International Journal of Hospitality Management 31 (2012) 379–386

Contents lists available at ScienceDirect

International Journal of Hospitality Management

journal homepage: www.elsevier.com/locate/ijhosman

Examining the determinants of hotel chain expansion through international franchising

Ilan Alon[a], Liqiang Ni[b], Youcheng Wang[c,*]

[a] Rollins College, 1000 Holt Ave – 2722, Winter Park, FL 32789, United States
[b] Department of Statistics, University of Central Florida, Orlando, FL 32816-2370, United States
[c] Rosen College of Hospitality Management, University of Central Florida, 9907 Universal Blvd, Orlando, FL 32819, United States

ARTICLE INFO

Keywords:
Franchising
Internationalization
Hotel industry
Hospitality
Bayesian data analysis

ABSTRACT

This study proposes and tests an agency-based organizational model of internationalization through franchising in the hotel sector. Using data obtained from a Franchisor Questionnaire 2001–2008, we analyzed a panel of 117 observations of 17 U.S.-based hotels. Our analysis reveals that a hotel franchisor's decision to internationalize through franchising is positively related to the percentage of franchises, the ratio of franchised units to the total number of units. The article contributes to the literature by empirically modeling international franchising of hotels, which present unique characteristics among franchising companies, with a high investment capital requirement, maturity in the product life cycle, and a high level of standardization and globalization of operations. The unique characteristics of individual chains and their segment in the industry are particularly important, as revealed by both data analysis and expert opinion.

© 2011 Elsevier Ltd. All rights reserved.

1. Introduction

In the U.S. economy the service sector has undergone tremendous growth in the past several decades, with the hospitality industry one of the major contributors to this fast-paced growth (Ketchen et al., 2006). Unlike most other service sectors, the hotel industry is generally capital-intensive and its logistics and supply chain can be as complex as those in manufacturing operations (Chen and Dimou, 2005). For hotel companies, this can be a big obstacle to an equity-based expansion model in various markets, particularly in the international market. Thus, it raises the issue of the importance of the internationalization process through franchising as a non-equity-based expansion strategy.

Franchising provides scope for rapid international expansion for hotel companies and has the potential to overcome many of the cultural, linguistic, technical, legal, and employment problems commonly associated with internationalization (Abell, 1990). Hotel chains prefer to use non-equity forms of organization for international expansion and operations mainly due to cost-efficiency concerns. Non-equity-based agreements, such as franchising, are the most common forms of organizational structure for market entry (Contractor and Kundu, 1998) among hotel and motel chains, partly because setting up a hotel requires a large amount of capital. In other words, the hotel and motel industry is capital-intensive, requiring a big financial up-front outlay to establish facilities. Franchising provides an opportunity for hotels to lower the risks and the level of investment to expand. Franchising also allows hotel and motel franchisors to share the costs of expansion with the franchisees, who typically pay the start-up costs, initial fees, and ongoing royalties. In return, the franchisees obtain brand-name recognition, economies of scale, and managerial expertise from the franchisors. Contractor and Kundu (1998) propose that a competitive advantage can be derived by separating knowledge-based expertise from capital ownership. A franchise is a way to transfer tangible and intangible expertise with limited capital risks.

The hotel industry, in particular, is different among other service franchisors, justifying a separate examination. Using chow tests to compare organizational determinants of internationalization, Alon (1999) found that hotels are significantly different from retail and business services franchises' internationalization. Franchising related costs are highest in terms of the required capital investment for hotels. Total investment required by Choice Hotels International ranges from $2.3 to 14.6 million, InterContinental Hotels Group (IHG) $2–20 million, Motel 6, $1.9–2.3 million, and Hilton 53.4–90.1 million, to give a few examples.[1] In contrast, most other service franchising industries require less than $1 million for start-up costs. The high capital requirement raises the risk of international investment and the needed bonding between

* Corresponding author.
E-mail addresses: ialon@rollins.edu (I. Alon), lni@mail.ucf.edu (L. Ni), raywang@mail.ucf.edu (Y. Wang).

[1] Retrieved from http://worldfranchising.com/industry/Lodging/ (June 2, 2011).

0278-4319/$ – see front matter © 2011 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ijhm.2011.06.009

franchisee and franchisor inherent in the agency relationship. Hotels have decoupled the ownership of property from the ownership of intellectual assets and have extensively used non-equity modes of entry internationally to defray expansion with minimum risk.

However, internationalization through franchising can be a complex process affected by many forces, particularly organizational factors and market conditions. Although previous research has examined factors contributing to internationalization through franchising as an entry mode in the manufacturing industry (e.g., Baker and Dant, 2008; Gatignon and Anderson, 1988) and among fast food and service franchisors (e.g., Ni and Alon, 2010), this study narrows the research gap by explaining the internationalization of franchising systems in the hotel industry by both empirically testing a theory-driven model and corroborating the model with in-depth interviews of industry practitioners. In particular, this study attempts to identify and understand the impacts of organizational factors and market-condition variables on the decision of hotel companies to enter international markets through franchising within a framework of agency-based theory.

This study uses Burton and Cross' (1995) definition of international franchising. They define international franchising as "a foreign market entry mode that involves a relationship between the entrant (the franchisor) and a host country entity, in which the former transfers, under contract, a business package (or format), which it developed and owns, to the latter" (p. 36). This definition is suitable because our study does not differentiate between the various modes of international franchising. It focuses on the decision to internationalize through franchising, regardless of the mode of entry. In other words, franchising is a business relationship whereby a franchisor permits a franchisee to use its brand name, product, or business system in a specified and ongoing manner in return for a fee (Felstead, 1993). This method is commonly distinguished from other international market entry modes, such as leasing agreements or management contracts that are not included in the current study.

2. Theoretical background

The internationalization of hotel and motel chains started in the 1950s and 1960s with firms such as Hilton, Sheraton, Holiday Inn, Marriott, and Ramada Inn. Modern-day hotel franchising as an internationalization strategy can be traced back to the 1950s when Holiday Inn established itself as the primary franchisor in the business (Shook and Shook, 1993). In the North American context, hotel companies relied largely on leasing arrangements and management contracts as an internationalization strategy until the 1980s, when franchising was adopted as one of the mainstream means for international expansion. These methods reduced the investment risks associated with the internationalization of highly capital-intensive hotels and, in addition, allowed direct management control in countries with lower levels of management and staff expertise (Cho, 2004).

Franchising systems in the hotel industry are among the most mature of the franchised services, therefore, they are further along the product life cycle. They also face stiffer domestic and global competition and declining profit margins, which together contribute to a greater awareness of the need to think of the world in global terms (Huszagh et al., 1992). In fact, non-equity organizational forms are becoming the norm among franchising systems across the hotel industry (Baker and Dant, 2008; Bradach, 1997; Perrigot, 2006). That is, franchising hotel companies can use franchised outlets and various master and area development agreements at the same time in the same or different markets. In recent years, multi-unit franchising has become a popular method to expand, particularly in international hotel markets (Altinay and Altinay, 2003; Cho, 2005).

A review of the literature indicates that the growth of the hotel franchise sector through international franchising in various international markets is based on the following organizational and market-condition factors: (1) level of domestic saturation, (2) competition in the home market, (3) potential in emerging countries, in particular in Asia and Latin America, (4) regional trade agreements, such as the European Union and the North American Free Trade Agreement, and (5) liberalization of the formerly Communist countries (Johnson and Vanetti, 2005; Kostecka et al., 1969–1988; Lashley and Morrison, 2000; Tucker and Sundberg, 1988). American hotel companies tend to use franchising as a business strategy to expand their brand (sometimes globally) in order to keeps risks to a minimum (Dunning et al., 2007).

Using the literature on the competitive theory of the firm, Huszagh et al. (1992) find that time in operation (age), number of units (size), and, to a lesser extent, equity capital and the location of headquarters are significant factors differentiating domestic from international franchisors. Shane (1996) builds on Huszagh et al.'s research to concentrate on the agency costs associated with internationalization. His findings reveal that the price structure of franchises, together with the monitoring capabilities, contribute to internationalization. Eroglu (1992) has developed a conceptual model of internationalization which uses organizational determinants, such as firm size, operating experience, as well as top management's international orientation, tolerance of risk, and perception of competitive advantage.

Fladmoe-Lindquist (1996) build on the aforementioned research to develop a conceptual framework of international franchising based on resource-based and agency theories. He does not test his model since it has a normative or managerial orientation. But Alon and McKee (1999a) tested a model combining resource-based and agency variables in the professional business service industry and found only size to be a significant variable influencing franchisors' decision to internationalize. The number of outlets a franchisor has is among the most common predictors of internationalization. Alon (1999) suggests that the effect of resources and monitoring skills (often measured as the number of outlets) on internationalization is common across industries, but its impact may be industry-specific.

The internationalization of hospitality firms and hotel chains is multi-dimensional. Using a single embedded case study, Altinay (2007) shows that the internationalization of hospitality firms is often based on shareholder pressure, the desire to extend the core competencies of the firm, and demand by international customers. Contractor and Kundu (1998) suggest that reservation systems and hotel brands allow a franchise to thrive in foreign markets because they act as barriers against partner opportunism.

Much of the research on international franchising in the hotel sector focuses on explanations of modal choices. Pine et al. (2000), for example, suggest that cultural distance between the host and the home market of the firm favors a non-equity mode of entry, such as franchising and management contracts. Hotels, particularly high-end hotels, generally prefer non-equity-based modes of expansion, such as management contracts or franchising arrangements. The rationale behind this preference is not only because of the large financial outlays but also because of the inefficient use of land in the latter. In other words, the return on investment from their brand and management expertise is far higher than on land and buildings, and investments in the latter may create a drag on overall performance. However, quality concerns may favor the use of owned properties (Contractor and Kundu, 1998). Although the debate on the exact specification of entry mode is ongoing, our focus here is on the decision of franchise hotels to go global through franchising within the framework of agency-based theory.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات