

## Internationalization Strategy of Hospitality Industry in China

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### Abstract

**This study explores the internationalization abilities of organizations and internationalization strategy theory, and uses grounded theory methodology to analyze a case study of the international development of a Chinese hospitality enterprise. The key findings of this study include that the major obstacles to the international development of Chinese hospitality enterprises are a lack of international experience, a lack of cross-border management personnel, and low brand recognition. This study proposes that the key strategies for enterprise internationalization are a brand export strategy based on “local conditions,” an international talent training system based on “internal and external training,” and the creation of “strategic partners” through mergers. The conclusions of this study includes not only a theory as to enterprise growth, but also a theoretical basis for the realization of the overtaking of leading enterprises by latecomer enterprises.**

### Keywords

**the grounded theory, internationalization strategy theory, strategic partners.**

### 1. Introduction

Since the 1980s, the five year growth rate of China’s hotel industry has been over 50% on average<sup>[1]</sup>. In 2015, Hotel magazine ranked Jin Jiang hotels ninth on its list of world hotel brands. The brand is owned by the Jin Jiang Group and has relied on an active approach to mergers and acquisitions in order to increase its number of guestrooms<sup>[1]</sup>. The Chinese hotel industry’s “going out of China” to service Chinese nationals abroad represents a huge potential future market. However, the internationalization of Chinese service enterprises presents both opportunities and challenges. As such, this paper uses grounded research methodology to conduct a case study of the Jin Jiang International Group so as to analyze the opportunities, issues, and solutions in the internationalization process of a Chinese service enterprise.

### 2. Grounded theory and Industry Background

#### 2.1 Grounded Theory

Glass and Strauss proposed grounded theory in 1967 in their seminal work, “Discovery of Grounded Theory”<sup>[2]</sup>. Grounded theory is the cornerstone of qualitative research methodology<sup>[3]</sup>. The theory puts forward specific analytical procedures and research methods with the aim of discovering theories from empirical research in qualitative studies. Further, grounded theory places emphasis on the proposing of research questions and the natural emergence of conclusions, that is to say, the researcher should avoid specific research interests and perspectives and should be open to discovering research issues and concepts. The researcher’s subjective ideas, conjectures, and assumptions must be avoided in the course of data collection and data analysis<sup>[4]</sup>.

The grounded theory research process is divided into the three stages of data collection, data analysis, and theory building<sup>[5]</sup>. These three stages of grounded theory are an organic combination and mutually influence each other. In-depth interviewing was the main data collection method employed in this study; through in-depth discussions with interviewees, understandings were gained through the eyes of participants as to the formative processes behind specific social phenomena, the current state of affairs, and the thinking as to solutions. Next, the interview data was systematically organized

through coding. In grounded theory, coding allows continuous comparison between the interview data and the interview contents and concepts, it marks the conceptualization and abstraction of the data<sup>[6]</sup>. The types of coding include open coding, relational coding, and selective coding. For example, if open coding is viewed as the collation of the interview data, a process through which concepts are refined, then relational coding clarifies each concept and category and the relationships between them. Finally, through selective coding, the main categories and secondary categories are established, and a theoretical construct is built on the basis of the relationships between the categories<sup>[7]</sup>.

## 2.2 Industry Background

Since the beginning of the 21st century, world-renowned hotel groups have all accelerated their global expansions. Data released by Statista in 2014 shows that there were 51,000 hotel operators and 19.5 million hotel rooms worldwide, of which North American hotel rooms accounted for 67% of the global supply, with Europe placed second<sup>[8]</sup>. According to World Tourism Organization forecasts, the Asia-Pacific share will grow to 26.6% by 2020, while that of the United States will fall to 18.1%; Asia and the Middle East will become the rising stars of the hotel industry<sup>[9]</sup>.

Based on overseas market demand and the guidance of national policies, Chinese hotel service enterprises are gradually internationalizing, however, there are management issues with most of the hotel enterprises that have developed under the large-scale investment-reliant model of the past few decades<sup>[10]</sup>. Firstly, unitary brand structures: a brand represents enormous intangible assets such as a hotel's international reputation, customer trust, and management experience. Internationally renowned hotels attach great importance to brand building, in comparison, the international recognition and awareness of the brands of Chinese hotel groups is not high<sup>[11]</sup>. Secondly, shortage of international talent: although the overall quality of China's hotel industry employees has increased, compared to the rapid development of the internationalized market, Chinese hotels are still comparatively lacking in staff with professional educational backgrounds and extensive professional cross-border management experience.

## 3. Analytic Process

### 3.1 Sample Selection

As grounded theory is an important qualitative research methodology, even more emphasis is placed on the quality than on the number of samples, therefore, random sampling was deemed not suitable for this study. Non-random sampling is more flexible and time efficient for data collection methods such as in-depth interviewing in particular. In addition to the commonly used sampling method of in-depth interviewing, Strauss and Corbin's "Basics of Qualitative Research" also introduced three theoretical sampling methods: open sampling, relational and variational sampling, and discriminating sampling<sup>[12]</sup>.

This study has used theoretical sampling where particular samples are selected according to the needs of analytical procedures and conceptual development. During the initial stage, grounded theory advocates the use of open sampling to collect as much rich and detailed information as possible, so as to completely cover the research subject and achieve theoretical saturation, when new samples do not bring any new information. During the intermediate research stage, relational and differential sampling were used to target certain interviewees so as to assist in the clarification of the relationship between different concepts and categories through relational coding. In the final stage, as the theoretical construct became gradually clearer, discriminating sampling was used to select interviewees who could help to revise and perfect the theory. Mike Reagan proposed that eight samples is generally sufficient for qualitative research. This study has followed the principle of theoretical saturation and interviewed nine mid-level and senior managers of Jin Jiang International.

### 3.2 Interview Samples and Textual Materials

A total of 10 interviews were conducted with the nine subjects selected in this study. The interviews centered on the key developments in the course of internationalization such as strategic orientation, strategic policy decisions, market policy decisions, and human resources policy decisions. Interviews

were conducted using a uniform interview outline with questions being changed, that is, the questioning method and follow-up questions were changed based on the answers of the interviewee and the interview scenario, however, the main topics were not changed. The approximate duration of interviews was one to two hours.

Aside from the on-site interviews, publicly available information on the group's internationalization strategy from 2005 to 2015, released by the management of Jin Jiang Group and key Chinese media outlets, was also found and was used in this study as supporting material in performing coding to ensure the objectivity and fairness of the case analysis. The internationalization process of the Jin Jiang Group can be linked to four types of internationalization strategies: capital export, sale of national franchise rights, formation of brand alliances, and grants of single store franchise licenses; significant events in the internationalization process are listed in Table 1.

Table 1. Jin Jiang International Holdings Co., internationalization events

Time/period	Events	Type
2009-2010	Acquired 50% shares of Interstate Hotels & Resorts, LLC in 2010(Weiyanzi Li, 2010; Xiao'e Sui, 2011). Interstate Hotels & Resorts, LLC is the largest third-party hotel management company and manage 434 hotels in 11 different countries.	Stock Acquisition
Sep, 2011	Jin jiang Inn and Philippines Oishi (international) company signed a formal contract, which extend market of Jin jiang Inn to Philippines through brand licensing. This successful brand export of Jin jiang became the first sample of Chinese economy hotel brand go abroad. This project is planned to open in 2015. Since then, Jin jiang Inn is about to accelerate the internationalization process(Xiaohong Li, 2011; Bing Xia, 2011).	Brand Licensing
2011-2012	March 13, 2012, in Paris, Jin Jiang Inn and Louvre Hotel Group announced that both sides will select 15 economy hotels to be use the other brand. Furthermore, both companies will share their characteristic services (Weiyanzi Li, 2012).	Brand Alliance
2012-2014	The franchising project with South Korea SANG WON HOUSING CO.LTD signed in June 2012 adopte a way of single-store franchise. In October 2014, South Korea Seoul East Ming Dong Hotel, which is invested and constructed by SANG WON HOUSING CO.LTD based on international standards of Jin jiang Inn, is officially open for business. Jin jiang become the first Chinese economy hotel in South Korea market and milestone of industry development.	Franchising
Jan 15, 2014	Overseas brand expansion project of Jin Jiang Inn, Indonesia project, is officially signed. Jin jiang franchising Jin feng Group to operate in Indonesia with Jin jiang brand(China Security Journal, 2014).	Franchising
2014-2015	In November 2014, Shanghai Jin jiang International Hotels Development Co., Ltd. and its parent company, Shanghai Jin jiang international hotels (Group) Limited by Share Ltd , were announced that their actual controlling shareholders, Jin Jiang International Holdings Co., Ltd., has already signed stock acquisition contract with American Starwood Capital to purchase 100% shares of Louvre Group and its wholly owned subsidiary, Louvre Hotel Group. This stock acquisition is planned to be completed in early 2015(Fei Wen, 2015).	Stock Acquisition
2014-2015	In May 2015, Jin jiang Metropol Hotel Management Co., Ltd. signed letter of intent for cooperation with Holland Postillion Hotel Group. Hotels brands of Jin jiang Metropol Hotel Management Co., Ltd. will enter Holland through brand alliance. Holland is the fifth station of Jin jiang Metropol Hotel Management Co., Ltd. international market after Philippines, France, South Korea and Indonesia(China Security Journal, 2015).	Brand Alliance

### 3.3 Open Coding

The research data with respect to the Jin Jiang Group's internationalization strategy was systematically analyzed and summarized using grounded research methodology. In order to prevent the researcher's subjective ideas from causing errors in the case study or increasing the sensitivity of

the theory, coding and note taking were performed by multiple persons in this part of the research. This removed the potential impact of individual biases on the results of coding. Fourteen categories were ultimately abstracted through the conceptualization and categorization of the original data (Table 2).

Table2. Strategy used in process of internationalization

Codes	Row data (examples)
A1. Market saturation	L03: The domestic hotel industry is under intense competition and economy hotel industry market is constantly divided. Economy hotels have serious homogenization problem. L05: From the perspective of the market, Jin jiang choose to go overseas to open up new markets. This is an effective way to enter the bright future.
A2. Government support	L08: Government give service oriented enterprises political support in internationalizing process. Reform of state owned enterprise and the establishment of the Shanghai free trade zone provide an opportunity to Jin jiang to enter international market. L09: Shanghai position Jin jiang as one of the most vital local multinational companies and plan to support its internationalization.
A3.Resource optimization	L02: After the 2008 economic crisis, foreign assets are generally undervalued. Jin jiang optimize its capital structure through selling overvalued domestic hotels and purchasing undervalued foreign hotel assets.
A4. Potential market	L04: The growth of China's outbound tourism provides a huge potential international market for Jin jiang's cross-border operations.
A5. international rules ——‘Orientation’	L08: Lack of law in multinational operation leave companies in great risk. China have not had any foreign investment law, only have low level regulation named National Development and Reform Commission 6, 9. L09: overseas operation based on understanding of international rules (lack of related domestic law and people who understand international rules).
A6. Economic trends —— ‘Trends’	L06: Development trend of the international hotel industry and the international economic trend is an important indicator of the development strategy. L05: From Louvre Starwood, every acquisition target choice of Jin jiang is based on detailed strategic analysis on macro condition of international hotel industry to pick up the best target and timing.
A7. Seize opportunities —— ‘Pulse’	L07: During the 2008 financial crisis, Jin jiang found that most international hotel assets are undervalued and decisively seized this merger opportunities. This became an important step of internationalization. L09: When choosing acquisition target and timing, Jin jiang use professional asset appraisal company combined with its own long-term tracking and analysis of industry to determine the ‘Pulse’ of target companies.
A8. Brand Alliance	L06: Both sides select some qualified hotels in their respective markets to operate under ‘dual brands’, in order to implant own ideas and services in the other’s hotels. L04: Reservation income may not be the most important achievement, the key is that Jin jiang enter into European market successfully through the "alliance" cooperation.
A9. Brand licensing	L07: Jin jiang brand is licensed to Philippines Oishi and Oishi company becomes regional agent of Jin jiang in Philippines. L05: Jinjiang Inn provide operation standards, management training and reservation system etc. While Oishi work on local hotel investment, human resource management and operations.
A10. Local culture	L01: The key is that when you are involved in a culture, you must learn to respect it and adapt to it. L02: Mainly concerned about the requirement on language and culture. Overseas working experience, can understand the two kinds of culture, cross-cultural ability.
A11. Local team	L02: Maintain the core human resources of the acquired team, similar to the "one country, two systems" model in Hong Kong. L08: In my opinion, except for the core posts and core positions, internal selection and recruitment are both effective.
A12. Local benefit	L08: Respect each other. Use strategic thinking in acquisition. Ensure the long-term interests of the acquired parties.
A13. Overseas practice	L03: Regularly send senior managers to overseas company to take overseas practice. Take overseas experience as an important indicator of promotion.
A14. Internal training	L09: Company should organize internal study on international business rules and overseas operation training projects.

### 3.4 Relational Coding

The relationship between the different categories was uncovered through relational coding; classification and summarization into six categories was then conducted, based on the mutual relationships and logical order among the different categories, as per Table 3.

Table 3. Codes, concepts and categories

Categories	Concepts	Codes
Strategic circumstance	B1. Domestic circumstance	A1. Market saturation
		A2. Government support
	B2. International circumstances	A3. Resource optimization
		A4. Potential market
Strategy formulation	B3. Principle of Strategic Formulation of the “Three Directions”	A5. international rules —— ‘Orientation’
		A6. Economic trends —— ‘Trends’
		A7. Seize opportunities —— ‘Pulse’
Strategy Execution —— “Troika”	B4. Brand internationalization	A8. Brand Alliance
		A9. Brand licensing
	B5. Operation localization	A10. Local culture
		A11. Local team
		A12. Local benefit
	B6. Talents internationalization	A13. Overseas practice
A14. Internal training		

### 3.5 Internationalization Strategy

The earliest theory on the stages of internationalization dates back to 1977, to “Internationalisation” by Johanson & Vahlne, which posited that the internationalization of enterprises was a process consisting of stages, beginning with an enterprise selling domestically and exporting on an irregular basis, to exporting on a regular basis, establishing foreign sales subsidiaries, and then investing in foreign manufacturing<sup>[13]</sup>. In the research of Anderson et al., five stages of internationalization, as well as the development standard of each of the stages, were defined: the desire phase, the procedure phase, the action phase, the internationalization phase, and the conceptualization phase. This study proposes that the “formulation of a rational internationalization strategy is an important driving force for overcoming difficulties and continued forward development”<sup>[14]</sup>. Based on the results of relational coding combined with existing theories, this study proposes a completely new theoretical framework of internationalization strategy (see Figure 1).

1). Strategic Environment – Principle of Strategic Formulation of the “Three Directions” . The Chinese hotel industry is getting more and more competitive, thus the choice by the Jin Jiang Group to “go out of China” is an effective way to develop new markets. Since the beginning of the 2008 financial crisis, the Jin Jiang Group has used international rules as its “orientation” and it has looked closely at the important “trends” represented by economic trends. Through professional asset appraisals of the competition and long term internal analysis of its competitors in the industry, it has taken the “pulse” of its targets and grasped opportunities to secure three key international acquisitions, resulting in an optimal allocation of assets. That Jin Jiang has successfully made acquisitions such as the Louvre Hotels, Starwood Hotels, and others, indicates that, subject to an analysis of the strategic

environment, the principle of grasping the “three directions” is indubitably a key instrument in formulating an internationalization strategy.

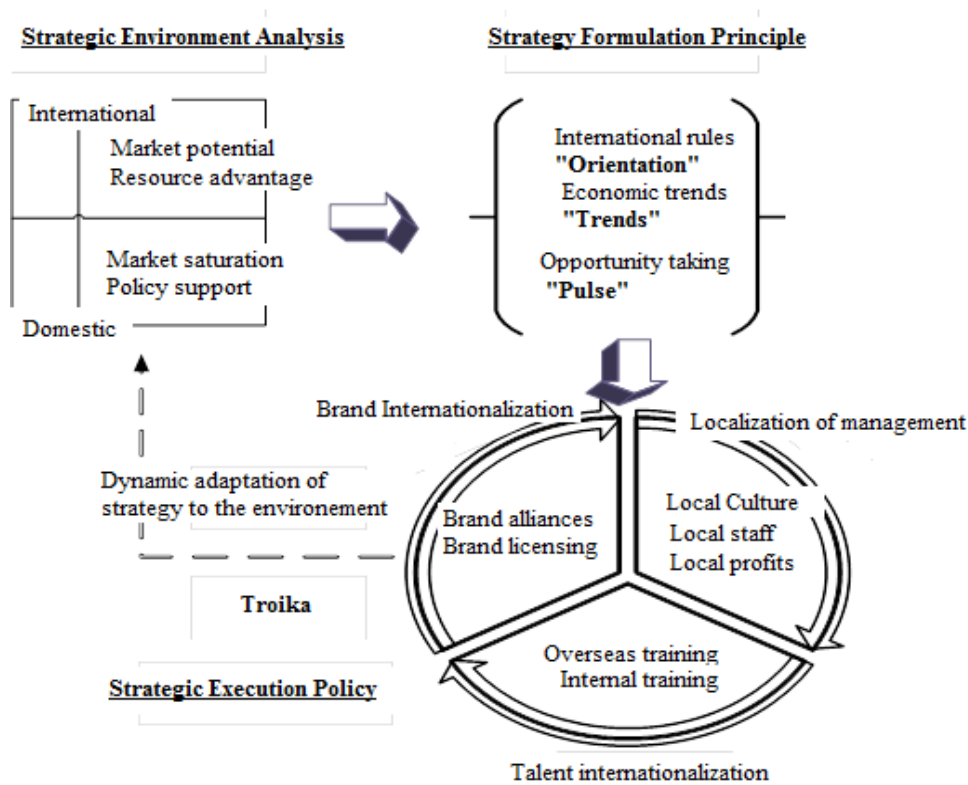


Figure 1: Internationalization strategy model based on dynamic environment

2). Principle of Strategic Formulation of the “Three Directions” – Strategic Execution of the “Troika”. Jin Jiang Group’s formulation of its three big strategies of “brand internationalization,” “territorial management,” and “talent internationalization,” and its steady push towards internationalization were premised upon its understanding of international rules and its following of international macroeconomic trends. Among these, brand internationalization meant a composite strategy of various methods including brand alliances, franchising, and brand exchange in order to implement the internationalization concept of “light on assets and heavy on brand” at a practical level. “Territorial management” is concerned with problems such as the management team, long term profit, and cultural integration of acquisition targets, and the realization of long term growth after acquisition through the “Human harmony + profit” method. Talent internationalization emphasizes the improvement of the internationalization standards of the group’s human resources through methods such as the implementation of internationalization and specialized training.

3). Changes in the Strategic Environment – Strategic Execution of the “Troika”. Connotations of the relationship: The development environment of international and domestic hotel enterprises and international macroeconomic trends are constantly changing. The Jin Jiang Group has thoroughly adopted, from beginning to end, a strategic concept of “changing along with the environment,” and has firmly grasped international trends and implemented dynamic changes to its strategic programs, which are all important features of the group’s internationalization strategy.

#### 4. Discussion

Currently, the internationalization of the Jin Jiang group is still in the exploratory stages. In this study, the following conclusions were derived from the analysis and summary of the problems which currently exist within the group and its internationalization strategy. The main factors restricting the

internationalization of the Jin Jiang Group include a lack of international experience, a lack of cross-border management personnel, and low brand recognition, while the “Troika” strategy to promote the internationalization of the enterprise was derived in order to solve these problems.

1). Using brand alliances as overseas expansion “springboards”. Jin Jiang’s overseas expansion is based on the light asset model, wherein the most typical method is that of the brand alliance, where two parties each choose hotels in the other’s market that accord with certain conditions and use their own brands in the chosen hotels. The parties then run these hotels as “dual brand operations,” while also applying their own philosophies and services into the other party’s hotels. Through these “alliances,” Jin Jiang’s brand has successfully entered the European market. For example, the Jin Jiang Inn logo can be seen under the Campanile brand, a budget hotel jointly launched by Jin Jiang Inn and the French Louvre Hotels Group.

2). Using brand licensing as a “base” for overseas expansion. Brand licensing is when a licensor grants a licensee rights through a license agreement to use, or be the agent for, the licensor’s trademarks, brands, etc <sup>[15]</sup>. The licensee must engage in the manufacture and/or sale of products or the provision of services in accordance with the stipulations of the license agreement and also pay a royalty to the licensor. Further, the licensor also provides guidance and assistance in terms of staff training, organizational design, management, and other aspects. Jin Jiang formally signed an agreement in 2010 with Oishi of The Philippines to license its brand to Oishi. In 2012, it signed a franchise agreement with South Korea’s Sang Wong Housing to expand to South Korea with a single store franchise.

3). Adoption of different brand export strategies for different markets to achieve “adaptation to local conditions.” In Europe and North America, the main method has been mergers and acquisitions so as to allow the direct operation of mature brands<sup>[16]</sup>. This is in contrast to non-mainstream international markets such as Africa, Latin America, and other regions where they have sought local partners and provided licenses to them. For example, because expenditure levels are high in Europe as a whole, if Jin Jiang were to have initially entered Europe by way of independent investments, the risks would have been relatively high, which is why Jin Jiang chose to use the light asset method of creating “brand alliances.” This is in contrast to strategically important markets such as South Korea, Japan, and Singapore, where they have adopted a strategy of joining alliances only selectively in order to leave room for their own subsequent expansion.

4). Concern for the stability and development of local personnel. In the process of internationalization, Jin Jiang has regularly adopted the method of maintaining the core human resources of acquired companies, similar to Hong Kong’s “one country two systems” model. For example, after his company was acquired, President Thompson of the American Hotel and Lodging Association was concerned about the position of the CEO. The Jin Jiang Group not only offered favorable conditions to retain the CEO but also kept more than 30 other positions, beginning with the CEO and all the way to department directors.

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