THE PENNSYLVANIA STATE UNIVERSITY
SCHREYER HONORS COLLEGE

DEPARTMENTS OF FINANCE AND HOTEL, RESTAURANT, AND INSTITUTIONAL MANAGEMENT

# THE GLOBAL EXPANSION OF MULTINATIONAL HOTEL GROUPS UNDER THE DOMESTIC AND LOCAL STRATEGIES

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## ABSTRACT

Based on the examination of more than 850 announcements of multinational hotel groups announcing new hotel or brand openings abroad, this thesis analyzes shareholder reactions for firms expanding internationally: domestic, local, or mixed. Furthermore, this paper analyzes other factors that affect these returns, such as continent of expansion and casino versus nongaming hotels. A three-day abnormal stock return analysis, surrounding each announcement, suggests that the domestic strategy yields the highest returns. With the domestic strategy, hotel groups can leverage their strong domestic brands abroad, creating a consistent experience that guests can expect. The author also notes the rapid growth of casinos into the global arena.

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# Chapter 1

## Introduction and Recent Trends in Multinational Hospitality

In our ever globalizing economy, firms of all sizes and industries look to expand their businesses abroad to meet the demands for goods and services from clients all over the world. As such, firms face many challenges when making the big plunge into new markets across the sea. Chiefly, these businesses must balance the need to adapt to the local culture, while maintaining their original domestic identity. General business theory suggests that, to meet the needs of a diverse client base, firms should adapt to local customer base when expanding internationally.

However, the hospitality industry in particular has its own unique challenge: the diverse clientele. Unlike other industries, hotels serve foreign guests who do not identify with the local area. Therefore, through this thesis, we shall determine which firms have the greatest success in expanding abroad: locally minded firms, domestically centric companies, firms that blend the two. Besides type of strategy, this study also investigates other factors that affect the prosperity of global expansion, such as continent of expansion and the type of hotel, as in a casino or a nongaming establishment. The following literary review investigates some of the efforts made by corporations to meet the shifting demands abroad.

Singh, Upneja, and Dalbor (2003) examine at how earnings have grown over the previous twenty years amongst restaurant firms operating globally versus those operating domestically. First, the study completes a literature review focusing on internationalization of firms in general, how hospitality has grown, and the increased earnings due to global expansion. By using publicly traded restaurant firms on the COMPUSTAT Database, the authors analyzed the change in net sales, operating income before depreciation, pre-tax income, pre-tax domestic income, and pre-tax foreign income amongst domestic and multinational firms. The authors find that sales growth remained about the same for both domestic firms and MNCs. On the other hand, MNCs had greater success in operating income and pre-tax profitability. In addition, MNCs had less negative growth in sales in the domestic market, in comparison to those firms only operating domestically. Hence, the results conclude that MNCs have greater efficiency in transforming sales into profits through their operations. Even though this study did demonstrate that restaurant firms earn more by going internationally, the authors did not provide any factors that could cause this success. Finally, the study investigated firms on a limited scope. For instance, the study only chose restaurant firms that had complete data for the entire twenty-year period surveyed. Future research should broaden the scope to include younger firms, i.e. less than twenty years old, and firms outside the restaurant industry.

Hua and Upneja (2007) also discuss the internationalization of restaurant firms. This study examines the main factors behind the decision to go international within the restaurant industry, in particular for US publicly traded companies. Secondly, the paper provides recommendations to US hospitality managers on how to expand globally. The authors analyze data from publicly traded firms immediately before and after the internationalization decision to see how the market reacts. The authors conclude that larger firms that already have a strong hold of their market tend to look outward and move internationally to pursue other opportunities. Conversely, firms that choose to continue operating completely at home (a) have high level of debt, (b) have rapid grow opportunities domestically at the firm specifically and/or (c) exist within a rapidly growing domestic market. In the end, the paper delineates that the key factors in making this international decision include size, leverage, penetration, and the market excess return each year. This paper represents one of the first studies to provide managers financial data and analysis to make conclusions about the factors affecting the profitability for firms looking to expand internationally. In terms of future research, the authors could have expanded their studies to not just restaurant firms but to hotel firms as well. Then, we would have a greater sense about the nature of the hospitality industry as it continues to grow globally.

Hua and Upneja (2011) examine how internationalization affects the value of US publicly traded restaurant firms. Like previous studies, this study gathers data from Compustat *Industrial Annual*. To analyze the data, Hua and Upneja use Pearson correlation, regression analysis, and Vuong's *Z*-test, and also complete a literature review with a focus on models evaluating firms, especially firms with the intention of growing internationally. The study calculates the independent variable of "internationalization" as the ratio of pre-tax foreign earnings and the sum of all earnings, both domestic and foreign. The authors find that as internationalization increases, the size of the firm, i.e., market capitalization, increases as well. However, the study did not analyze other factors, such as differences in tax law in various countries, which may affect profitability. This article represents the first to discuss the effects on stock market capitalization by global expansion of hospitality firms, in particular.

Expanding beyond just restaurants, Tsai, et al. (2011) provide a literature review on hospitality financial management articles from 1998 through 2009. By analyzing prior work, the authors look to push the direction for future research in the field. In order to find appropriate articles, the academics select nineteen financial management keywords, related to financing, investing, dividend decisions, and hospitality finance specifically, to search in the ABI/INFORM database. Some keywords chosen include "debt," "ownership," and "financing." Then to find even more articles, the authors identify reference lists with a similar subject matter. However, the authors limited their search to the small timeframe of about ten years and only the articles in English. In the end, the researchers discovered 98 published articles in both theoretical and practical applications that expand upon the major themes of hospitality financial management, including investing, dividend policies, corporate finance within the hospitality industry, and the success of firms. The authors found that in the future, managers require more research in the practical applications, especially within equity financing and asset management. In that light, managers can make better decisions in hospitality finance moving forward. Based on this research, future studies should expand upon the concepts of hospitality financial markets through the lens of multinational operations.

Creal, et al. (2011) evaluate whether maintaining operations in multinational countries increases of firm value of US multinational companies (MNCs), looking at both actual and implied values by international standards. To determine the differences in actual and implied firm value from Bureau of Economic Analysis (BEA) data, the study broke down the operations by country-region segments, instead of just industry, as done by Berger and Ofek (1995). To delve deeper, the authors try to pinpoint certain factors that will affect MNCs competitive advantage, in comparison to other firms only working domestically. Some factors that the study finds include taxes, profit diversification, host-country corruption, operational flexibility, and cost of capital (CoC). Within operational flexibility, MNCs can benefit from vertical expansion, where different parts of the supply chain reside in different countries, and horizontal expansion, where a MNC replicates the entire supply chain in each region. The vertical lets MNCs find the country with the cheapest prices for labor and inputs, while the horizontal gives you the most exposure to new customers. In addition to the BEA, the authors used Compustat Segment data, Worldscope data and Compustat Fundamental Annual data with excess firm value as the dependent variable. The study uses the aforementioned factors, i.e. operational flexibility or CoC, as the independent variables.

In the end, the study finds that greater activity abroad leads to a premium in shareholder value. The authors conclude that global firms can maximize shareholder value by taking advantage of international tax code differentials and by minimizing fluctuations in profits through increased debt capacity, enhanced repayment ability, and reduced tax payments.

As one can see from this research, academics have completed significant work in the realms of international business and restaurant management, but not in hotel management in particular. Michael Olsen (1998) examines this point. In the article, he focuses on four main strategies: strategic planning, competition and competitive advantage, internationalization, and strategic implementation. In the third, “internationalization,” the author argues that previous research in the global expansion of hotel groups has focused on particular regions or from a single country of origin. This thesis below explores this underrepresented area by examining hotel groups, including gaming and nongaming facilities, from various regions expanding to other regions of the world.

# Chapter 2

## Hypothesis Development

As this study will examine the different factors affecting the globalization of multinational hotel groups, I will focus on several different factors that could explain the varying levels of success for these firms expanding abroad. Hotel groups should first recognize that foreigners represent their major customer base. As such, the consumers want products and services with which they have the greatest familiarity. Consumers trust a well-established domestic brand more, because they understand can expect familiar, consistent service from the well-established brand name. If hotel groups adapt to the local strategy, local consumers will appreciate the change. However, most local consumers do not stay in hotels because they live in close proximity to their actual residences. For instance, if an American travels to Rome, he or she might prefer to stay at a familiar Ramada Hotel within the Wyndham family of brands versus a local unknown hotel that the guest could find risky.

When comparing strategies for expanding within the continent versus beyond the home continent, the local strategy should win out when expanding within the same continent. In general, firms expanding to other countries within the same continent should experience similar preferences and tastes in the local market. Therefore making small changes to the brand to adapt to the local culture should not affect the consistency of the overall brand image too much. However, when expanding to other continents, the domestic strategy should be chosen due to foreign nature of the clientele, as aforementioned. When visiting foreign continents, guests may prefer a hotel with a strong brand name, as established in the domestic market, to ensure a consistent experience that the client can trust.

Finally, I hypothesize that casinos will have more success expanding internationally than nongaming hotel groups due to the greater room to grow. At this point, most markets have experienced a saturation of nongaming hotels with a number of brands across continents and countries. However, casinos remain less abundant in general. Moving forward, more governments, such as Macao, China and Dubai, UAE, have begun permitting casinos. As more governments legalize gambling, even more hotel groups will begin expanding into these untapped regions. As a result, investors enjoy seeing further growth in this specialized submarket with growing demand from gamblers and have rewarded the casinos, differentiating from other hotels, with higher returns.

# Chapter 3

## Original Research Methodology

As mentioned previously, this thesis examines how hotel groups fare under different strategies when growing internationally. Therefore the first step in the process must include identifying which hotel groups to investigate. For the greatest scope, this study analyzes nineteen multinational hotel groups that publicly trade in the United States. To find these groups, I searched websites such as Yahoo! Finance and Bloomberg to identify firms that (a) reside within the lodging industry, (b) publicly trade within the United States and (c) have established themselves abroad in at least one foreign country. Groups represented include American firms trading on the American stock exchange and foreign firms trading in the United States through the American Depository Receipt (ADR) market.

The ADR market allows foreign firms to issue “American friendly” securities that trade in US dollars, on American stock exchanges, and through American stockbrokers. Therefore through ADRs, foreign firms can increase their global presence by having greater exposure to American stockowners wanting “Americanized” foreign investments. In terms of this research, by not focusing on just American firms that have a global presence, we can help eliminate an American bias that could affect the results and conclusions. Instead, this study includes hotel groups from Asia, Europe, and North America expanding into Africa, Asia, Australia, Europe, North America, and South America.

As such, this thesis investigates publicly traded firms instead of private firms due to the increased access to information regarding the companies. With the greater amount of information available from public firms, this study more effectively assesses the firms’ success.

After establishing the hotel groups, the study breaks down the firms into “domestic,” “local,” or “mixed” strategies, depending on how each group brands itself in different countries. Under the domestic strategy, the hotel group makes little changes to the brand in other countries, utilizing the “core competencies” first established in the homeland. For instance, Singapore-based Banyan Tree Hotels & Resorts manages a chain of ecologically friendly spas in various locations, including Indonesia, Thailand, Maldives, South Korea, China, and even Mexico (according to the corporate website banyantree.com). In each of these locations, Banyan Tree focuses on providing “green” minded guests a relaxing spa experience, instead of concerning itself with changing its branding to match the local clientele. Therefore, the study identifies “domestic” firms as hotel groups that use consistent branding and styles in different markets.

Under the local strategy, the hotel group often makes changes to brand names, amenities, and management style to adapt to the clientele, culture, and demands of the local market. Accor S.A., based out of Paris, represents the opposite strategy of Banyan Tree as a traditionally locally-centric establishment. Accor owns a number of different brands that have unique characteristics that thrive on location. For instance, the Novotel chain has thrived in Europe with its sleek architecture, artsy design, and modern amenities, while Motel 6 has found great success here in the United States catering to the economically savvy American consumer. Hence, most “local” hotel groups have a number of brands that tailor to the local market, making themselves blend in as naturally as possible into the local environment.

Finally, a mixed strategy attempts to get the best of both worlds by using the local strategy for some brands and a domestic strategy for other brands. Marriott International, Inc. utilizes this strategy by managing two styles of hotels. For instance, Marriott leverages its strong brand power established in the United States through its Marriott Hotels & Resorts, Ritz-Carlton, and Courtyard by Marriott lines all over the globe. In contrast, the firm also owns more boutique hotel chains like Renaissance Hotels and Autograph Collection Hotels. According to the company website Marriott.com, Renaissance Hotels “each offer its own personality, local flavor, distinctive style, and charm,” while Autograph represents an “ensemble of strikingly independent hotels . . . selected for their bold originality, rich character, and uncommon details.” Thus, the Marriott family of hotel chains capitalizes both on brand awareness and brand flexibility through the “mixed” strategy. Therefore, this study identifies “mixed” hotel groups as firms that have a family of brands, where some remain consistent across markets and others that tailor specifically to the local environment. In Table 4-1, the Directory of Multinational Hotel Groups, one can find the hotel groups researched, along with their appropriate strategy and reasoning.

With the hotel firms grouped by strategy, we next identify and document instances of global expansion for each firm. To accomplish this task, I utilized the Dow Jones database Factiva. Here, one can find articles from news agencies all over the globe on various topics. For the purposes of this research, I limited search results to articles tagged to each specific hotel group individually and containing the term “global.” To reduce results even further, I eliminated articles tagged with competitor firms, the home country, i.e. the United States for Marriott, unrelated industries, such as air transport, and unrelated subjects, such as IPOs. Based on the reduced results, I documented news articles where each respective firm announced the plan or the actual opening of a new chain or hotel outside of its home country. With each news story, I identified the article and publication titles for reference, the date of the publication, and the country or countries and continent of global expansion for the respective firm. I repeated this process for each hotel group. This process yielded 852 results, which I could examine for this study.

With each news article linked to its respective hotel group, my research measures the success of each firm under each strategy. This thesis uses the three-day stock return analysis as the chief model for evaluating the success of each decision made by firms. Scholars refer to this form of methodology of examining fluctuations in stock prices around specific events as an "event study." Fisher, Jensen and Roll represent the pioneers in "event study" research in their 1969 paper. Prior to the study presented by Jensen, et al, researchers only saw the markets as efficient with stock prices changing independently. However by examining stock splits, Jensen, et al went beyond that conclusion by looking at whether stock prices can change differently, in terms of speed, depending on the specific type of new information announced to the public. In the end, the paper concludes that the stock market, in fact, represents an efficient market, where the stock prices change very rapidly after the release of new information.

Other research, such as Brown and Warner (1980), expands upon this initial study by adding a new concept: an abnormal return. Brown and Warner realize that one cannot simply look at the change in stock price around a particular date. A change in stock price can occur due to both factors within and outside the firm in question. For example, a firm could announce very positive news on a day that market performs horribly, resulting in a negative return for the firm that day. Therefore, researchers need a way of canceling out the effects of the overall market to show how the firm outperformed or underperformed the market. Abnormal returns, which subtract the market return from the firm-specific return, accomplish this goal.

Acharya (1993) presents an alternative methodology for "event studies" by looking beyond just event announcements but also pre-event announcements that have a lower probability of coming to fruition. By looking at both types of announcements, Acharya finds that one can lower the bias and better capture the actual effect of firm-specific announcements on changes in the firm's stock price. In the study's model, the author uses several techniques, including dummy variables, to account for the probability of events.

I apply this research methodology on the thesis presented here through a three-day abnormal stock return analysis. Using the date of each time one of the aforementioned firms announces an expansion into a new property or line in a foreign market, I calculate the change in return from the previous trading day's opening price (t-1) of the hotel group's equity security to the closing price on the day after the announcement (t+1), as listed on Google Finance. Formally: return = (stock price$_{t+1}$ – stock price$_{t-1}$) / stock price$_{t-1}$. After getting the gross return of the stock around the event date, I also calculate the overall market return on those dates by summing the market return on the previous and next trading dates. I then subtract the market return from the firm's raw return to get an "abnormal return," representing the firm's performance in comparison to the rest of the market. However, some firms do not trade as often. In these cases, I removed these "stale" returns with infrequent activity that would create outliers for the rest of the results.

Next, the study aggregates, groups, and averages the three-day abnormal stock returns based on strategy, i.e. local or domestic, geographic region, type of establishment, i.e. casino or nongaming hotel. Therefore with all the documented announcements, I limited the search results by strategy into separate lists of domestic, local, and mixed. With each list, I calculated an average return of each strategy based on the results of the individual three-day stock returns on each list. With an average of each strategy, we can find which three-day return amongst the strategies had the highest result. We would assume that the strategy with the highest return would have the most success in global expansion due to the investor confidence displayed in the market.

However to see if the data represents statistically significant results, the study completes a t-statistic analysis. To calculate t for each strategy, I divide the average of abnormal returns by the standard deviation of these returns. The return is statistically significant if the data has a t-statistic with an absolute value greater than or equal to ±1.645 or ±1.96, inferring a 90% or 95% probability of statistical significance respectively along a normal distribution.

The study completes the same process limiting results into expansions involving just (a) domestic firms from North America expanding into other North American countries versus the same firms expanding into other continents, (b) domestic firms from Asia expanding into other Asian countries versus the same firms expanding into other continents, (c) local firms from

Europe expanding into other Europe countries versus the same firms expanding into other continents, and (d) casinos expanding internationally in general versus nongaming hotels expanding internationally in general. The study does not break down other subsequent subgroups due to the lack of sample size of announcements with those specific characteristics. In the end, based on those results, I can conclude which strategies, regions, and establishments with the highest returns have fared best. Below, Table 3-1 displays the occurrences of global expansion for each firm, broken into continental market, as one can see below.

**Table 3-1 Directory of Multinational Hotel Groups with Breakdown of Continental Expansion**

| Firm | TKR | Country | Continent | Market | Strategy | Casino? | Africa | Asia | Australia | Europe | N. Am | S. Am | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Accor** | ACRFY | FR | Europe | ADR | Local | N | 4 | 61 | 9 | 7 | 1 | 2 | **79** |
| *Reasoning:* Grand Mercure - adapts to local Asian Pacific market, Mgallery - line of unique properties with distinct taste, Mercure - only midscale brand to adapt to local, Motel 6 - adapts to American budget market | | | | | | | | | | | | | |
| **Banyan Tree** | BYNEF | SG | Asia | ADR | Domestic | N | 2 | 10 | 0 | 2 | 3 | 0 | **10** |
| *Reasoning:* Eco friendly spa chain in Bali, Maldives, Phuket, China, and Mexico but doesn't adapt to local market | | | | | | | | | | | | | |
| **Choice Hotels International** | CHH | US | N. Am. | NYSE | Mixed | N | 0 | 6 | 4 | 9 | 7 | 1 | **22** |
| *Reasoning:* Do have international properties, still use American architects, ie. Copperhill Mountain Lodge in Åre, Sweden | | | | | | | | | | | | | |
| **Club Mediterranee** | CLMDY | FR | Europe | ADR | Domestic | N | 2 | 5 | 0 | 0 | 3 | 0 | **10** |
| *Reasoning:* Spa/resort chain, diversification in type, not by location | | | | | | | | | | | | | |
| **Genting** | GEBHY | MY | Asia | ADR | Domestic | Y | 1 | 7 | 0 | 2 | 12 | 0 | **22** |
| *Reasoning:* Network of Casino resorts in Malaysia, UK, SG, HK, Philippines, and US; uses strong brand names with little local adaptation | | | | | | | | | | | | | |
| **Genting Malaysia Berhad** | GMALY | MY | Asia | ADR | Domestic | Y | 0 | 0 | 0 | 0 | 3 | 0 | **3** |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Reasoning:* Network of Casino resorts in Malaysia, UK, SG, HK, Philippines, and US; uses strong brand names with little local adaptation | | | | | | | | | | | | | |
| **Hyatt Hotels Corporation** | H | US | N. Am. | NYSE | Mixed | N | 1 | 29 | 0 | 3 | 4 | 1 | **37** |
| *Reasoning:* Andaz brand brings in local culture into hotel, rest of Hyatt lines consistently American | | | | | | | | | | | | | |
| **InterContinental Hotels Group PLC** | IHG | UK | Europe | NYSE | Mixed | N | 15 | 77 | 5 | 21 | 64 | 12 | **194** |
| *Reasoning:* Hotel Indigo brand brings in local culture into hotel, rest of InterContinental lines consistently British (or American from brands like Holiday Inn) | | | | | | | | | | | | | |
| **Las Vegas Sands Corp.** | LVS | US | N. Am. | NYSE | Domestic | Y | 0 | 33 | 0 | 4 | 0 | 0 | **37** |
| *Reasoning:* Own several Las Vegas Strip hotels and now have hotels in Macau, but under their Vegas names, i.e. the Venetian or the Sands | | | | | | | | | | | | | |
| **Mandarin Oriental International** | MNOIY | China | Asia | ADR | Domestic | N | 0 | 4 | 0 | 0 | 5 | 0 | **9** |
| *Reasoning:* all under Mandarin Oriental name in Asia, Europe, and the Americas | | | | | | | | | | | | | |
| **Marriott International, Inc.** | MAR | US | N. Am. | NYSE | Mixed | N | 19 | 113 | 5 | 43 | 31 | 8 | **183** |
| *Reasoning:* Renaissance brand brings in local culture into hotel, Autograph hotels also unique not necessarily local, rest of Marriott lines consistently American | | | | | | | | | | | | | |
| **MGM Resorts International** | MGM | US | N. Am. | NYSE | Domestic | Y | 2 | 22 | 1 | 3 | 0 | 0 | **27** |
| *Reasoning:* All international properties under MGM name, most principally in Macau | | | | | | | | | | | | | |
| **Orient-Express Hotels Ltd.** | OEH | UK | Europe | NYSE | Local | N | 0 | 0 | 0 | 0 | 1 | 1 | **1** |
| *Reasoning:* No two hotels are the same, each with unique branding, in Europe, Africa, Asia, South America, and Central America | | | | | | | | | | | | | |
| **Sands China** | SCHYY | China | Asia | ADR | Domestic | Y | 0 | 5 | 0 | 0 | 0 | 0 | **5** |
| *Reasoning:* Own several Las Vegas Strip hotels and now have hotels in Macau, but under their Vegas names, i.e. the Venetian or the Sands | | | | | | | | | | | | | |
| **Shangri-La Asia** | SHALY | China | Asia | ADR | Domestic | N | 0 | 9 | 2 | 1 | 2 | 0 | **13** |
| *Reasoning:* All the brands are relatively consistent except for Kerry Hotels (boutique) but all in China | | | | | | | | | | | | | |
| **Starwood Hotel & Resorts Worldwide,** | HOT | US | N. Am. | NYSE | Mixed | N | 8 | 82 | 1 | 24 | 10 | 4 | **117** |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Inc.** | | | | | | | | | | | | | |
| *Reasoning:* The Luxury Collection brand brings in local culture into hotel, rest of Starwood lines consistently American | | | | | | | | | | | | | |
| **Wyndham Worldwide Corporation** | WYN | US | N. Am. | NYSE | Domestic | N | 3 | 44 | 4 | 13 | 12 | 2 | **66** |
| *Reasoning:* Large international presence under various brands but all brands consistent worldwide | | | | | | | | | | | | | |
| **Wynn Macau** | WYNMY | China | Asia | ADR | Domestic | Y | 0 | 1 | 0 | 0 | 0 | 0 | **1** |
| *Reasoning:* Only property outside of US is the Wynn Macau, which is very similar to the Wynn Las Vegas | | | | | | | | | | | | | |
| **Wynn Resorts** | WYNN | US | N. Am. | NASDAQ | Domestic | Y | 0 | 15 | 0 | 2 | 0 | 0 | **16** |
| *Reasoning:* Only property outside of US is the Wynn Macau, which is very similar to the Wynn Las Vegas | | | | | | | | | | | | | |

# Chapter 4

## Research Results & Analysis from Historical Expansions of Hotel Groups

The aggregated abnormal stock returns are shown below, broken down by type of strategy, geographical region of expansion, and by type of hotel, i.e. casino versus nongaming, based on the 852 documented expansions.

**Table 4-1 Results & t-stat Analysis by Strategy, Continential Expansion, & Hotel Type**

| | Average Abnormal Return | Standard Deviation | t-stat |
|---|---|---|---|
| ***Strategy*** | | | |
| Domestic | -0.25% | 7.39% | -0.033 |
| Local | -0.66% | 4.48% | -0.148 |
| Mixed | -0.06% | 3.13% | -0.020 |
| ***Continental Expansion*** | | | |
| Domestic - N. Am. Intracontinental | -1.94% | 5.42% | -0.358 |
| Domestic - N. Am. to Elsewhere | -0.20% | 8.78% | -0.023 |
| Domestic - Asia Intracontinental | -1.09% | 3.53% | -0.308 |
| Domestic - Asia to Elsewhere | -0.69% | 4.45% | -0.154 |
| Local - Europe Intracontinental | -0.80% | 4.92% | -0.163 |
| Local - Europe to Elsewhere | -0.72% | 4.50% | -0.161 |
| ***Hotel Type*** | | | |
| Casino | 0.06% | 8.58% | 0.007 |
| Nongaming | -0.20% | 3.83% | -0.052 |

Based on the 852 documented announcements of publicly-traded multinational hotel groups moving abroad, we can discern several trends on the success of expanding a hospitality business overseas. First of all, the aggregated average three-day stock return analysis in Table 4-1 shows that all the hotel groups earned a negative return regardless of strategy. However, the hotel groups earned the highest return from the mixed strategy with -0.06%, the second highest return from the domestic strategy with -0.25%, and the worst return from the local strategy with a -0.66%. Furthermore across the board, the domestic strategy fared better when expanding outside of the home continent, especially for North American and Asian firms. The casinos also performed slightly better than the nongaming institutions with returns of 0.06% and -0.20%, respectively.

However, since none of the t-statistics reached the threshold of ±1.645 or ±1.96, these average abnormal returns lack a significant difference from zero for any group. In general, the scatter plots that follow demonstrate a distribution around zero, suggesting that the various factors affecting the returns cancel each other out. As a result, we shall investigate the outliers in the scatter plots to glean trends from the extremes.

Therefore on the two extremes of hotel expansion strategy, weak evidence exists that investors have more confidence in investing in hotel groups that choose to grow their hotel chains abroad using a domestic strategy, in which the hotel focuses on the strong brand image recognized at home elsewhere across the globe. Even though in general in international business, most corporations tend to adapt to the local clientele, the hospitality industry has major differences, as previously discussed in Chapter 1. The guests at hotels typically travel from distant locations to this foreign environment, seeking an experience reminiscent of “home away from home.”

For example, consider an American family of four traveling to Madrid. When booking hotel rooms for their stay, the family will have many options. Madrid will offer a number of local hotels of various levels ranging in quality from one to five stars. Even though travelers can generally trust this star system, a number of other factors come into play. In this unfamiliar territory, the travelers may not know exactly which amenities and services they can expect from the hotel, such as a continental breakfast, a bidet, air conditioning, a pool, or, more importantly, a possible language barrier. When on the road, many travelers, especially families with young ones, prefer a low-hassle experience at their hotel. The hotel represents the sanctuary or break for the traveler to recuperate from all the excitement that travel can create. Even though a local hotel may provide travelers a unique experience that they could not get at home, many foreigners prefer a hotel managed like a domestic hotel with a strong brand image that the travelers understand and trust. When traveling abroad, many prefer consistency. And when staying at a hotel like a Wyndham, a guest knows what to expect out of his or her experience, even if the locale remains foreign.

Below is Figure 4-1, a scatter plot showing the results of the domestic strategy. Interestingly most of the outliers fall around the summer of 2009, in the midst of the financial crisis. For example, on April 2, 2009, Las Vegas Sands Corporation announced that the hotel firm would restart construction at its new Macao casino on the Cotai strip, after halting construction due to huge debts accrued from the 2008 financial recession. Seeing that LVS could overcome significant challenges both and home and abroad to restart construction, investors rewarded the Las Vegas casino group with an astonishing 40.88% three-day abnormal return. Thus, when a firm shows unexpected financial revitalization, investors react with increased confidence.

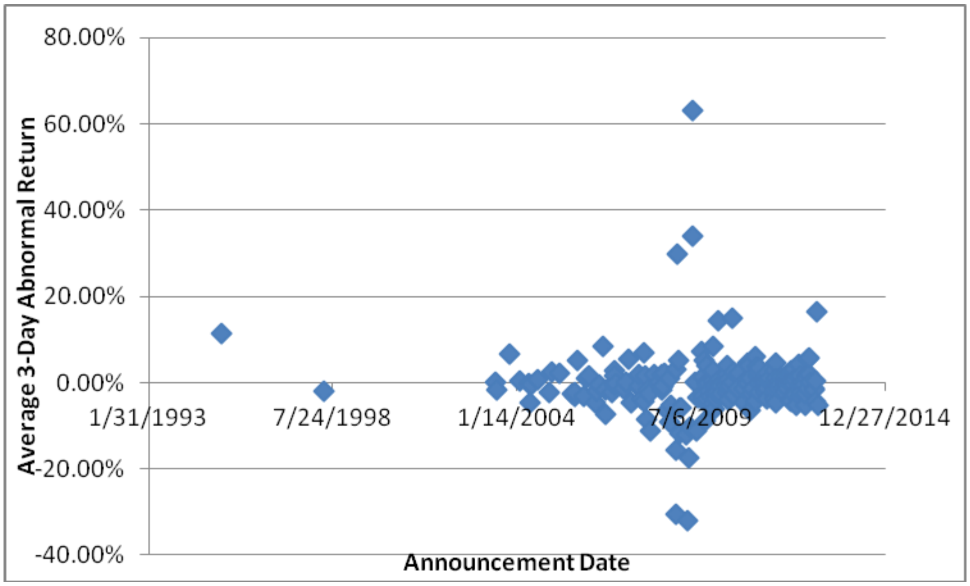


**Figure 4-1 Domestic Strategy**

Although the returns for the domestic strategy have a wide distribution, they seem to hover even above and below zero with an average return of -0.25% and one of the highest standard deviations, at 7.39%. Future research should seek to better understand the variation.

Next, in Figure 4-2, I demonstrate the opposite strategy, the local, in which each hotel adapts and blends into the local culture, fared the worst in the stock return analysis. Even though one can understand the importance of adapting, the locals, who would appreciate the adaptation, do not represent the majority of people staying at hotels. One can find the results of the locally-minded hotel groups below.

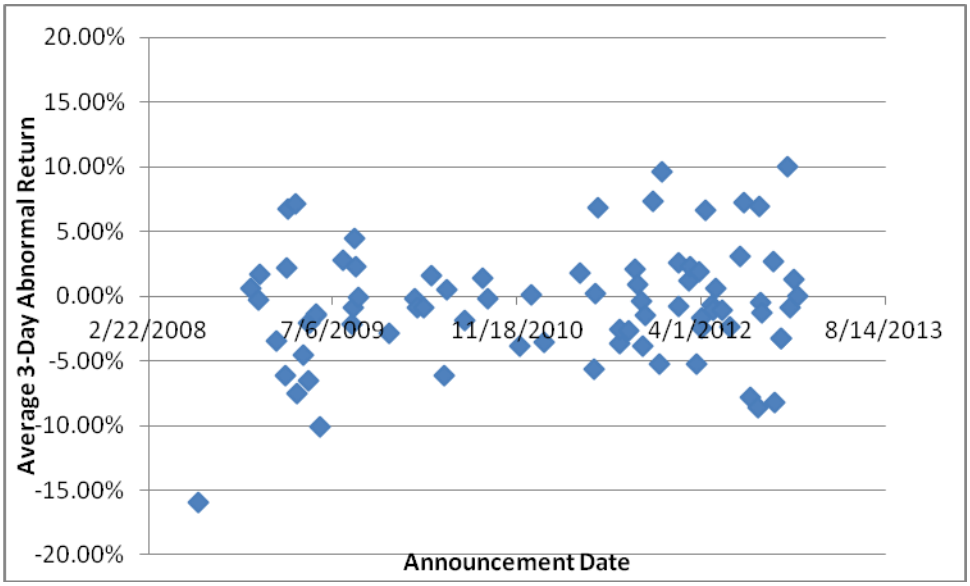


Figure 4-2 Local Strategy

As can be seen from comparing the domestic and local strategies in Figures 4-1 and 4-2, respectively, the local strategy is less popular amongst hotel groups and the returns have less variation with fewer outliers. Overall, the local strategy evinces an average abnormal return of -0.66% and a standard deviation of 4.48%.

However, extremes rarely win in business; therefore, the middle-of-the-road option, the “mixed” strategy, in which a firm has a portfolio of both domestic and local hotels, earned the greatest abnormal stock return of -0.06%, not significantly different from zero. In this scenario, the firm can have the best of both worlds by tapping into an even larger customer base. Instead of just the foreigners traveling abroad utilizing the domestic hotels, guests traveling regionally can take comfort in the local hotels. Furthermore, more adventurous guests who seek a more “authentic” experience while abroad can try the local hotels as well. Thus, mixed hotel groups practically can triple their market exposure to customers needing hotel stays. In Figure 4-3 below, one can observe the scatter plot data amongst mixed hotel groups.

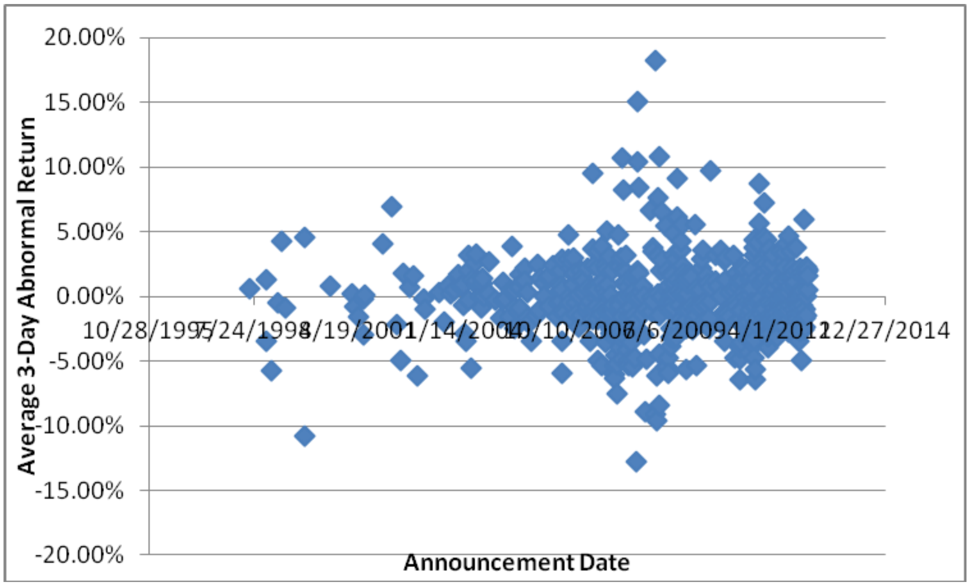


**Figure 4-3 Mixed Strategy**

As Figure 4-3 demonstrates, the mixed strategy has the greatest popularity amongst any strategy with the highest volume of international expansions. As with the returns for domestic and local strategies, the returns for the mixed strategy also hover around zero. However, amongst the three strategies, the mixed strategy had the least negative average return of -0.06%. In addition, even though the mixed strategy's returns have outliers around summer 2009, the domestic 2009 outliers have greater severity.

Nevertheless, one must consider other factors that could play into the success of the domestic firm over a local one. Typically, larger firms, such as Wyndham Worldwide Corporation, MGM Resorts International, and Club Méditerranée, already have a large loyal customer base to their brand. Therefore, these firms can afford to remain domestic when abroad because their managers know that guests will flock to their hotels due to familiarity with their service, increasing the strategy's profitability even more. Firms with less universal brand recognition have to differentiate themselves from their bigger competition to survive, leading some firms such as Orient-Express Hotels Ltd. to follow a local strategy.

However, some of the other ancillary results demonstrate some unique contrasts to this overall theory. As observed in Table 4-1, North American hotel groups expanding abroad under the domestic strategy have fared poorly with average returns of -1.94% and -0.20% for expanding within the North American continent and elsewhere across the globe, respectively. When making sense of these results, one should also consider that North America has a large amount of diversity. According to the 852 documented expansions, most of the growth of hotel groups within the continent has come from movement from the United States to Latin America and the Caribbean. In these two particular regions, a stark contrast of cultures exists, such as language barriers, commonly in Spanish. As a result, Latin Americans and Caribbean natives traveling around the islands may prefer local hotels. To further exacerbate the issues, several local hotel chains have a stronghold on the all-inclusive resort business, like Jamaica's own Sandals Resorts, which manages fourteen properties (according to their company website sandals.com). Contrasting with the North American firms expanding abroad beyond North America, the nearly zero stock return creates an inconclusive finding regarding such growth that future research should investigate further.

In Figures 4-4 and 4-5 below, I plot returns of the North American domestic expansion both within the continent and beyond. As can be seen in plot diagram 4-4, few instances of North American intra-continental expansion exist. Moreover, this strategy exhibits the highest negative return of -1.94%. But as shown in the scatter plot, this negative return is probably due to the extreme negative outlier in 2009. Conversely, many more examples of North American expansion into other continents exist. Much like local and mixed strategies, the results hover around zero with a negative negative return of -0.20% (Table 4-1). Furthermore, we also observe outliers here around summer 2009, suggesting the possible impact of the financial crisis on returns.

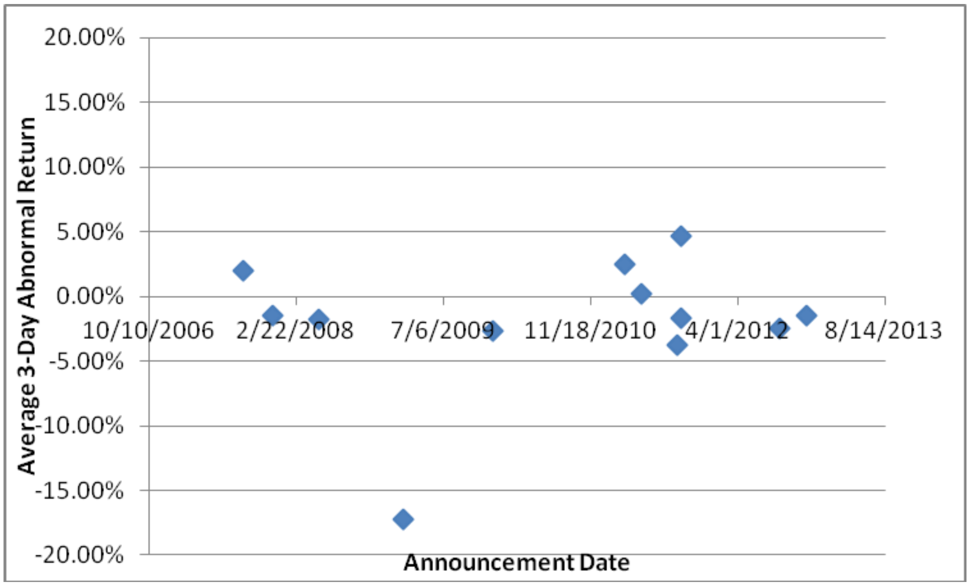


**Figure 4-4 Domestic Expansion from North America to Other North American Countries**

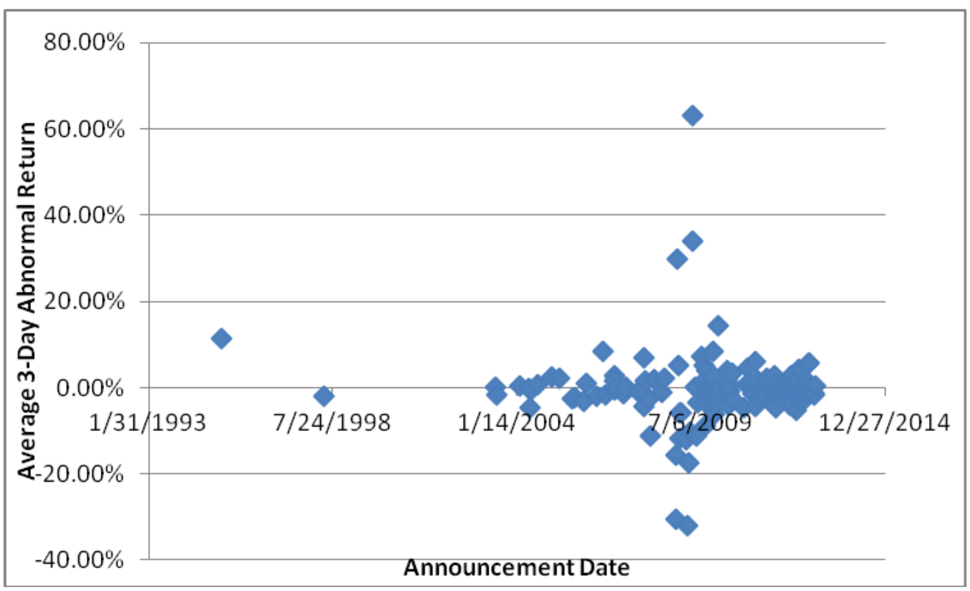


**Figure 4-5 Domestic Expansion from North America to Other Continents**

The results regarding Asian hotel groups in Table 4-1 fairly mimic the overall conclusion of the research, especially for firms going abroad to other continents. The -0.69% average three-day stock return, in comparison to the -1.09% in intra-continental expansion, suggests that when

Asian travelers stay abroad in other faraway places, they too, much like the Madrid example, prefer to stay at a hotel that they understand, i.e. an Asian-branded hotel with Asian accommodations. Even so, other factors may play into the lack of success within the Asian market for international expansion of Asian hotels. The recent boom in American hotels and casinos in China, especially in Macao by Wynn Resorts and Las Vegas Sands as demonstrated by the research's documented announcements, could have affected the stronger demand for Asian hotel rooms in the past. Today many Americans and Europeans visit China for the booming business and slot machines.

In Figures 4-6 and 4-7 below, one can examine the scatter plots of both intra-continental and inter-continental domestic expansion of Asian hotel groups. Unlike the North American expansions, the Asian expansions within the continent seem to occur at a similar rate as expansions occurring beyond the continent. Also unlike the other expansions, very few outliers exist as well. Only the domestic strategy of Asian firms going beyond the content had an outlier. As seen in Table 4-1, the Asian domestic intra-continental expansion had an average negative return of -1.09%, while the Asian inter-continental expansion had a less negative return of -0.69%, both insignificantly different from zero.

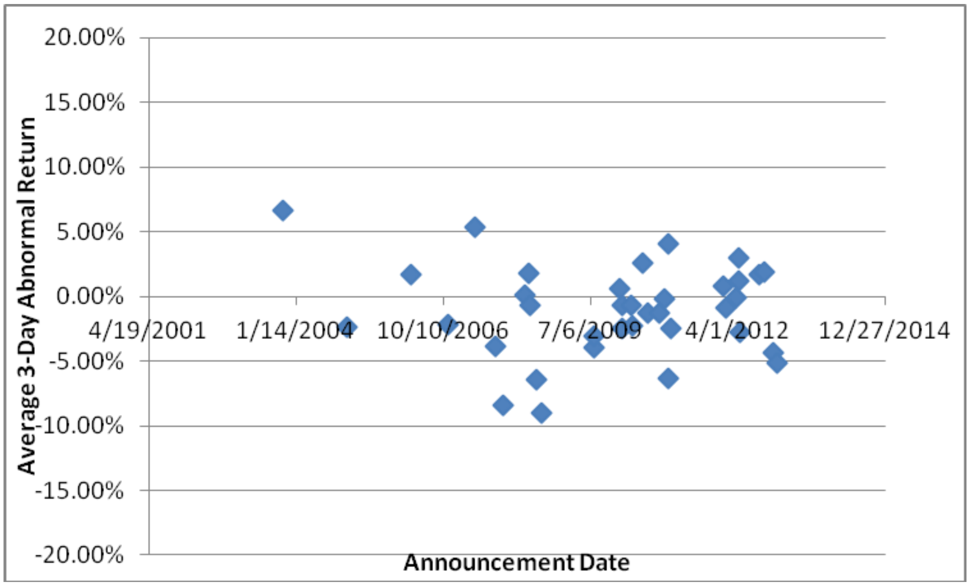


**Figure 4-6 Domestic Expansion from Asia to Other Asian Countries**

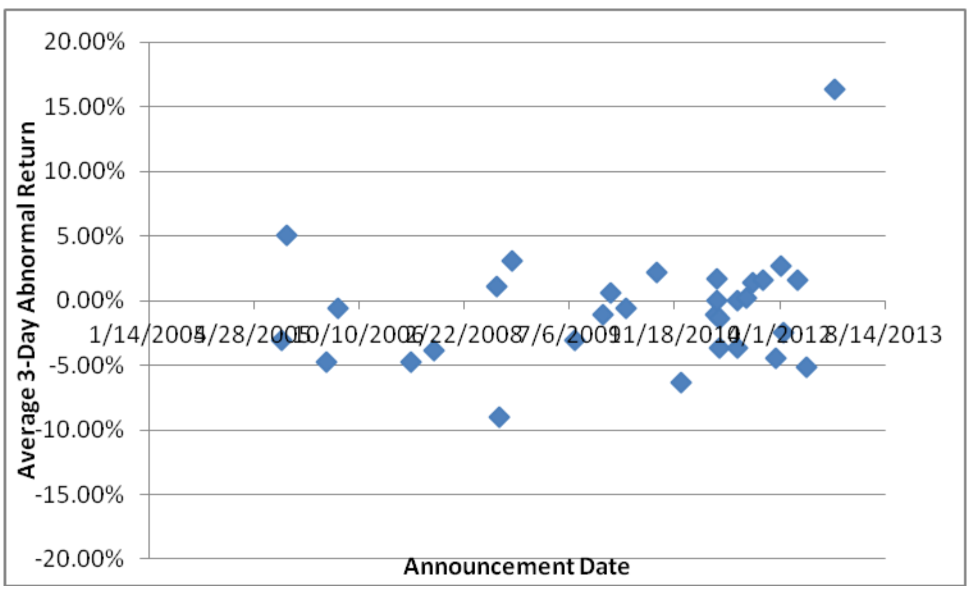


**Figure 4-7 Domestic Expansion from Asia to Other Continents**

Furthermore, the lack of success by European firms pursuing the local strategy also supports the conclusion that the domestic strategy wins out in the globalization of hotel groups. In Table 4-1, one can see that the European hotel groups using the local strategy fared even worse with European expansion earning an abnormal stock return of -0.80 % over the average three-day period, contrasting with the -0.72% for expansion beyond Europe. Europe represents a rather popular place for tourism with many visitors from the all the continents from Asia to the Americas. As a result, these foreigners prefer the “home away from home” domestic hotels during their stay in Europe as aforementioned. The same has proven true elsewhere, with the negative stock returns observed for firms expanding into other continents using the local strategy. In these other foreign locations, Europeans prefer hotels that offer similar amenities as they generally receive back home, instead of adapting to the local culture of the environment.

In Figures 4-8 and 4-9 below, the scatter plots show how European local expansion has fared both within Europe and beyond. As one can see, the volume of European expansions within the continent remains much lower than those expansions to other continents. However, the data amongst the two types of European expansions remains similar, hovering around zero. According to Table 4-1, the local European intra-continental expansion has an average return of -0.80%, and the local European inter-continental expansion has a return of -0.72%, both insignificantly different than zero.

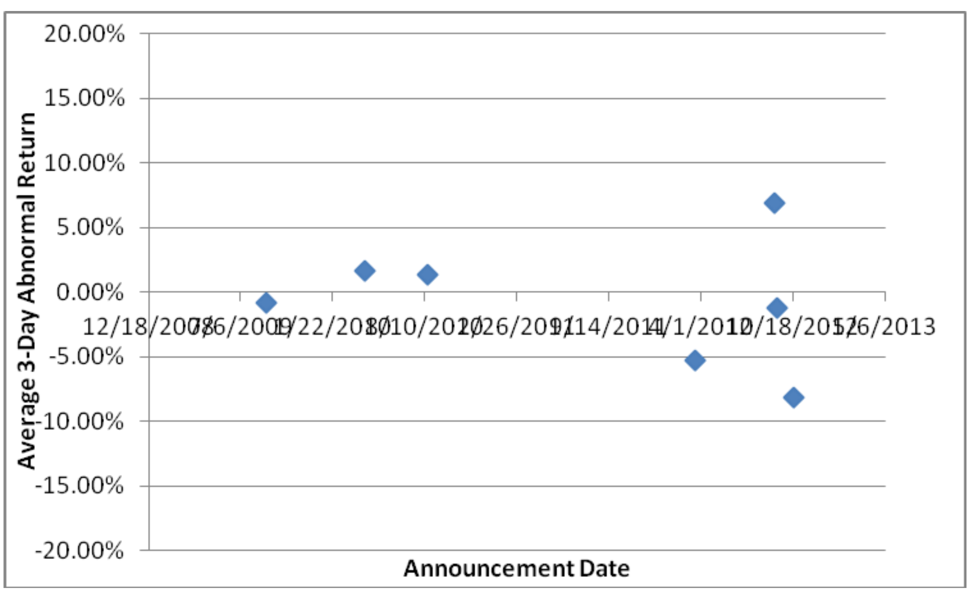


**Figure 4-8 Local Expansion from Europe to Other European Countries**

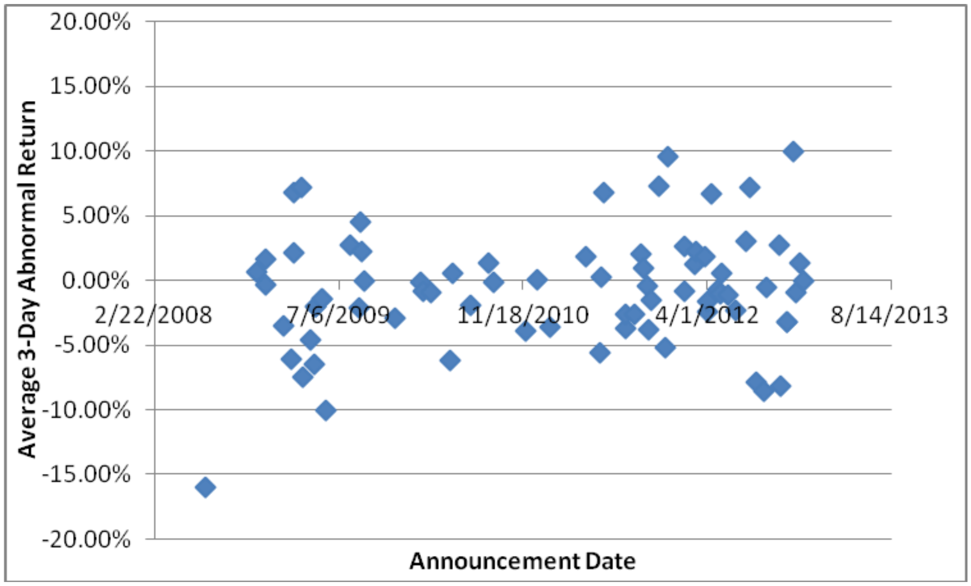


**Figure 4-9 Local Expansion from Europe to Other Continents**

Finally, this research provides some interesting insights into the future of casinos in the globalized hospitality industry. Compared to the nongaming hotels that earned a -0.20% return surrounding expansion announcements, casinos represented the only group to earn a positive, albeit insignificant, abnormal return: 0.06% (as shown in Table 4-1). These results seem to suggest that investors have a lot more confidence in the future growth potential of casinos, chiefly in Asia, with a particular focus on Macao and the United Arab Emirates, as demonstrated in documented news announcements. In the years to come, as China loosens its economic grip on regulations in Macao, Hong Kong, and the mainland, the casino industry could boom even more.

In Figures 4-10 and 4-11 below, the scatter plots compare the returns between casinos and nongaming hotels expanding internationally. Even though the casinos have exhibited a positive average abnormal return in comparison to the negative average return for nongaming hotels, two extreme positive outliers for the casino return may have affected the results. Other than these two outliers, the returns have a similar distribution around zero, with nongaming hotels expanding abroad a higher frequency. As Table 4-1 states, casinos earned a positive average abnormal return of 0.06%, while nongaming hotels earned a negative return of -0.20%, both insignificantly different than zero.

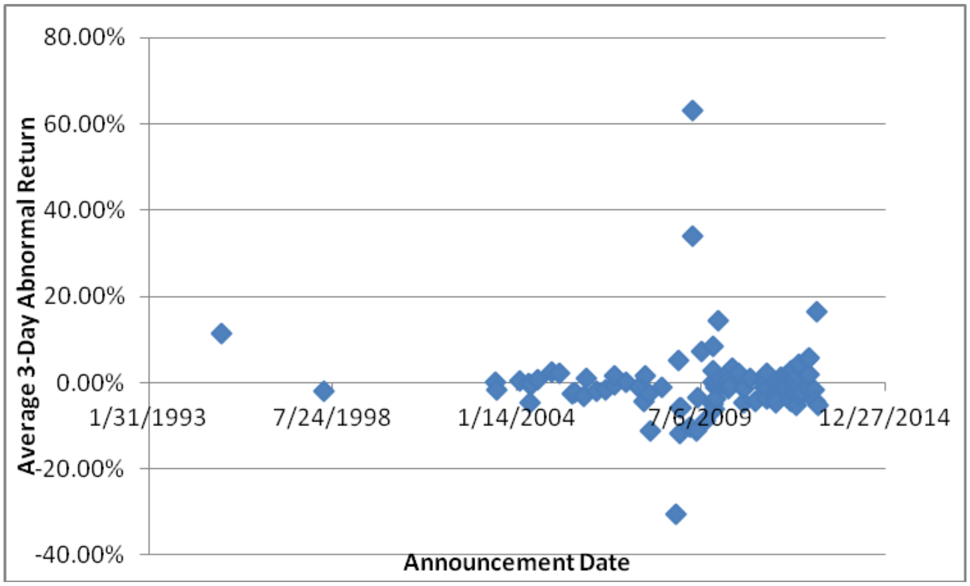


Figure 4-10 International Expansion of Casinos

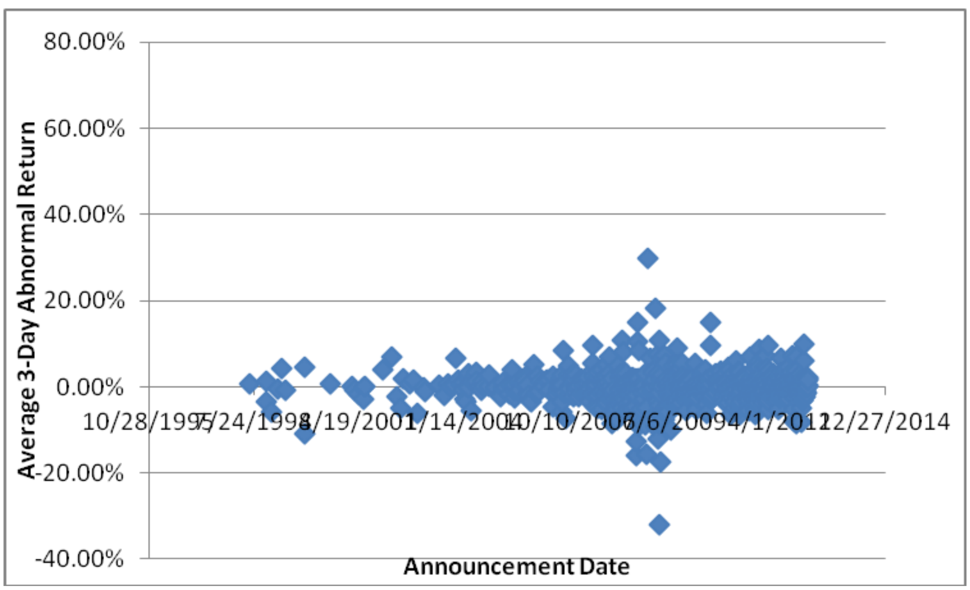


Figure 4-11 International Expansion of Nongaming Hotels

After observing these results, we must still draw attention to the t-statistics. Unfortunately, the t-statistic did not reach the critical numbers ±1.645 or ±1.96, suggesting that these announcements of global expansion do not hold statistical significance in determining changes in stock price of hospitality firms. Regardless, these results still have value because other factors may have played into affecting the results. For instance, investors already may have anticipated global expansions of particular firms, especially the larger ones. Hotel groups like Marriott open up hotels every week all over the globe. As a result, the fourteenth release of a new Brazilian Marriott may not have the same effect on the stock price as the first to enter the Brazilian market. Furthermore, the generally negative abnormal returns of hotels opening abroad suggest that expanding internationally represents a great challenge of the firm. Thus firms will have to continue innovating new ways of dealing with the growing demands of global travel. Future research should investigate the effects of the above factors so that the industry can create a more accurate model for successful global expansion.

# Chapter 5

## Future Implications in International Hospitality and International Business as a Whole

Based on the research and analysis provided in Chapter 4, managers within both hospitality and outside industries can learn a lot about how to properly grow their businesses moving forward. First and foremost, managers considering international growth must consider the consumer. As explained earlier, in the ever globalizing corporate world, firms generally should focus on adapting their business model to match the needs of the consumer. By buying the goods and services shelved out by businesses, consumers provide the capital that allows businesses to grow both domestically and abroad. Without the consumer, no business can function. As such, businesses cannot ignore the customer.

Each industry has its own unique characteristics regarding its clientele. Thus in an analysis of different industries, the conclusions about the customer also change from industry to industry. As discussed in this thesis, international hospitality poses no exception. In different business sectors, such as retail, a business going global possibly may have to adapt the merchandise to match local tastes in the environment. However, in hospitality, hotel groups must adapt in a different way. Hotel groups must understand that their clients typically do not represent the local environment. Therefore, hospitality firms must adapt their business to serve clients who want a "home away from home."

But like everything in business, the dynamic constantly changes. The recent rapid growth in casinos suggests that hotel groups may experience another change in client preference in the near future. We will have to wait for future instances and further research about the global expansion of casinos to get a real sense about where global hospitality may move in the coming years. Regardless of the findings today and moving forward, one fact remains the same: the consumer drives everything in business. Therefore to succeed in business in the global arena, managers must know their customer of the present and of the future.

# Chapter 6

## Closing Remarks

Through this thesis, I have analyzed how stockholders react to the global expansions of hospitality firms under the domestic, local, and mixed strategies. Through the documentation of over 850 announcements of international expansions, I have determined that the mixed strategy, which blends the domestic and local strategies, has earned the highest return. Even though t-statistic analysis has proven the data averages statistically insignificant from zero, we can still glean a lot about the internationalization of hotel groups from the outliers in each subset of data. In the future, we can gain much knowledge through further research into the effect on the characteristics of the hotel group, such as governance structure, size of the firm, and level of amenities, both within and outside the gaming industry.

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