Strategic Development of Deluxe Hotels Operating in Greece: The Effect of Joint Venturing on the Performance of Their Operation

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Abstract

A joint venture is a common form of international expansion for hotel corporations. The purpose of this study is to prove the efficiency of hotels in Greece that participate in joint ventures by comparing performances between hotels in Greece that operates in joint ventures and hotels that are fully owned. The statistical analysis fails to reject the null hypothesis meaning that there's not much statistical difference between performance of hotels in joint ventures and hotels not in joint ventures. Though joint ventures fail to show improved performance of a hotel through financial ratios (ROCE, for instance), firms in the hospitality industry still have many reasons for going into joint ventures.

Key Words: Strategic Development, Hotel, Greece, Joint Venture, Performance

1. Introduction

Essentially, a joint venture is a way of doing business by to bring together industry expertise, personnel and business prowess of two unrelated business organizations. It is a form of partnership where each participant is allowed the chance to scale available resources to run a given goal/project while minimising cost and sharing liabilities and risk inherent to the project at hand. Usually, a joint venture involves an interim arrangement among two or more firms. A contract is drafted under which the joint venture's terms are outlined for each party. Once the joint venture is through, each party gets its profit or loss share. As much as we can speak of the benefits of this establishment, we cannot ignore the fact that the arrangement is faced with some disadvantages. Just a few years after the end of the era of getting easy money, the greatest hotel businesses are utilizing the idea of a joint venture to open doors for expansion & acquisitions. As of late, Hersha Hospitality and Starwood Capital made public their joint efforts to lengthen Hersha's inn platform of management, and Jin Jiang Hotels and Thayer Lodging Group came together to procure Interstate Resorts and hotels.

In spite of the fact that the count of acquisitions is minimal in the population, a few of those business transactions have been done effectively. Most have utilized the model of joint ventures, including the obtaining of suites at Renaissance Syracuse Hotel in joint efforts between Shelbourne Falcon Investors & Richfield Hospitality (Butler and Braun, 2014). Use of joint venture model to acquire new hotels brings with it the advantage of more capital access, access to more resources, expanded relationships, advancement in technology, and reward and risk sharing. To be specific, with today's current economy where contemporary lenders are somewhat reluctant to inject capital to the hospitality businesses, forming a joint venture with already active partners, committed to the business of hotels brings with it an alternative to financing potential hotel business expansion. Investors with hope to grab purchase opportunities for principal assets may discover that the only way they fund the acquisition cost is by bringing in partners through joint ventures. However, a joint venture also brings with it risks. If not addressed during formation, problems may develop later and this may water down the anticipated benefits. The purpose of this study is to prove the efficiency of hotels in Greece that participate in joint ventures by comparing performances between hotels in Greece that operates in joint ventures and hotels that are fully owned.

2. Joint venture

Before a company decides to access a new market there are several important issues that need to be considered. The most critical choice to settle on is the decision of how to enter or all the more particularly the level of fancied control over and flexibility of the venture. It is vital to comprehend those diverse nations, and businesses can force limitations on ventures. In numerous third world countries foreign firms have nowhere to turn to but to cooperate with joint venture with local partners. Hospitality firms have used acquisitions and joint ventures as strategies to enter new domestic and international markets and increase their market presence in the past decade. The use of joint ventures as an expansion strategy is exemplified by Forte, which used this strategy in Italy through the Agip operation to expand rapidly (Alexander and Lockwood, 1996). Although joint ventures provide complete/partial control to the parent company in terms of the benefits accrued, they are less attractive in comparison to the alliance alternative. A joint venture is a common form of international expansion for hotel corporations (Kivela and Leung, 2005). This is largely due to the fact that the foreign partner and the domestic partner typically possess knowledge and expertise in different areas (Dhanaraj et al., 2004). Often in the hotel industry, the foreign partner is proficient in the use of the latest technology (for example, managing global distribution systems) and the domestic partner is well versed in the local culture (for instance, managing the local labor force).

Hotel joint ventures have been likened to snowflakes because no two are alike (Kokish, 2000); yet, regardless of form, all hotel joint ventures are repositories of knowledge. Hence, the vital issue is how individual or group interactions feed organizational knowledge creation. Joint ventures cannot create knowledge without individuals, but unless individual knowledge is disseminated to other individuals and groups, the knowledge will be of little or no benefit to the joint venture. Stated differently, the knowledge that the foreign and domestic partners bring to the international joint venture (IJV) must be managed in order to realize the benefits of forming the partnership. Studies discuss the reason why some companies decide to go for joint venture while the rest establish wholly foreign - owned businesses (Chang and Sing, 1999). Joint venture literature has been gathered via various approaches: resource, cost, institutional and bargain. Joint venture literature from a resource based angle concentrates on motives behind the alliance of the joining companies.

The cost angle of forming a joint venture has been criticized for many researchers taking the resource based perspective since it takes into account the end results of other resources in the firm as well as the cost. When studying joint venture negotiations, bargaining power perspective is used mostly. This is due to the fact that knowledge and learning acquisition alters the distribution of power between the parties in the venture (Chang and Sing, 1999). Joint ventures are characterised with conflicts between the parties involved. For instance, transfer of knowledge might prove hard since the mother company might not see the need or may be unwilling to transfer knowledge or change behaviour in the name of joint venturing (Inkpen et al., 1998). Because knowledge is part of a firm's competitive advantage, a firm will usually be attempted to withhold knowledge from the other partner. A reason for withholding knowledge is the fact that knowledge changes the bargaining power share between partners. As a result of tabling knowledge as an important asset to the company some companies end up having more bargaining power than others. This imbalance can result to the partner with high bargaining power bearing more costs that its share of returns. At the same time the company with lower bargaining power gets the most out of the venture (Dinur and Inkpen, 1998).

3. Performance Measurement

Why some firms are consistently more profitable than others? Developing an understanding into the determinants of superior performance has fascinated strategy scholars since the beginnings of the field. Indeed, it is the fact of these persistent interfirm performance differences that was the origin of the strategy concept (Rumelt, Schendel, and Teece, 1991). Other important questions such as why firms differ, how they behave, how they choose strategies, and how they are managed, are subsumed by this one overarching question (Porter, 1990). The performance of firms requires further investigation from the perspective of different company or country interactions (Bodur, Alpay and Asugman, 2000).

With the acceleration of the globalization movement, changes in geo – political, economic and ethno - cultural relationships have coupled with transformations in firm strategy and structure. Within this ongoing quest, there is a need to reestablish models and theories in new contexts to explain and predict performance related factors (Bodur, Alpay and Asugman, 2000).

Regarding the question of what factors influence the performance of international firms, effects of diverse variables have been theorized and empirically tested. Among these, two major categories are the influences of internal and external factors on performance (e.g. Cavusgil and Zou, 1994). A business strategy is concerned primarily with the selection of a competitive strategy that can create maximum performance within a particular single business environment (Kim, 2008). A firm's ability to last in time is closely linked to the results it achieves. Performance is the time test of any strategy (Hofer and Schendel, 1978) and performance improvement is at the heart of strategic management (Chakravarthy, 1986). It is, therefore, not surprising that many research studies have sought to clarify what we mean by performance, underlining the need to jointly consider several dimensions (Venkatraman and Ramanujam, 1986), to integrate financial and non-financial measures (Chakravarthy, 1986), to consider the generated value (Rappaport, 1986), to broaden the survey perspectives to involve the main business stakeholders (Kaplan and Norton, 1992, 1996) and to find the determinants of performance (Capon et al., 1990).

Numerous authors (Pan, 2005) underline that the main empirical contributions to the performance issue have focused first, above all, on the industrial sector and, subsequently, on some segments in the service sector (banks, retail, insurance), but have neglected the travel and tourism sector, with a few exceptions. However, above all, from the 1990s onwards, many studies have applied the performance issue to the hotel sector (Okumus, 2002). Some features of hotel businesses (Harris and Brander Brown, 1998) and, in particular, the presence of three different business units marked by a high intangibility (rooms), the presence of a physical asset (food and beverage) and the typical features of a retail business (stores), above all, make this industry a fascinating research field, together with the strong growth recorded by the sector in the past, growing competition (Harris and Brander Brown, 1998) and the existence of a high spatial concentration (destinations) (Enright and Newton, 2004). Performance has been a central construct of study in research on alliances and in larger domains of study such as international business and strategic management (Beamish and Delios, 1997).

The relevant literature review on performance measures presents various profitability measures, such as return on equity (ROE) (Rumelt, 1978), return on assets (ROA) (Rowe and Morrow, 1999; Rumelt, 1978; Tse, 1988), return on sales (ROS) (Tse, 1988), gross return on assets (GROA) ordinary income to total asset, Income Before Interest and Tax to total revenue, operating income to invested asset, and return on invested capital (ROIC) (Rowe and Morrow, 1999). The relevant literature review on performance measures was subjectively selected, because a commonly accepted overall criterion of business performance is yet to be developed (Giannoukou et al, 2013). The measures of stability are expected to relate to a strategic choice: debt leverage (Beard and Dess, 1981) and capital intensity (Conmanor and Wilson, 1967) represent financial leverage. Liquidity is tested by credit activity (Hambrick and Schecter, 1983), current ratio, and inventory turnover (Hambrick and Schecter, 1983) to evaluate the short-term debt repaying ability of the hotel. In addition to these factors, more performance measures are employed to pinpoint an operating position: advertising expenses (Conmanor and Wilson, 1967), firm size (Beard and Dess, 1981) labor productivity (Hambrick and Schecter, 1983), and expense control (Hambrick and Schecter, 1983) assess the operating efficiency of the firm.

4. Joint Venture and performance

Companies are increasingly using strategic alliances despite the fact that high failure rates suggest that potential benefits are difficult to obtain (e.g., Madhok and Tallman, 1998). Reported rates of alliance termination range from 30 percent to 70 percent (Kogut, 1989; Park and Russo, 1996). These numbers clearly suggest that there is a need for in-depth knowledge to broaden our understanding of why some alliances fail while others perform well over time. Despite the importance of understanding alliance performance, this area of alliance research has received less attention than other areas such as formation and governance structures (Gulati, 1998).

Gulati argues that performance ‘remains one of the most exciting and unexplored areas’ of alliance research (Gulati, 1998: 306), and few studies has systematically investigated factors leading to successful alliances. The reported studies of alliance performance have mainly looked at alliances with equity arrangements, for example, joint ventures (e.g., Geringer and Herbert, 1991; Kogut, 1989; Park and Russo, 1996; Yan and Zeng, 1999), leaving the performance of contractual alliances less explored (Glaister and Buckley, 1998). There is little coherent agreement as to how we can understand and measure alliance performance. Review articles suggest that alliance performance can be categorized according to alliance purpose, processes, and outcomes (Arino, 2003). This range of performance measures suggests that which alliances are considered successful depends on the selected measure rather than a general, unified view of what a successful alliance is. Three frequently used groups of measures are: (1) financial; (2) operational; and (3) effectiveness. Financial measures have primarily been used in relation to the formation of joint ventures. Studies have investigated the effects of joint venture formation on the share prices and market values of the parent firms (Koh and Venkatraman, 1991). These measures capture stock market responses for the parent firms around the time of formation and may provide an indication of short-term performance, but they do not reveal any long-term effects. Another shortcoming is that these measures are related to the parent firms and do not necessarily capture the performance of the alliance itself (Anderson, 1990). Operational measures are linked to duration, termination, and stability (Park and Russo, 1996; Kogut, 1989).

Park and Russo (1996) found that the failure rates of joint ventures are nonmonotonic, increasing to a peak at 3 years and then declining. A problem with measures like termination and duration is that the partners may agree on when to terminate an alliance; hence termination means success rather than failure (Inkpen and Beamish, 1997). Furthermore, Olk and Young (1997) found that member companies of research and development (R&D) consortia that reported learning had an increased likelihood of leaving the consortium, supporting the idea that termination does not equal failure. In a similar vein, Yan and Zeng (1999) suggest that instability may be a sign of the partners’ abilities to undertake necessary adaptations, and therefore not an indication of poor performance. The most commonly used measures of alliance performance are related to effectiveness in terms of fulfillment of strategic goals, including common and private, as well as initial and emergent goals (Parkhe, 1993; Geringer and Herbert, 1991; Arino, 2003). Common goals reflect performance evaluations by both parties (Khanna, Gulati, and Nohria, 1998), while private goals measure each individual firm’s perceptions of their own benefits (Mohr and Spekman, 1994).

Some goals can be reached in the early stages of an alliance (Parkhe, 1993), whereas other goals emerge throughout the cooperation period (Doz, 1996). Usually, fulfillment of strategic goals has been measured as the managers’ subjective perception of the degree of goal accomplishment. Subjective performance evaluations may be overstated (Noble, Sinha, and Kumar, 2002), although evaluations based on multiple indicators may give a reliable proxy for performance (Arino, 2003). Organizational performance measurement has always been a controversial issue. There have been many attempts to define and measure the performance of joint ventures and strategic alliances, but no organizational performance theory has yet emerged that is universally applicable to IJVs and strategic alliances. Several researchers have turned their attention away from objective measures towards subjective measures of parent firms’ satisfaction with joint venture performance (Taoglu and Glaister, 1998). Anderson (1990) argues that financial measures assess only one dimension of performance and that a number of other factors, many of them qualitative, must be weighted.

By using both objective and perceptual measures, Geringer and Hebert (1991) found that objective measures were positively correlated with parent firms’ reported satisfaction with IJV performance and with perceptions of the extent to which an IJV performed relative to its initial objectives. The appropriateness of using subjective measures, which assess multiple aspects of performance from an input-output continuum, seems to receive support from their study. Scholars have identified many factors that influence IJV performance. In a comprehensive literature review, Robson et al. (2002) integrated these factors into five sets of variables: (a) background variables (factors shaping the domain of the venture partners), (b) antecedent variables (structural and procedural aspects of IJV development), (c) core variables (factors pertaining to enterprise functions at the forefront of the IJV’s efforts to attain a high level of performance), (d) external variables, and (e) outcome variables. Here the focus is on the antecedents—three strategic level IJV formation factors: equity ownership, number of partners, and internationalization stage.

5. An overview of hotel industry in Greece

Greece is a significant global tourist destination, with 25 mn arrivals in 2015, up from almost 22 mn in 2014. Tourism is not, by and large, dependent on Greek GDP, but its direct contribution exceeds 7%. The hospitality industry has been growing fast and systematically in the last three years, but it is not particularly internationally competitive, mainly due to price. In 2014, tourists spend about €590 per journey, with an average stay of 8.4 days, yielding about €13 bn income. There are about 9,745 hotels with approximately 405k rooms and 781k beds in the country, mainly concentrated (85%) in Crete, South Aegean, Central Macedonia and the Ionian islands. Greek hospitality is mostly based on small 2* hotels (4,198 hotels), while 4* and 5* hotels account for only 17% of the total number. There are only 367 hotels with more than 300 beds, representing 4% of the total number of hotels and 25% of bed capacity (NAI Hellas, 2015). The market for hotels remained hot in 2014 and 2015 as a result of the continuous growth in Greek tourism from 2013. New 5 and 4 star hotels have entered the market with new international operators establishing a presence and big players extending their positions. Marriott International returned to the Greek market with its Autograph Collection Hotels brand via the Domes of Elounda hotel in 2015.

Four Seasons Hotels Resorts is planning to operate a new hotel in Mykonos; Carlson Rezidor Group will operate the Radisson Blu Beach Resort (ex Minos Imperial Luxury Beach Resort and Spa) in Lasithi, Crete from 2016; and Intercontinental has agreed to manage the operations of a new hotel in Santorini. Grecotel Hotels and Resorts group aims to increase its position to 35 from 30 hotels and upgrade existing units. In 2015 two of the group's luxury establishments in Rethymno, Crete, Caramel Grecotel Boutique Resort and White Palace Grecotel Luxury Resort reopened their doors. Earlier in 2014, Grecotel introduced the refurbished Pallas Athena Grecotel Boutique hotel in the centre of Athens which was added to the international network of small luxury hotels of the world (NAI Hellas, 2015). The 5 and 4 star hotel market in Greece has and is continuing to attract increased interest from national and international investors. Investors are also waiting for how the banks will ultimately begin to treat hotel Non Performing Loans.

Greek institutional banks hold a significant portfolio of prime hotels and according to the Bank of Greece the value of those Non Performing Loans at the moment stands at €2.5bil while an additional €3.0bil. are in 90 days delay. NAI Hellas estimates that the market value of 5 star hotels in Greece exceeds €10.0bil. while the market value of 4 star hotels is approximately €6.5bil. In 2014 world tourism grew for the fifth consecutive year since the crisis with 4.3% more tourist arrivals globally than in 2013. The World Tourism Organization expects a 3.0% to 4.0% year on year increase in 2015. European tourist arrivals, which are the world's highest given that Europe is the most visited region globally, grew by 2.7% reaching over 581 mil., with Southern and Mediterranean Europe leading the growth with a 6.9% increase from 2013 (NAI Hellas, 2015). Despite the many achievements and projections of good things to come, the hotel industry has however been faced by challenges. With each day, competition in the hotel industry is becoming aggressive leading to loss in revenue (Merchant and Schende 2000). For instance, rooms are not only offered to clients at a lower cost, but are also coupled up with special packages such as day sight-seeing, breakfast included, a four plus one - night complimentary. With fierce competition on a daily basis, hotels find themselves lowering costs with regards to their competitive brands regardless of available resources. This is likely to negatively affect the return on capital employed [ROCE].

6. Hypothesis

Hypothesis: There is a statistical difference in the performance of hotels operating in joint ventures and of fully owned hotels.

7. Methodology

The analysis will involve hotels in Greece. One sample will consist of hotels involved in joint ventures while the other sample will consist of non-joint venture hotels, but fully owned hotels. Hotels which are in a joint venture may be in such an agreement with another hotel, a real estate company or any other business whose joint venture can help it acquire knowledge, assets (land for instance), technical knowhow or any other resource that is of essence in expansion.

Sample 1 represents the inputs from hotels that operating in joint ventures and sample 2 represents the inputs from hotels that are fully owned. One way ANOVA test has been used for testing the hypothesis. Since our P value (0.527737) is greater than alpha (0.05), we do not reject the Null hypothesis (H0) and therefore conclude that the results are not statistically significant. This means that being in a joint venture does not affect the performance of a company. A joint venture will only affect the performance of the consolidated company and not the stand alone firm (hotel).

8. Discussion and Conclusion

The statistical analysis fails to reject the null hypothesis meaning that there's not much statistical difference between performance of hotels in joint ventures and hotels not in joint ventures. Because of heavy dramatic changes and competition in today's environment, gaining a competitive advantage is of essence for organizations to be successful. Joint ventures involve strategic decisions and therefore require effective alternatives and strategies in order achieve its intended objectives. If care is not taken while strategizing, challenges may out do the benefits intended. That is why good analysis and strategic management must be done before framing an appropriate strategy. Joint ventures are facing a lot of limitations and problems that prevent them from succeeding. After doing research on previous studies on Joint ventures around the world joint ventures in the public sector are doomed to face a myriad of problems when compared to those in the private sector. That being said, however, joint ventures are likely to grow more in the public sector that in the private sector as many public organizations have a lot of unexploited resources which could be made use of by the joint ventures. The future of joint ventures is very promising if we avoided their risks and appreciated their benefits. To do this we need to embrace strategic management. Though joint ventures fail to show improved performance of a hotel through financial ratios (ROCE, for instance), firms in the hospitality industry still have many reasons for going into joint ventures (Giannoukou et al., 2013). Other than a high return on capital employed, by forming a joint venture, companies can achieve a lot. Companies easily gather resources and market information not cheaply accessed by outsiders (Herbert and Geringer, 1989). This includes industry condition and competition knowledge. Secondly participants of a joint venture use technological knowledge not easily available. Companies can also get external capital that would be otherwise hard to find if they were operating as single entities. Lastly joint ventures also enjoy entrepreneurial and managerial skills.

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