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# CHOICE OF ENTRY MODE INTO THE INTERNATIONALISATION PROCESS BY DOMINANT SPANISH HOTEL CHAINS

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## ABSTRACT

*This paper focuses on the development of an explicative model regarding the entry mode into a new market as chosen by Spanish hotel chains. Two types of variables have been analysed: some which refer specifically to the destination country, including its potential and cultural distance and others which depend on the company itself, such as its financial situation, the experience gained previously in the country or the company's degree of internationalisation. Several hypotheses have been put forward and empirically tested using secondary data.*

## KEYWORDS

*Internationalisation; Hotel Chains; Entry Mode; Partial Least Square.*

## ECONLIT KEYS

*F23; M16; L83; Z31.*

## **1. INTRODUCTION**

Over the last few years, following an international strategy has become vital for businesses, as during the end of the first decade of the 21st century, the economy of

the most developed countries collapsed almost at the same time and are yet to fully recover. This factor has a direct influence on the internationalisation of companies which, in the search for markets that do not suffer to such a great extent from the economic deceleration, they embark on new projects which, in many cases, imply the arrival in new countries with both potential and opportunities to offer.

Within this process, the selection of the entry mode into an international market becomes fundamental, given that the entry mode chosen by the company will give way to the adoption of strategic decisions which are of vital importance if they are to guarantee the success of said company in this market, to a greater or lesser extent.

The fact remains that the choice of entry mode into international markets has been one of the topics most frequently approached in academic publications over recent decades, and a multitude of studies have been found that focus on the choice of entry mode in different countries and sectors. However, in comparison with studies carried out on manufacturing companies, academic interest in the foreign expansion of hotel chains has come at a later date, some of the fundamental studies being that carried out by Dunning & McQueen (1982b) and subsequent papers focussing on the internationalisation of the hotel sector and based on theories usually applied to the study of direct foreign investment, such as Buckley & Casson's (1998) Internationalisation Theory, the Eclectic Approach of Dunning (1988) or the Uppsala Model (Johanson & Vahlne, 1979).

However, some researchers into the internationalisation of hotel and service companies agree on the need to demonstrate that publications dealing with entry modes and directed at manufacturing companies may not be applicable to service companies, where the absence of any linear relationship between increased ownership and control may be a possibility (Brouthers & Brouthers, 2003; Pla, Sánchez & Madhok, 2010; León et al., 2011; Kruesi, Kim & Hemmington, 2017). These authors point out that service companies may achieve control using entry modes that do not require capital investment, with the consequent reduction in resource commitment, a fact that has increased the use of this type of capital-free entry modality among service companies (Dev, Erramilli & Agarwal, 2002; Erramilli, Agarwal & Dev, 2002; Sanchez, Pla, & Hebert, 2007; Martorell & Forteza, 2010; Kruesi et al, 2017).

In this manner the hotel industry, which is capital intensive, has given rise to capital-free entry modes the likes of administrative contracts that can help circumvent political risk and cultural differences by completely separating ownership from administration (Martorell, Mulet & Otero, 2013; Ramón, 2002) and have become the most popular option for entering foreign markets among international hotel chains (Contractor & Kundu, 1998; Martorell & Forteza, 2010; Alon, Ni & Wang, 2012; Santos Brochado, & Esperança, 2016). Research into determining factors in direct foreign investment (DFI), in particular with regard to global multinational hotel chains, has grown rapidly, as has the number of recent relevant studies, such as those of Assaf, Josiassen & Agbola (2015) and Falk (2016).

The hotel industry is currently characterised by increasingly global competitiveness, and the larger hotel groups of North America and Europe (in the latter case fundamentally France, the United Kingdom and Spain) have recently been joined by a multitude of other major hotel groups as a result of the economic expansion of Brazil, India, Russia and China. In addition, the growth of worldwide tourist arrivals from 2005 to 2020 has a projected annual rate of 4.48%, which explains the major investments that international hotel chains have been making in an effort to satisfy this growing demand (Santos et al., 2016).

In this global context, Spanish hotel groups have been particularly active in terms of opening new establishments (Falk, 2016), a fact that emphasises the importance of developing management models that allow them to be more competitive in the international sphere.

The overall aim of this study is to develop an explicative model of the selection by hotel chains of the entry mode into an international market, analysing different variables which together, will push the hotel company to select one entry mode or another. The cultural distance between the country of origin and the country of destination, the potential this presents, the size of the company in question and its international experience, the entrepreneurial strength it demonstrates based on factors such as benefits and profits, or the experience the company has in the market in question. These are all factors which will determine the convenience of choosing one entry mode or another. This is not an option than can be easily modified once it

has been selected, especially in the event that the chain chooses to present itself with ways which imply investment in active hotel companies.

This study contributes to existing publications on two levels; first of all by developing a PLS model to describe the entry mode, this being a powerful tool in terms of prediction. That said, analysis of direct investment decisions regarding international markets in the hotel industry has shown that its use is not very common.

And secondly, the expected increase in internationalisation of the Spanish hotel sector requires more research that contributes to the international competitiveness of Spanish hotel chains. Along these lines, our study offers new empirical evidence regarding foreign market entry modes for the Spanish hotel sector, and demonstrates whether or not the proposals offered by the principal theories used in previous studies – Transaction Cost Theory, Dunning’s Eclectic Approach, Resources and Capabilities Theory, Real Options Theory and the Uppsala Model – are applicable to the internationalisation of Spanish hotel groups, or if these follow the current trend by opting for entry models that do not involve capital investment. In addition, given that we have focussed on the principal international Spanish hotel chains, i.e. those with the most experience and those that have had the best results in terms of international strategy, our results may be useful as management guidelines regarding the factors that should be taken into account when selecting the mode of entry into an international market.

The section below presents the theoretical background for the development of hypotheses regarding the factors that influence the selection of entry mode. Following this, the methodology used is described and the principal results presented. And finally, we will draw a series of conclusions and highlight the principal contributions offered by our study.

## **2. Theory and hypotheses**

### **2.1) ENTRY MODE IN THE HOTEL INDUSTRY**

The importance of the selection of the entry mode is a vital component in the internationalisation of any company, as it conditions the degree of control of the

activity which is developed and the level of resource commitment (Hill, Hwang & Kim, 1990; Sánchez, 2004). Additionally, it may restrict the company's involvement in international markets, posing future costs consistent with those of production and adjustment, when the companies make the decision to switch to other entry modes (Capel, 1992).

This importance given to the selection of entry modes is not a new development, something which is evident in the extensive research projects carried out in regards to this subject (Contractor & Kundu, 1998; Ramón, 2002; Quer, Claver & Andreu, 2006; Driha & Ramón, 2011; Berbel & Ramírez, 2011; Martorell et al., 2013; García de Soto & Vargas, 2015, Santos et al., 2016; Andreu, Claver & Quer, 2017; Kruesi et al., 2017, Berbel, Palacios, & Ramírez, 2017). Therefore, it is important to be aware of what is understood by this decision. Accordingly, Hill, et.al. (1990) affirm that the entry mode refers to the option chosen by a company in order to organise their activities in international markets. Similarly, Pla & León (2004) define it as the method selected by the company in order to work its way into a previously selected international market.

In terms of international expansion, hotel chains have two main options, depending on whether or not they are willing to make a direct foreign investment (DFI). Traditional views sustain that companies that possess the required resources and seek greater control will opt for capital-based investment modes, opting for contractual modes if they do not possess the required resources or if environmental conditions advise against investment (Andreu et al., 2017). Given that hotel chains currently show a preference for entry modes that do not require capital investment (Contractor & Kundu, 1998a; Martorell & Forteza, 2010; Alon et al., 2012; Santos et al., 2016), and independently of the availability of resources of the hotel chain or the environmental conditions, the findings of this study are principally based on the arguments proposed by Transaction Cost Theory, Dunning's Eclectic Approach, Resources and Capabilities Theory, Real Options Theory, and the Uppsala Model in an effort to confirm their applicability to the internationalisation of Spanish hotel companies.

With the aim of proposing an explicative model of the selection of the entry mode into an international market for the hotel sector which identifies the variables which

can influence this decision, we carry out a review of the models which have been applied to the sector and identify the existence of three types of variables which condition the entry mode chosen by the hotels: factors regarding the destination country, specific company factors (structural characteristics), strategic and control factors.

Within the first group of variables, we consider the cultural distance between the country of origin of the chain and the country of destination of the investment, the level of development of the country into which the chain intends to enter, in addition to the penetration of foreign investments; factors which indicate the market potential. In the second group, the specific company variables, it is necessary to assess the size, international experience, degree of internationalisation, prior experience in the destination and economic situation of the hotel chain.

Lastly, we highlight that the selection of the entry mode of the hotel chains influences the strategic and control factors of the company. This group includes aspects such as the importance of the reservation system, investment in training, quality control and the hotel chain brand image, in addition to interest in increasing the overall size of the hotel chain (Contractor & Kundu, 1998; Ramón, 2002; Berbel & Ramírez, 2011; Martorell et al., 2013; Driha & Ramón, 2011 and García de Soto & Vargas, 2015, Berbel et al., 2017). However, given that we based our empirical analysis on secondary data sources, we will therefore not include this type of variable, focusing on the specific factors of the country of destination and the structural variables of the chain.

We will therefore proceed to display the variables considered and will suggest the hypothesis of the model, considering the selected entry mode to be a dependent variable.

## **2.2) SPECIFIC VARIABLES IN THE DESTINATION COUNTRY INFLUENCING ENTRY MODE CHOICE**

### **1. Cultural distance.**

Within this concept, latent differences can be identified in the way in which companies act, in addition to the reaction of individuals to such actions, which is why this is fundamental when considering the expansion of a hotel chain abroad. Besides the fact that these cultural differences are determining factors for the expanding company, the authors who have written about this topic have not come to agree on one single theory regarding what the company itself can do in order to minimise the risk to be taken. We can therefore identify theories which favour the imposition of the destination country of the methods and way of working adopted by the company itself in its country of origin, arguing that this option may be a good option if we are to reduce the costs of adaptation and internationalisation.

Conversely, there are those authors who maintain that the companies themselves should minimise the costs which are produced by uncertainty before unknown cultures, seeking partnerships with local companies that provide greater flexibility for the company, if, where applicable, it was to decide to leave the market as a result of the difficulty of adapting to it (Kim & Hwang, 1992). Similarly, the focus based on the resources defends that any company that is to embark on a new market should be clear on the way in which it plans to trade and adapt to it, even though this may mean that it has to call into question its own work routines and adopt new ones, at the hand of local partnerships. The focus of the Resource Dependence theory argues that maintaining local support is fundamental if the company is to face key aspects such as product adaptation (Rialp, 1999) or even to go as far as assigning tasks which represent the cultural gap (Contractor & Kundu, 1998; Par & Park, 2004).

Based on the second vision, we suggest that the cultural distance has an inverse influence on the mode of entry, since it implies higher costs due to the lack of knowledge of the market and the lack of partners.

**Hypothesis 1:** The largest cultural distance is negatively linked to the entry mode chosen by hotel chains.

## 2. Market potential.

The potential of the market in question is another key factor to be analysed by the company, given that if it eventually decides to enter into this new country, the

operation and strategy which should be followed will be affected by the potential identified by the company in the country. The potential analysis variables to be considered by the hotel chains include the risk, in which social, economic, legal and political factors should be taken into account, the level of development in the particular market and finally, the degree of penetration of foreign investments.

The degree of risk in the country is a key factor in the definition of the strategy to be followed. For example, a high political risk will cause the company to be inclined not to devote a significant amount of resources given that this uncertainty can ultimately end up working against them, as demonstrated by the Transaction Cost Theory (Pak & Park, 2004, Andreu et al., 2017). Another of the characteristics that the company itself can change as a result of the high risk of this entry mode. In accordance with the Contingent Focus, in this case the hotel company would choose a low investment entry mode as opposed to one based on property, in order to offer a high level of flexibility which, in the event of changes in the surroundings, enables it to adopt measures quickly and effectively, without causing significant losses (Hill et al., 1990; Kim & Hwang, 1992; Luo 2001). These arguments coincide with the postulates of Real Option Theory, which affirms that, in the face of high levels of uncertainty, the company will opt for waiting, maintaining flexibility and opting for low investment entry modes (García de Soto & Vargas, 2015). Another focus is that of Resource Dependence Theory, which highlights the possibility that a company may not be capable of generating the necessary resources to guarantee successful entry into a high-risk country and therefore, in this case, could work together with a partner resident in the country in question and provide information obtained in order to minimise exposure and therefore share the risk (Azofra & Martínez, 1999; Brouthers, 2002).

The level of development presented by the market to which the hotel company aims to access, which will have a great impact on the final decision made. A country with a high level of development, which in terms of infrastructure, standard of living or public investment will represent a more attractive market that is susceptible to accepting a new company (Andreu et al, 2017). Studies by Dunning & McQueen (1981, 1982a, 1982b) show that in terms of the hotel industry, the more economically

developed the country, the greater the impact of shareholders on the business in question.

Another factor which will determine the strength of the market is the penetration of the foreign investments. A country which represents an opportunity for participation investment will ultimately be more attractive for hotel companies looking to access a new market (Dunning & McQueen, 1981; Driha & Ramón, 2011).

It is clear that a greater market potential will have a positive influence on the entry mode chosen in order to facilitate the internationalisation of the hotel companies, given that it implies greater opportunities that the investment they are willing to make will be repaid and will bring success in the future. We therefore propose the following hypothesis:

**Hypothesis 2:** The largest market potential is positively related to the entry mode selected by the hotel chains

### **2.3) SPECIFIC COMPANY VARIABLES INFLUENCING ENTRY MODE CHOICE**

The specific company factors refer to the size of the chain, its international experience, the degree of internationalisation and its financial situation.

#### **1. Size of the chain.**

Despite the existence of numerous lines of thought with respect to the influence the size of the company has on the market entry mode chosen, some studies that defend those strategies which develop into closed control with respect to those operations in the market to which it has just accessed, are less frequent in the context of large businesses. The aforementioned argument is underpinned by the fact that by taking into account the operations carried out within this industry, the hotel companies have no other option than to look for partners with which to share the high costs of investment in a new market (Pla & León, 2004, Driha & Ramón, 2011). Likewise, it is argued that potential partners prefer to work alongside consolidated, larger chains, as they offer them sufficient guarantee of success in

hotel management and it is therefore the large companies which do not find it difficult to come across international partners (García de Soto & Vargas, 2015).

It is for this reason we can establish the following hypothesis.

**Hypothesis 3:** The size is negatively related to the entry mode chosen by the hotel chains

## 2. International experience.

Within a traditional view, in line with the Uppsala Model, we can see how a number of authors state that the more international experience, the less help a company needs from a local partner (Erramilli et al., 2002; León et al., 2011; Andreu et al, 2017).

On the other hand, more experience also implies lower transaction costs, given that when it comes to trade and supervision with local partners, the integration of business activities is more efficient and thus, said costs are reduced (Williamson, 1985).

Based on this traditional view, we maintain that the company which has a high degree of internationalisation will be able to take advantage of knowledge and benefits that other, inexperienced companies lack, at the same as having better conditions when it comes to selecting the entry mode, thus assuming greater investments. We therefore suggest that:

**Hypothesis 4:** The international experience is positively related to the entry mode chosen by the hotel chains

## 3. Degree of internationalisation.

A company with a high degree of internationalisation will observe how its need for support from local partners in order to expand, reduces (Erramilli, 1991). In such a way that those companies which demonstrate a high level of internationalisation, in addition to a reduction in the costs it will have to cover upon arrival in a new country, opt for entry modes within which it can apply the advantages acquired by way of said experience. We can therefore suggest that:

**Hypothesis 5:** The degree of internationalisation is positively related to the entry mode chosen by the hotel chains

#### 4. Financial situation.

When a company must make an important decision that will ultimately have an impact on its financial situation, it is clear that if said company is profitable, it is in a better situation to confront it. If the company demonstrates a good ex-ante profitability, this suggests that it is sufficiently competitive to generate profits, which at the same time enables it to have funds and resources to invest in this operation.

Quer et al. (2006) demonstrate that both good profitability and better availability of internal economic funds is directly related to more predisposition to investment.

The level of debt shown by the company demonstrates the degree of dependency it has with respect to financial entities and other figures which act as funding sources. A company which demonstrates a low level of debt will be able to cope with investments and expenses that need to be made with greater solvency. On the other hand, a company with an average level of debt does not necessarily have to present less guarantee when it comes to investment, although its capacity to respond to financial commitments will not be the same.

In view of the analysis of the overall financial situation, it can be established that the better the financial situation is, understanding this to be a good level of profitability, sufficient internal financial resources and a low level of debt, it will be able to make greater investments and obtain more profits when choosing an entry mode. We can therefore establish the following hypothesis:

**Hypothesis 6:** The financial situation of the chain is positively related to the chosen entry mode

#### 5. Experience in the destination.

The hotel chain's experience in the destination will have a very significant impact on the entry mode chosen. Those hotel companies which do not have any experience in the country should commit a larger quantity of resources compared to

those companies which are already visible in the market. This is due to the fact that they are new companies in the country which have to cope with costs posed by cultural difference, the implementation of their methods and practices or the search for ways in which to collaborate which guarantee more probability of success in the operation, amongst others (Driha & Ramón, 2011).

However, the hotel chains which are already active in the country, after having overcome the barriers posed by the first implementation, in the following stages they will not have to make such an investment. As they are already known in the market, they ultimately find it easier to find local partners. We therefore suggest the following hypothesis:

**Hypothesis 7:** Experience in the destination country is negatively related to the entry mode chosen by the hotel chains

Figure 1 synthesises the proposed model and hypotheses.

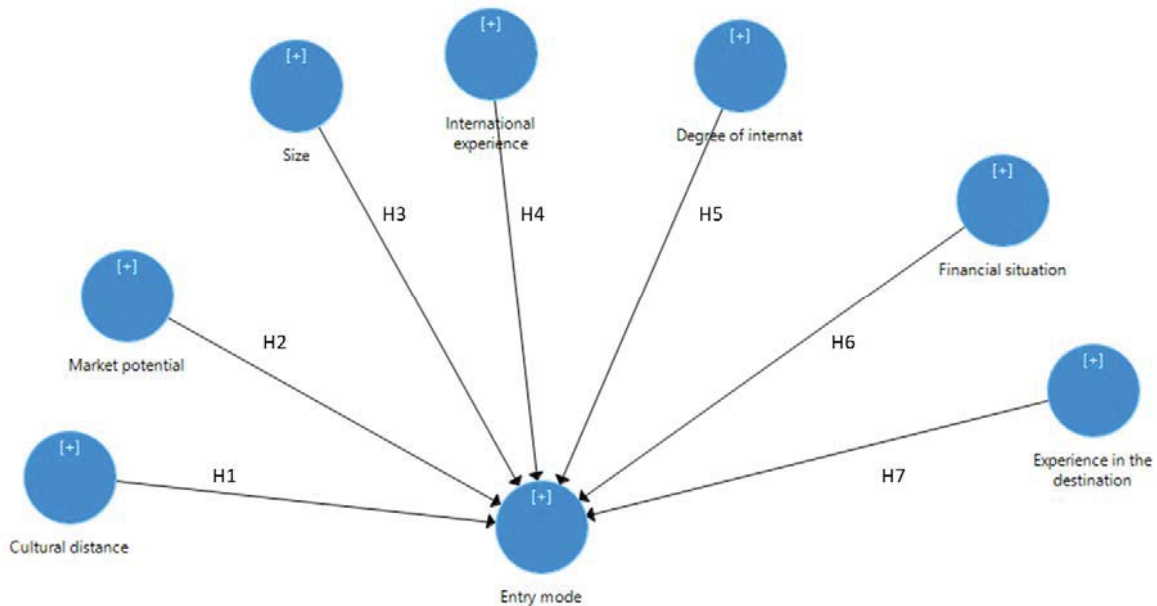


Figure 1: Proposed model.  
Source: Own elaboration.

### 3. **METHODS**

#### 3.1) **SAMPLE AND DATA**

The target population consists of all the entries into international markets of the top ten hotel chains in the ranking of their international presence, prepared by Hosteltur (2016). Specifically, it refers to the opening of hotels in 2016 in international markets, whether or not they were previously present in them. We obtained a sample of 35 entries. Table 1 shows a technical datasheet for the research.

<b>Data collection method</b>	Secondary data
<b>Target population of the study</b>	The opening of hotels abroad by the top 10 hotel chains in the Hosteltur rankings based on international presence in 2016
<b>Scope</b>	Global
<b>Information collection date</b>	May and June 2017
<b>Sample obtained</b>	35
<b>Data processing software</b>	SmartPLS 3.2.4, SPSS Version 23 and Microsoft Office Excel 2003

Table 1: Research technical datasheet.  
Source: Own elaboration.

Taking into account that the size of the sample (35 valid observations), does not permit the application of structural equation models based on covariances, we decided to employ the PSL technique of partial least squares or analysis of variance, given that the minimum recommendations of this technique are between 30 and 100 sample observations.

In accordance with works by Contractor & Kundu (1998), Ramón (2002), Martorell et al. (2013) and García de Soto & Vargas (2015), we construct the Entry Mode variable which will be as follows: 1= if the establishment operates as a franchise, 2 =if it operates under a management contract, 3 = rental agreement, 4 = partial property (joint venture) and 5 = management of the total establishment property. Therefore, the dependent variable is an ordinary polytomous measure which, while increasing its value, demonstrates higher levels of shareholder ownership and total control over the establishment, ultimately giving the company less flexibility to vary its international position.

The indicators of the different variables have been measured using the measurements employed in previous studies, which analyse the variables which influence the entry mode of the hotel chains, in accordance with table 2:

VARIABLE	INDICATORS	WAY OF MEASUREMENT	STUDIES	CODE
Cultural distance	Cultural distance	(1= Europe, 2 = Mediterranean basin, 3 = Caribbean, 4 = Rest of the Americas, 5 = Africa and Asia)	Quer et al. (2006)	DIST_CULT
Market potential	Risk posed by country	Risk index CESCE, scale 1 to 5	Quer et al. (2006)	IND_RIESGO
	Level of market development	GDP per capita year of investment (year j)	Contractor & Kundu (1998) Ramón (2002) Driha & Ramón (2011) Martorell et al. (2013) Berbel et al. (2017)	DES_MDO
	Degree of penetration by foreign investments	Ratio IDE/GDP (year j-1)	Driha & Ramón (2011) Martorell et al. (2013) Andreu et al. (2017)	PEN_INVEXT
Size	Size, Sales	Average income from chain sales in the last three years	Contractor & Kundu (1998) Ramón (2002) Quer et al, (2006) Driha & Ramón (2011) Martorell et al. (2013) García de Soto & Vargas (2015) Berbel et al. (2017)	TAM_VTAS
	Size, number of employees	Average number of employees in the last three years	Pla y León (2004) García de Soto & Vargas (2015)	TAM_EMP
	Size, number of rooms	Total number of rooms in the chain	Martorell et al. (2013) García de Soto & Vargas (2015)	TAM_HAB
	Size, number of establishments	Total number of hotels in the chain	Driha & Ramón (2011)	TAM_ESTAB

International experience	Experience in international markets (years)	Number of years since the chain established its first hotel abroad	Pla y León (2004) Contractor & Kundu (1998) Ramón (2002) Driha & Ramón (2011) Martorell et al. (2013) García de Soto & Vargas (2015) Andreu et al. (2017) Berbel et al. (2017)	EXP_AÑOS
	Experience in foreign establishments	Number of establishments in foreign countries	García de Soto & Vargas (2015)	EXP_ESTAB
	Experience, number of foreign countries	Number of foreign countries with presence in the chain	García de Soto & Vargas (2015)	EXP_PAISES
Degree of internationalisation	Degree of internationalisation	Ratio of establishments abroad to total number	Contractor & Kundu (1998) Ramón (2002) Driha & Ramón (2011) Martorell et al. (2013) Berbel et al. (2017)	EXP_GRADO
Financial situation	Ex-ante profitability	Average ROA last three years (operating income/total assets)	Quer et al, (2006) Driha & Ramón (2011)	FINAN_ROA
	Internal financial funding	Average liquidity ratio over the last three years	Quer et al, (2006) Driha & Ramón (2011)	FINAN_LIQ
	Level of debt	Average debt over the last three years	Quer et al, (2006) Driha & Ramón (2011)	FINAN_ENDEU
Experience in the destination	Experience, previous establishments in the destination	Number of establishments in the destination	Driha & Ramón (2011)	EXDES_ESTAB
	Experience, rooms in the destination	Number of rooms in the destination	Driha & Ramón (2011)	EXDES_HABIT
	Entry mode	(1 = Franchise, 2 = Management contract, 3 = Rent, 4 = Partial property, 5 = Total property)	Contractor & Kundu (1998) Ramón (2002) Driha & Ramón (2011) Martorell et al. (2013) García de Soto & Vargas (2015)	MOD_ENT

			Berbel et al. (2017)	
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Table 2: Measurements of variables.  
Source: Own elaboration.

In order to work with the PLS model, the values obtained (excluding the indicator which refers to the cultural distance, the risk index and the “entry mode” indicator” being scalar variables, have subsequently been transferred onto a Likert scale, from 1 to 5, therefore calculating 5 identical intervals depending on the minimum and maximum of the sample analysed.

In the case of the country risk index and the hotel chain’s debt ratio, the scales were inverted in order to have the same sense of influence as the other indicators of the constructs to which they belong, so that value 1 represents the highest levels of risk and debt and value 5, the lowest levels of risk and debt ratio.

In order to obtain the necessary database in order to compare the proposed model, consisting of secondary data, a number of different sources have been used; fundamentally the SABI database, in order to obtain the annual accounts belonging to the hotel chains analysed, the Hosteltur rankings with reference to the presence of hotel chains in Spain and abroad in 2016, the websites belonging to different chains, reports by CESCE regarding the country risk index and different banking and financial reports, in order to obtain the GDP and IDE data from abroad.

#### **4. RESULTS**

The first step which needs to be carried out in a PLS study is to specify, explicitly, both the structural model and the existing relationships between the indicators and constructs within the measurement model. Although the measurement and structural parameters are estimates, a PLS model should be analysed and interpreted in three stages:

##### 1. Assessment of the global model.

2. Assessment of the validity and reliability of the measurement model, analysing whether the theoretical concepts are correctly measured using the variables that have been observed.
3. Assessment of the structural model, evaluating the weight and magnitude of the relationships between different variables.

### Assessment of the global model

Analysis of the goodness of fit of the model should be the starting point for assessment of the same (Henseler, Hubona & Ray, 2016). We use a standardised root mean square residual (SRMR) as an approximate measure of fit for the model, obtaining an index value of 0.071, which is inferior to 0.08, indicating that the model is correctly adjusted (Hu & Bentler, 1998).

### Assessment of the validity and reliability of the measurement model

The model proposed presents measures which reflect the variables, which establishes that the covariation between measurements is explained by way of the variation of a common concept, being the indicators of a reflect

The individual reliability of the item is assessed through the charges ( $\lambda$ ) or simple correlations, which accept an indicator as an integral part of a construct if it is greater than 0.707, which implies that the variance shared between the construct itself and its indicators is greater than the variance of the error (Carmines & Zeller, 1979). In accordance with this criterion, in light of the results obtained with the model, 7 indicators are eliminated from the model (PEN\_INVEXT, IND\_RIESGO, TAM\_EMP, TAM\_VTAS, EXP\_AÑOS, FINAN\_END y FINAN\_ROA). This removal has barely changed the structural model and has in no way modified the conclusions drawn from it.

With regards to the reliability of the construct, we have analysed the Alfa de Cronbach coefficient and the Construct Reliability (Pc), which should reach levels higher than 0.7.

In order to assess the convergent validity, which implies that the indicators represent one single underlying construct, we use the average variance extracted (AVE), which provides the amount of variance that a construct obtains from its indicators in relation to the amount of variance due to a measurement error and must reach values greater than 0.5 (Fornell & Larcker, 1981).

The results are shown in table 3 and confirm the reliability of the constructs and convergent validity.

Construct	Alfa de Cronbach	Construct Reliability (Pc)	Average Variance Extracted (AVE)
Market potential	1.000	1.000	1.000
Cultural distance	1.000	1.000	1.000
Size	0.805	0.895	0.810
International experience	0.866	0.903	0.825
Degree of internationalisation	1.000	1.000	1.000
Financial situation	1.000	1.000	1.000
Destination experience	0.935	0.967	0.936
Entry mode	1.000	1.000	1.000

Table 2: Reliability of the construct (Alfa de Cronbach and Pc) and Convergent validity.

Source: Own elaboration.

The discriminate validity indicates to what extent a construct is different to other constructs. In order to confirm that it complies with our model, we have verified that the correlation between constructs is lower than the square root of the extracted mean variant (Fornell & Larcker, 1981) and that this criterion has been verified by way of a cross-correlation table. Likewise, the HTMT index (Henseler, Ringle & Sarstedt, 2015) has been used, using bootstrapping, ensuring that in all intervals the value of 1 falls outside them, implying that the constructs are different and there is discriminant validity.

### Validation of the structural model

In order to carry out an adequate interpretation of the internal or structural model in the field of PLS modelling, the following questions, among others, should be answered (Falk & Miller, 1992):

- To what extent do predictor variables contribute to the variance of endogenous variables?
- How much of the variance of endogenous variables is explained by the constructs that predict them?

In order to answer both questions, we are going to employ the use of two basic indexes: the standardised path coefficients,  $\beta$  and R<sup>2</sup>.

The  $\beta$  coefficient represents the path coefficients or standardised regressions and should be interpreted in the same way as the  $\beta$  coefficients obtained from the traditional regressions. Chin (1998) proposes that in order to be considered as significant, the path coefficients should reach a value of at least 0.2 and preferably above 0.3. In view of the results, it is necessary to eliminate the relations between the Market Potential and Financial Situation with the Entry mode, from the model.

In order to carry out the analysis of the strength of the research hypotheses proposed in this study that will lead us to their contracts, we performed a Bootstrap analysis in PLS in order to use a 1-tailed t-Students distribution, generating 500 subsamples which enable us to determine which relationships are statistically significant.

	Suggested Effect	Path Coefficients	T-value (bootstrap)	Supported
H <sub>1</sub> : Cultural Distance → Entry mode	(-)	-0.270	2.044	Yes
H <sub>2</sub> : Market Potential → Entry mode	(+)	-0.024	0.146	No
H <sub>3</sub> : Size → Entry mode	(-)	-1.216	2.274	Yes
H <sub>4</sub> : International Experience → Entry mode	(+)	1.036	2.057	Yes
H <sub>5</sub> : Degree of internationalisation → Entry mode	(+)	0.651	3.993	Yes
H <sub>6</sub> : Financial Situation → Entry mode	(+)	-0.060	0.644	No
H <sub>7</sub> : Destination Experience → Entry mode	(-)	-0.391	1.756	Yes

Table 2: Results of the structural model.  
Source: Own elaboration.

Observing the t-Students obtained, we can verify that the relations with  $\beta$  coefficients greater than 0.2 are all significant. The Cultural Distance – Entry mode, Size – Entry mode, International Experience – Entry mode and Destination Experience – Entry mode relations are accepted for a level of significance  $P < 0.05$  and the Degree of Internationalisation – Entry mode relation,  $P < 0.001$ .

Thus, the entry mode chosen by the hotel chains in order to enter into international markets is explained by factors specific to the destination country for the investment and for hotel chain structural factors. In regards to the destination country, the largest cultural distance negatively influences the levels of investment made by the chain, which is not related to the variable referring to the market potential.

With reference to structural variables, the largest international experience and degree of internationalisation drive the hotel chains to make larger investments. On the other hand, the larger the chain or the more prior experience it has in the destination country, enable to chain to trust strategic partners and opt for contractual entry modes which do not require investment. The hypothesis which refers to the chain's financial situation has not been supported and we therefore cannot state that it has an influence on the entry mode chosen in the international expansion of a hotel chain.

Regarding the predictive power of the model, it is measured by way of the R<sup>2</sup> value for the dependent latent variables; a measure that indicates the level of variance of the construct that is explained by the model, interpreting itself, in addition to the path coefficients, in the same way as the R<sup>2</sup> obtained in a multiple regression analysis. Falk & Miller (1992) point out that the explained variance of the endogenous variables (R<sup>2</sup>) should be greater than or equal to 0.1, being the R<sup>2</sup> value of the entry mode 0.656, well above the 0.1 value recommended by Falk & Miller (1992), concluding that the model presents adequate predictive power.

Figure 2 reflects the path coefficients and the model R<sup>2</sup> with the explicative variables that have been supported.

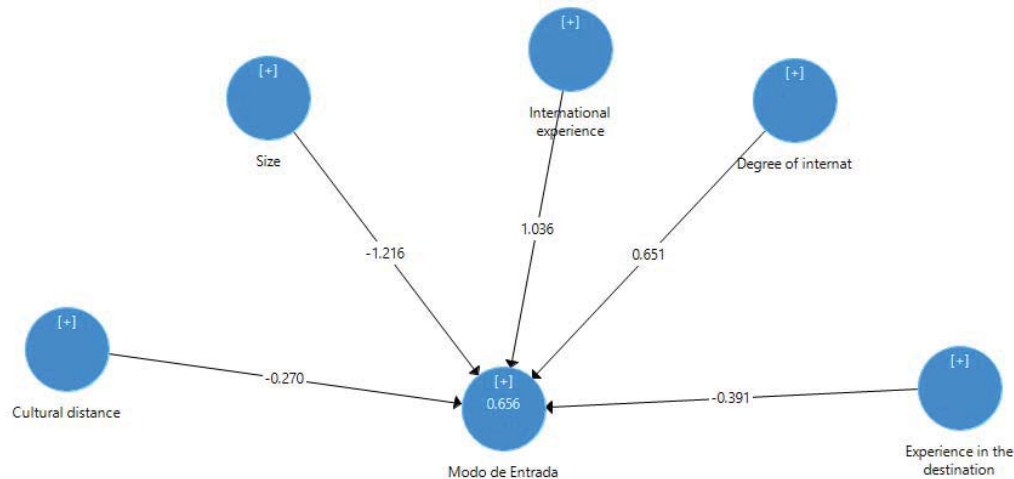


Figure 2: Results of the structural model.  
Source: Own elaboration.

Finally, in order to evaluate the overall fit of the model, we have carried out the Stone-Geisser test of predictive relevance, where we obtain Q<sup>2</sup> values of 0.508 for the constructed entry mode. Given that positive values of this statistic indicate that the model has predictive capacity, in view of the values obtained, we can affirm that our model has good predictive quality overall.

## **5. CONCLUSIONS**

Globalisation has affected all economic sectors and had an impact on the overall level of competency in the tourism sector, particularly the hotel sector, which has seen it become global, thus forcing businesses to internationalise.

Within the international strategy, the entry mode chosen by the hotel company has important strategic consequences in terms of the way in which it conditions the level of control of the operations and immobilisation of company resources in the markets. It is as a result of this that the guarantee that hotel chains adopt this decision as rationally as possible becomes vital, looking for the highest success level in the market within which they choose to operate.

A current trend can be observed in which hotel chains opt for entry modes that do not require capital investment, a fact that confirms an absence of any direct

relationship between increased ownership and control in the hotel sector (Brouthers & Brouthers, 2003; Pla et al., 2010; Leon et al., 2011; Kruesi et al, 2017).

In this study, we have identified different variables which influence the selection of the entry mode for hotel chains into a foreign market.

Based on the results that have been obtained, we verify that the cultural distance (H1) inversely influences the entry mode chosen by the hotel chains.

The results are in line with Transaction Costs Theory and Real Options Theory, which consider cultural distance as a source of uncertainty that creates additional costs for companies. For this reason hotel chains seek the cooperation of a local partner in an effort to maintain the strategic flexibility of the company.

It is therefore recommended that the hotels which face an elevated level of uncertainty before unknown cultures search for partnerships with local companies and opt for entry modes which do not imply high capital investments, postponing them for when they have resolved said uncertainties and have a better knowledge of the market which reduces the existing cultural distance.

The relation found between the size of the company and the entry mode (H3) demonstrates an inverse relation which suggests that the biggest hotels are those which have the least difficulty finding strategic partners for their international operations, a benefit which should be taken advantage of in order to achieve fast growth on an essential scale without the need for an increased investment effort.

With regards to the chain's international experience (H4), the more experience it has, the more the chain will be able to minimise the risks of capital investment, taking advantage of the higher potential for benefits and to control the entry mode which imply property (partial or total). Our results are in line with Uppsala Model. Therefore, we recommend that in the initial periods of the internationalisation process, the hotels opt to operate under contractual formula and begin to do so with entry modes which imply property, once accumulated sufficient experience in international operations. In this sense, it should be emphasised that the international experience which demonstrates influence on the entry mode derives from the greater number of foreign countries in which it operates, not showing any influence on the number of years since the first hotel was opened abroad. This way, a company which has been operating few foreign hotels for many years, or a company which focuses on a small

number of countries, will not accumulate the same experience as those hotel companies which opt for wider geographical scope and operate a larger number of establishments abroad:

Similarly, the higher degree of internationalisation (H5) directly influences the entry mode, implying larger investments by hotel companies who ultimately see how their need for the support of local partners is lower and can therefore seek the advantages in profitability and the control of riskier entry strategies.

The degree of internationalisation may be seen as a source of knowledge regarding international markets as the hotel chain gains experience in the international sphere, meaning that hypotheses 4 and 5 are increasingly in agreement with the postulates of the Uppsala Model, which proposes that hotel chains begin their international expansion with entry modes that do not require capital investment, opting for modes that require greater commitment of resources when they possess greater international experience.

Lastly, it has been verified that the experience in the destination itself (H7) has an inverse influence on the chosen entry mode. These results also concur with the postulates offered by Transaction Costs Theory and Real Options Theory. Thus, once the barriers of the first implementation of a destination have been overcome and are better known, the chains can choose to search for local partners in order to grow faster and without the need for substantial capital investments.

We can therefore conclude by highlighting that although the hypotheses regarding the influence of the market potential (H2) and the financial situation of the hotel company itself (H6) have not been supported in the model developed, the results suggest that these factors have an influence contrary to those outlined in the model. This may be a consequence of the fact that in stronger markets, there is more possibility of finding partners which are strategic for hotel chains. Another explanation is that, even in markets of significant potential, hotel chains opt for entry modes that involve less commitment of resources as a means of achieving rapid international growth. Likewise, their better financial situation makes them more attractive as potential partners and a hotel chain in a good financial situation will be able to take advantage of this in order to operate on an international scale with entry modes which do not require high levels of investment and are thus lower risk. The tendency

to opt for entry modes that do not require capital investment, regardless of the availability of resources of the chain or the market situation (Alon et al., 2012, Santos et al., 2016), would appear to be confirmed with regard to these variables in the internationalisation of the major Spanish hotel chains.

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