

## Mode of entry, real options and strategic flexibility in internationalization processes of hotel chains.

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### Goal and objectives of the dissertation

#### *Goal*

To analyse the determining factors of the choice of the mode of entry to a foreign market and of the repercussions of this choice on the result of the international strategy of the hotel chains, under the dynamic approach of the theory of real options and giving refined treatment to the topic of uncertainty.

#### *Objectives*

This overall objective was broken down into six more specific objectives, namely:

**Objective 1:** To check the applicability of the theory of real options to the processes of internationalization, and to confirm its explanatory capacity in the hotel industry; and, in doing so, to add new factors to the doctrinal body existing on the mode of entry to a foreign market in the hotel industry.

**Objective 2:** To deal in greater depth with the topic of perceived uncertainty in the business environment and its influence on the choice of the mode of entry, from the perspective of real options.

**Objective 3:** To identify the variables that influence the choice of the particular mode of entry.

**Objective 4:** To understand how the mode of entry can contribute to the creation of real options available to the company.

**Objective 5:** To analyse the influence of the existence of real options on the company's strategic flexibility.

**Objective 6:** To check the ways by which the existence of real options and strategic flexibility can influence the company's international performance.

## Methodology

In the first part of this thesis, the classic methodology of a comprehensive review of the scientific literature was used; based on this review a model was created, to be tested empirically, after the presentation of the state of the art in this topic.

The second section is devoted to the empirical study. The subject or universe of companies studied in the empirical work (Spanish hotel chains and foreign hotel chains operating in Spain) is first described. The technique of Partial Least Squares (PLS) has been used to test the hypotheses of our research model; for this purpose a questionnaire has been designed and validated, as an instrument of measurement. This questionnaire was administered during the period between March 2011 and September 2012 to the company executives responsible for the international strategy.

Conclusions, limitations and lines for future research make up the last section of the thesis.

Table 1, in which the characteristics of the sample are presented, gives the technical details of the survey conducted.

## Results

We can conclude, in general, that the properties of the measurement models are acceptable in terms of both reliability (internal consistency) and validity (convergent and discriminant validity).

Concerning the structural model, as a result of the significant relationships found, it can be stated that the constructs "exogenous uncertainty" and "endogenous uncertainty" influences the "mode of entry" to an international. The same occurs with the construct referring to the "interaction between company size and its international experience", which influences the "mode of entry" chosen by those executives. The construct "mode of entry" has a direct influence on the level of "real options" of the company. Similarly, there is a positive relationship between real options and strategic flexibility. The results show that strategic flexibility is associated positively access to the markets and the reputation of the company. To the contrary, in relation to the relationship between real options and access to the markets and the reputation of the company, our results show an influence, but in the opposite direction to that expected.

Lastly, we find that the "financial results" of the international strategy is a consequence of the "image and access result".

## Theoretical Conclusions

The theory of real options can be employed to explain the internationalization strategy of the hotel industry, thereby improving the understanding of this decision and developing a dynamic theory that can be used to analyse future effects that the mode of entry into a foreign market may have in the future and its impact on the company's international performance. The integrated perspective of

Characteristics	Survey
Universe	88 Spanish hotel chains and 26 foreign-owned chains operating in Spain.
Data collection methods used	Web and telephone survey.
Types of question	Questions with responses on a Likert scale and by semantic differential.
Dates when the information was gathered	March 2011 to September, 2012.
Geographic scope	Spanish territory.
Size of sample obtained	35 companies (22 Spanish and 13 foreign-owned)
Response rate	39.8%.
Statistical tests applied	Descriptive, Correlations, Regressions, Structural equations
Statistical programs used	SPSS version 19 and Visual PLS 1.04 bi.

risk management creates a framework for the identification and evaluation of various types of uncertainties relevant to the formulation of strategies.

For the hotel industry, expanding internationally is a fundamental aspect for growth, and as such, is a key element for increased diversification and competitiveness on an international level.

In relation to exogenous uncertainty, we find a negative relationship between greater uncertainty of the “economic policy” type, which encompasses both fiscal and monetary policy, such as the results of economic restructuring, and the mode of entry into international markets (Li and Rugman, 2007; Brouthers et al., 2008). The results obtained show a negative relationship between the uncertainty associated with “potential competition” and the chosen mode of entry, in a manner that is contrary to that proposed by our hypothesis. We have also observed that those chains that possess greater strategic flexibility achieve a better fit with the business environment in which they operate, improving their reputation and their degree of access to the market. This allows us to accept the hypothesis that strategic flexibility is associated positively with this type of international activity. To the contrary, in relation to the hypothesis proposed that the availability of real options in the company is positively associated with access to the markets and the reputation of the company, our results show an influence, but in the opposite direction to that expected.

### **Practical application of the dissertation**

In the light of the results obtained, we can conclude that when the exogenous and endogenous uncertainty perceived by the company increases, selecting a mode of entry that offers the company a high degree of control of the international investments is less beneficial, and there is a greater probability that the company would prefer a mode of entry with less commitment of resources as against full ownership (Li, 2007).

It is necessary to make a distinction between different types of the endogenous uncertainty and to analyse their influence, as some of them advise making low investments, whilst others suggest the necessity of entering first to obtain greater control of the market.

Looking at the effect that the interaction between company size and its international experience has on the mode of entry to the international market chosen, the high volume of investment that the hotel industry requires means that strategic alliances are a more attractive option. Those larger hotel companies with more experience should clearly exploit these competitive advantages to form strategic alliances with the objective being to create strategic options for learning and change which allows them to achieve a stronger international presence.

Those chains that do not possess these characteristics need to make efforts to acquire them before attempting to expand into other countries, thus increasing the number and variety of countries in which the chain can operate and avoiding geographic concentration which limits the number of advantages related to multinational business.

Hotel chains face uncertainty by opting for modes of entry requiring low initial investment which gives them future options, related to both learning and change, as well as growth and of abandonment. With regard to the relationship between real options and strategic flexibility, we conclude that real options are clearly a source of strategic flexibility as they allow for the adaptation of decisions which have been taken with respect to existing conditions in the business environment (Li, 2007).

Lastly, we find that the “financial results” of the international strategy is a consequence of the “image and access result”, since the image of the company on an international scale and the degree of access obtained to the markets condition the international financial results. This must be taken into account when establishing the long term

strategic objectives of the company (Lukas, 2007).

### **Content of the dissertation**

#### *Abstract of chapter one*

Introductory chapter in which we justify the choice of research subject, the objectives pursued and the methodology employed.

#### *Abstract of chapter two*

This chapter serves as the theoretical framework for our project. Having first set out the internationalisation strategy, we then synthesise the principal theories relating to this strategy, placing emphasis on those theories that relate to market entry mode. Following this, we focus on real options theory.

#### *Abstract of chapter three*

In the third chapter we focus on the hotel industry and its international strategy, beginning with a review of the various studies that have analysed the international market entry mode for this type of company, taking into consideration both the available alternatives and the factors that determine the selection by hotel companies of one alternative over another. Following this we further examine the various available entry modes, the evolution of operating modalities within the hotel industry in Spain, the situation facing Spanish hotel chains and their expansion into other countries as well as the presence of international hotel chains in Spain, their peculiarities and the strategies they have adopted.

#### *Abstract of chapter four*

The fourth chapter concentrates on the factors that determine the selection, by hotel chains, of the mode of entry into the international market. First of all, we design our research model based on the theoretical frameworks described in previous chapters and form a hypothesis based on our findings. Following this we describe the sample base and the measurement tools used as a basis for contrasting the various hypotheses and for the evaluation of the model.

#### *Abstract of chapter five*

In chapter five we approach the empirical research methodology, detailing the statistical techniques used for the analysis of the research model. To this end, the fifth chapter is structured into three well-differentiated sections. To begin with, we analyse the sample, examining it in such a way as will allow us to discover the principal characteristics and trends of the internationalisation processes of hotel chains. Following this we expand upon and justify the selection of the Partial Least Square (PLS) technique for the interpretation of data, explaining the theoretical foundations of the technique and its suitability for the purposes of our research. Thirdly, and finally, we focus on the reliability, validity and predictive capacity of the model, providing a comparison of the various hypotheses that support it. At this point we should point out that we have analysed two different models, one of the first order, the other of the second, in an attempt to find out which of them better describes the selection of an entry mode into the international market.

#### *Abstract of chapter six*

The main conclusions obtained from the study, both theoretical and practical, are outlined.

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