	6.440	.000(a)
	Residual	6.072	122	.050		
	Total	9.277	132			

a Independent variables: (Intercep), SIZEj, synthetic index, FDItoGDPi, GDPcapi, CULij, NCPi, RIi, IEXj
b Dependent Variable: Ln_decisions

Coefficients(a)

Model		Coefficients not standardized		Coefficients standardized	t	Sig.
		B	Standard Error	Beta	Inferior limit	Superior limit
1	(Intercep)	-.760	.316		-2.404	.018
	RIi	.000	.008	.006	.036	.972
	CULij	-.154	.040	-.375	-3.849	.000
	GDPcapi	-3.94E-005	.000	-.257	-1.646	.102
	FDItoGDPi	.011	.002	.503	4.478	.000
	SIZEj	1.48E-009	.000	.556	.767	.444
	IEXj	-.078	.113	-.405	-.689	.492
	NCPi	.036	.014	.403	2.662	.009
	Synthetic index	.691	.254	.591	2.718	.008
	ISE	.728	.387	.879	1.880	.062
	ICENTRAL	.475	.238	.361	1.997	.048

a Dependent Variable: Ln_decisions

Results of the regression multinomial logarithmic ordinal for the regression B (without hotels on lease) and model 2:

Summary

Model	R	R-squared	Adj R-sq	Stnd. Error of Est.						Durban-Watson statistic
	Change R-sq	Change F Value	df1	df2	Sig. change F Value	Change R-sq	Change R-sq	df1	df2	Sig. change F Value
1	.561(a)	.314	.270	.2265000	.314	7.104	8	124	.000	2.067

a Independent variables: (Intercep), SIZEj, synthetic index, FDItoGDPi, GDPcapi, CULij, NCPi, RIi, IEXj
b Dependent Variable: Ln_decisions

ANOVA(b)

Model		Sum of Squares	df	Meam Square	F Value	*Prob>F*
1	Regression	2.916	8	.364	7.104	.000(a)
	Residual	6.361	124	.051		
	Total	9.277	132			

a Independent variables: (Intercep), SIZEj, synthetic index, FDItoGDPi, GDPcapi, CULij, NCPi, RIi, IEXj
b Dependent Variable: Ln_decisions

Coefficients(a)

Model		Coefficients not standardized		Coefficients standardized	t	Sig.
		B	Standard Error	Beta	Inferior limit	Superior limit
1	(Intercep)	-.028	.089		-.312	.755
	RIi	.003	.008	.072	.419	.676
	CULij	-.156	.039	-.381	-3.969	.000
	GDPcapi	-5.12E-005	.000	-.341	-2.233	.027
	FDItoGDPi	.011	.002	.506	4.540	.000
	SIZEj	-6.99E-010	.000	-.262	-1.472	.143
	IEXj	-.031	.027	.158	1.132	.260
	NCPi	.029	.011	.325	2.574	.011
	Synthetic index	.186	.094	.159	1.971	.051

a Dependent Variable: Ln_decisions

APPENDIX II

Survey and Delphi Analysis

Survey

a) Indique el número de hoteles y la estrategia de crecimiento que la cadena hotelera tiene en los siguientes países del mar Caribe y del golfo de Méjico. En el caso que el país tenga parte de su territorio en zona continental (como por ejemplo Costa Rica, Méjico…) indique tan sólo los hoteles que forman parte de la zona bañada por el mar Caribe y el golfo de Méjico
Para ello rellene la tabla que aparece a continuación.

		ESTRATEGIA DE CRECIMIENTO POR NÚMERO DE HOTELES				
PAÍS	**Número total de hoteles**	**Propiedad**	**Alquiler**	**Alianza estratégica**	**Management contract**	**Franquicia**
Aruba						
Bahamas						
Costa Rica						
Cuba						
Jamaica						
Méjico						
Nicaragua						
Panamá						
Puerto Rico						
R. Dominicana						
Venezuela						
TOTAL						

b) Indique el número de habitaciones y la estrategia de crecimiento que la cadena hotelera tiene en los siguientes países del mar Caribe y del golfo de Méjico.
En el caso que el país tenga parte de su territorio en zona continental (como por ejemplo Costa Rica, Méjico…) indique tan sólo las habitaciones que forman parte de la zona bañada por el mar Caribe y el golfo de Méjico
Para ello rellene la tabla que aparece a continuación.

		ESTRATEGIA DE CRECIMIENTO POR NÚMERO DE HABITACIONES				
PAÍS	**Número total de habitaciones**	**Propiedad**	**Alquiler**	**Alianza estratégica**	**Management contract**	**Franquicia**
Aruba						
Bahamas						
Costa Rica						
Cuba						
Jamaica						
Méjico						
Nicaragua						
Panamá						
Puerto Rico						
R. Dominicana						
Venezuela						
TOTAL						

c) ¿Tiene presencia en algún otro país del mar del Caribe y del golfo de Méjico?
En el caso que el país tenga parte de su territorio en zona continental (como por ejemplo Costa Rica, Méjico…) indique tan sólo los hoteles y habitaciones que forman parte de la zona bañada por el mar Caribe y el golfo de Méjico
En caso afirmativo, indique en que países y rellene la misma información que la que aparece en las dos tablas anteriores.

		ESTRATEGIA DE CRECIMIENTO POR NÚMERO DE HOTELES				
PAÍS	Número total de hoteles	Propiedad	Alquiler	Alianza estratégica	Management contract	Franquicia
TOTAL						

		ESTRATEGIA DE CRECIMIENTO POR NÚMERO DE HABITACIONES				
PAÍS	Número total de habitaciones	Propiedad	Alquiler	Alianza estratégica	Management contract	Franquicia
TOTAL						

d) Indique el número de hoteles y la estrategia de crecimiento que la cadena hotelera tiene en las siguientes regiones del mundo. Para ello rellene la tabla que aparece a continuación.

		ESTRATEGIA DE CRECIMIENTO POR NÚMERO DE HOTELES				
Regiones importantes por destino	**Número de hoteles**	**Propiedad**	**Alquiler**	**Alianza estratégica**	**Management contract**	**Franquicia**
España						
Unión Europea						
Europa del Este						
Resto de Europa						
Asia						
Norte América (sin Florida)						
Caribe-Golfo de Méjico						
África						
Latinoamérica						
Resto						
TOTAL						

e) Indique el número de habitaciones y la estrategia de crecimiento que la cadena hotelera tiene en las siguientes regiones del mundo. Para ello rellene la tabla que aparece a continuación.

		ESTRATEGIA DE CRECIMIENTO POR NÚMERO DE HABITACIONES				
Regiones importantes por destino	**Número de habitaciones**	**Propiedad**	**Alquiler**	**Alianza estratégica**	**Management contract**	**Franquicia**
España						
Unión Europea						
Europa del Este						
Resto de Europa						
Asia						
Norte América (sin Florida)						
Caribe-Golfo de Méjico						
África						
Latinoamérica						
Resto						
TOTAL						

f) Indique el año de apertura del primer hotel internacional de la cadena hotelera en las siguientes regiones del mundo.
También indique el país en el que se abrió el hotel y la estrategia de crecimiento utilizada en su apertura.
Para ello rellene la tabla que aparece a continuación.

Regiones importantes por destino	**Año apertura primer establecimiento**	**País**	**Estrategia de crecimiento utilizada**
España			
Unión Europea			
Europa del Este			
Resto de Europa			
Asia			
Norte América (sin Florida)			
Caribe-Golfo de Méjico			
África			
Latinoamérica			
Resto			
TOTAL			

g) Indique los ingresos hoteleros totales de la cadena hotelera en los siguientes años. Para ello rellene la tabla que aparece a continuación.

Año	Ingresos totales (en €)
2006	
2005	
2004	

Delphi Analysis

Puntúe de 1 (no importante) a 5 (muy importante) la importancia que representan los siguientes ítems en la internacionalización de la cadena hotelera

	(5= muy importante; … 1=no importante)				
Importancia percibida sobre:	**5. Muy importante**	**4. Bastante importante**	**3. Importante**	**2. Poco importante**	**1. No importante**
Economías de Escala					
Tamaño de la compañía					
Marcas e imágenes					
Inversión en formación					
Sistema de reservas					
Control de calidad					
Diversificación de operaciones (condo-hotels, timeshare…)					
Centralizar - descentralizar					