

# Expansion Strategies and Evolution Paths of Hotel Groups in China

ZENG Guojun

(School of Tourism Management, SUN Yat-Sen University, Guangzhou 510275, China)

**Abstract:** The organizational structure change of enterprises should be subject to the change of strategy, and strategy change is the reaction to the environment change. This paper studied the expansion strategies and evolution paths of hotel groups in China by a survey in 2007, in which the research objects were 91 hotel groups listed by China Tourist Hotels Association. The conclusions are drawn: based on the two dimensions of unification management function scope and the unification management degree, hotel groups can be divided into four strategic types, including strategically concentrated group, close function group, widespread alliance group and loose union group. Simultaneously there are three different expansion paths: stability path, growth path and undulation path. About 72.5% of Chinese hotel groups have a stability or growth expansion path.

**Keywords:** expansion strategy; evolution path; hotel group; China

## 1 Introduction

Chinese hotel groups have developed very quickly in recent 30 years. But the management of international hotel groups is superior to that of domestic hotel groups and independent hotels (Xi, 2007). Compared with the independent operated companies, competitiveness for enterprise groups lies in the scope of the collaboration and cooperation of their business functions. In other words, the unification scope and unification degree of the hotel group's functions have become the main criteria for judging the competitiveness of the hotel group. In view of this, it is necessary to conduct a study on the unification management function scope and unification management degree of Chinese hotel groups.

The organizational structure change of enterprises should be subject to the change of strategy, and strategy change is the reaction to the environment change (Harrison and Cathy, 2005). The expansion strategy of hotel groups generally includes three types: the single expansion, vertical integration and diversification (Harrison and Cathy, 2005). The expansion of hotel group mainly takes three strategies: property expansion, franchising and management contracts. Generally, the expansion strategy is affected by the core competencies of the

company and the resources availed by the markets (Edgar *et al.*, 1994). In recent years, franchising management is in large-scale growth around the world, and Contractor and Kundu (1998) found that 66% of the hotel group's expansion around the world took the ways of franchising and management contracts. The traditional study showed that management mainly relied on ownership control, but the degree of management control had not been weakened in these strategies. Anttonen *et al.* (2005) carried out in-depth research on the success factors of hotel group's franchise, and found that political and economic risk is prevalent in Russia. Among the two ways of franchising and management contracts, the China's hotel groups prefer to the latter (Pine *et al.*, 2000; Chekitan *et al.*, 2002).

In the perspective of impact factors of hotel group expansion, the access to scale economies, the reduction of transaction costs and the change of market environment are three main factors for the expansion of the hotel groups (Lafferty and Fossen, 2001; Brotherton, 2003). Lafferty and Fossen (2001) found that the hotel group grew up with the scale enlargement, reducing transaction cost and adapting to the market environment. With the increase of subsidiaries in the hotel group, costs of marketing and training can be shared by more

Received date: 2009-08-12; accepted date: 2010-04-08

Foundation item: Under the auspices of National Social Science Foundation of China (No. 08BJY037), Ph. D. Programs Foundation of Ministry of Education of China (No. 200805581046), Humanities and Social Sciences Project of Ministry of Education of China (No. 09YJC630233)

Corresponding author: ZENG Guojun. E-mail: zenggj@mail.sysu.edu.cn

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hotels, and the operating costs of a subsidiary hotel will be lowered down (Brotherton, 2003). The rapid change of economic, social and political environment promotes tourism enterprises to realize the importance of interdependence. They cooperate with each other to take advantage of the scarce resources but one occupy it (Selin, 1994). Through this way, transaction costs can be greatly reduced for all members among the hotel group subsidiaries (Lafferty and Fossen, 2001). Qin (2007) found that government promotion and enterprise development also influence hotel groups' expansion. Edgar *et al.* (1994) classified 30 largest hotel enterprise groups in Scotland according to enterprise structure and organization strategy. Lant and Baum (1995) made a classification to 72 hotel groups in Manhattan according to cognition characteristics in 1992. These studies provided some references for the analysis of hotel group expansion process.

The researches on expansion strategy of hotel groups in China started from 20 years ago, which mainly involved the introduction of conception and comparison study on Sino-foreign hotel groups (Zou, 1999), the development trend of China's hotel industry and had made analyses of franchising strategy of Chinese star hotels (Pine *et al.*, 2000). And Dai (2004) summed up five main strategies of Chinese and foreign hotel groups' operation: belt-management, contract management, franchising, joint sales and management consulting.

Researches on the expansion process of hotel groups can be summed up to two dimensions: function scope and function degree of the unification management. Xi (2007) held that, in the governance arrangements of hotel groups, the governances of parent company on subsidiary often have few difference, and subsidiaries' governances will also be different accordingly because of the hotel's number and scope, direct investment, equity control, management contracts and other operation strategy such as franchising. Generally speaking, the international hotel group establishes the Group Strategic Management Centre in the parent company. Being fully controlled hotel, the state-owned hotel groups can determine whether to establish the Board according to the actual situation, such as the size and number of subsidiary shareholders to enhance the efficiency of decision-making and implementation. As for the strategies of management contracts and franchising, they need not solve this problems (He, 2004; Wang, 2006).

Chinese hotel groups have taken three expansion strategies of government promotion, merger and acquisition and management contract (Chen, 2005). Xi (2007) argued that China's Hotel Group broadly formed by four paths: first, a hotel group reformed by administrative power; second, union of independent hotels; third, hotel groups by management contract; fourth, hotel group with wholly owned or holding company. From the perspective of resources-based view, China's hotel groups can be divided into four types: 1) ones based on capital, 2) based on technology, 3) based on market, and 4) based on cost (Weng, 2001). These can also be taken as the expansion strategies of hotel groups.

Many researches were done on the hotel group's expansion strategy. But most of international ones tended to conduct empirical study on one certain kind of expansion strategy of hotel groups, few on systemic arrangements to hotel development model (Edgar *et al.*, 1994; Lafferty and Fossen, 2001; Harrison and Cathy, 2005); and domestic ones lack of empirical data support, especially lack of hotel groups expansion research (Zou, 1999; Weng, 2001; Qin, 2004). Therefore, this paper made a systematical empirical research on the Chinese hotel groups' expansion strategy and evolution path by a survey on 91 hotel groups listed by China Tourist Hotels Association.

## 2 Methodology

Referred to Pine *et al.* (2000) and Chekitan *et al.* (2002), this paper put forward several hypotheses, designed a questionnaire and conducted investigations. The object of this research was China's hotel groups, including state-owned hotel groups and private-owned hotel groups. Branches of foreign hotel groups in China were excluded. The survey object of this paper also included the groups that took tourism industry as the main business because hotel business was also important.

### 2.1 Analysis framework

There were few studies on domestic and international hotel groups' expansion process in China, especially on the expansion type of different hotel groups. Based on the dimensions of organizational structure and strategy, Edgar *et al.* (1994) classified the hotel groups in Scotland. And Lant and Baum (1995) got four categories of hotel groups according to the cognitive characteristics.

These dimensions can be used for reference for this study. In the field of strategic management, unification management function scope and unification management degree always are taken as the most important measurements for the growth of enterprise groups. Based on the two dimensions, an analysis framework can be formed (Fig. 1). With this framework, hotel groups can be divided into four types: widespread alliance group, loose union group, close function group and strategically concentrated group.

The unification management function scope means that the expansion of hotel groups needs the unification management on food production, sales of customer room, information system and R&D, purchasing, human resources management, accounting and finance, and government and public relations. Since China's hotel groups are in their growth period, some hotel groups have not conducted unification management of these functions. With the enhancement of unification degree of hotel groups, their unification management function scopes increase gradually. At the same time, the expansion process of the group is also the process of the enhancement of cooperation degree.

To analyze the evolution path of hotel groups in China, this study tried to analyze and compare the expansion strategy of hotel group in different time. Since China is in the stage of economic transition and fast market expansion, the main feature of China's hotel groups is the continuously enlargement of unification management function scope and unification management degree. However, market competition becomes more and more intensively in China, some problems arise in the hotel groups, as a result, corporate restructuring and spinoff come out. Therefore, the evolution path of hotel groups in China can be concluded. If the unification management function scope and unification management degree of the hotel group have no obvious

change, it can be called stability path; the hotel group evolution path with the enhancement of one or both of two dimensions can be called growth path; if one or both of two dimensions decrease, it can be called degeneration path; if one or both of two dimensions increase firstly and then decrease or decrease firstly and then increase, then it can be called undulation path, which also include other erratic evolution path.

**2.2 Questionnaire and variable measurements**

To measure unification management function scope ( $S$ ) of hotel groups, this paper investigated seven variables: food and beverages, room management, information system, material purchasing, human resources, finance, and public relations management. The interviewee should answer whether the hotel has conducted or will conducted unification management in those functions three years ago, at present and three years later. If unification management has been conducted or will be conducted, the value was 1, otherwise, 0. Summed the unification management function scope according to time, we got a variable ranged from 1 to 7. Since there was at least one function conducting unification management in the hotel group, otherwise, it could not be called group management hotel, and the sum could not be 0. The unification management function scope becomes bigger with the value of  $S$  increasing. If the value of unification management function scope is larger, more functions of the subsidiary hotel are managed by head-quarter of the hotel group. The unification management function scopes ( $S$ ) of a hote group could be attained as follows:

$$S = \sum_{i=1}^7 a_i \tag{1}$$

where  $i$  refers to the  $i$ th function of a certain hotel group, and  $a_i$  means the unification management's conducting,

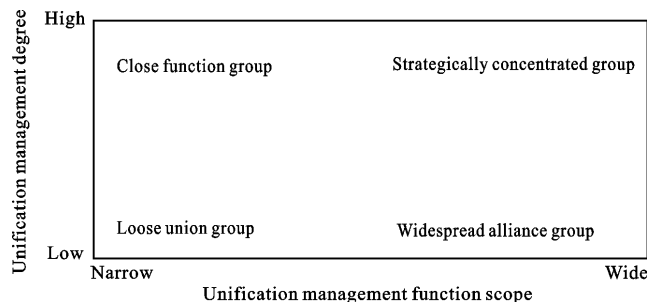


Fig. 1 Hotel group classification based on function scope and degree of unification management

$a_i = 1$  or  $0$  ( $1$  denotes unification management and  $0$  denotes no unification management).

To measure unification management degree of hotel groups, the above mentioned seven variables should still be used. The unification management degree of single function ranges in  $1-5$ . The value of unification management degree ( $L$ ) is the mean value of single unification management degree from the response of one certain hotel group. In fact, the unification management degree of the hotel group is the dividing result of the sum of single unification management degree ( $\sum l_i$ ) and unification management function scope ( $S$ ). And the degree is also from  $1$  to  $5$ . The unification management degree enhances with the increase of the value of  $L$ . If the value of unification management degree is larger, the subsidiary hotel are controlled more tightly by headquarter of the hotel group. Of course, answers should be made on the conditions of that three years ago, present and three years later.

$$L = \frac{\sum_{i=1}^7 l_i}{\sum_{i=1}^7 a_i} \quad (2)$$

where  $l_i$  is unification management degree of single management function.

At the same time, the questionnaire was also designed relevant questions to acquire the background of the investigated hotel groups and the questionnaire respondents. The background material of the investigated hotel group includes hotel group name, hotel ownership, and the subsidiary number of hotel group. The ownership of the hotel group can be taken as control variable in the questionnaire analysis. The relevant information of the answerers includes position and name of the answerers, engagement time in hotel industry, and email and telephone. The former three items of the answers are mainly used to judge the reality of the questionnaire, and the last two are used to complete relevant information and keep the research results feed back to the hotel groups and respondents.

Except special explanation, the questions provided in this research adopt five-choice Likert-type scales variable. The respondents should answer the same questions

on the conditions of that three years ago, present and three years later. In consideration of the short development time of China's hotel group, fast change of Chinese market, the expansion strategy of hotel group will have a relatively large adjustment in short time, so the time interval has been fixed as three years.

### 2.3 Paired samples $T$ test

In order to check the significance of the difference of unification management function scope or unification management degree in different year, the method of paired samples  $T$  Test was employed. Paired samples  $T$  test is mainly used for the comparison between the conditions of the examinees before and after the treatment (Zhang, 2002). Actually, the dispatches of each pairs will be got first, if the overall average value is  $0$ , the sample average value will be around  $0$ . Through the examination of whether the overall average is  $0$ , we can know whether there is dispatch before and after the treatment. In this research, each time point represents a treatment, for an example, to compare the difference of unification management function or unification management degree three year ago and present. If the unification management function scope three years ago is higher than present, then the value of  $T$  is positive, otherwise the value of  $T$  is negative. According to this kind of method, we conduct a comparison to the unification management scope three year ago, present and three years later, which is also applicable in unification management degree.

### 2.4 Data acquisition

The research objects were 91 hotel groups listed in the Chinese hotel groups list issued by China Tourist Hotels Association<sup>①</sup>. The author sent 89<sup>②</sup> questionnaires to the senior managers of the investigated hotel groups in China's hotel industry occupational manager occupational qualification certification training course in October 19, 2007. Up till November 30, 2007, 54 questionnaires had been called back. After preliminary analysis, the valid questionnaires in the called back questionnaires were 51, and the effective rate was 57.30%<sup>③</sup>. As for those que-

① China Tourist Hotels Association, 2006. *China Hotel Industry Study 2006*.

② The email to two of 91 hotel groups returned back because of mistakes, 89 were actually given to the senior managers of the investigated hotel groups.

③ The eliminating standard of invalid questionnaires is: the options of relevant types are totally the same, and the missed items in each large item are more than two.

stionnaires with missed items while not taken as ineffective ones, we took the average value as default investigation value. The analysis was performed using SPSS 15.0.

### 3 Results

#### 3.1 Sample attributes

##### 3.1.1 Engagement time of respondent

The engagement time of a respondent can reflect his understanding on the hotel industry. The author made a frequency analysis to the engagement time of the respondents (Table 1). Among the 51 effective respondents, engagement experience of 39 respondents was more than 10 years, accounting for 76.5% of the sample hotel groups. In the perspective of the engagement experience of the answerers, the interviewees of this survey were acquainted with the hotel industry, which was relatively satisfactory.

Table 1 Hotel industry engagement time of respondents in 51 hotel groups

Engagement time	Number of respondents	Percentage (%)
< 5 years	5	9.8
5–10 years	7	13.7
10–15 years	11	21.6
> 15 years	28	54.9
Total	51	100.0

##### 3.1.2 Subsidiary number of hotel group

The subsidiary number of a hotel group can reflect its scale of management. In all of the 51 hotel groups, the numbers of hotel groups managing more than 30 hotels, 10 to 20 hotels, and less than 10 hotels were similar, while that managing 20 to 30 hotel was small (Table 2). The results showed that hotel numbers governed by China's hotel groups were relatively scattered.

##### 3.1.3 Distribution and ownership of hotel group

According to the preliminary statistics, the 51 hotel groups

Table 2 Subsidiary number of hotel group

Subsidiary number	Quantity of hotel group	Percentage (%)
Less than 10 hotels	16	31.4
10 to 20 hotels	14	27.5
20 to 30 hotels	4	7.8
More than 30 hotels	17	33.3
Total	51	100.0

came from 12 provinces and regions such as Guangdong, Beijing, Jiangsu, Zhejiang, Fujian, Hainan, Hunan, Liaoning, Shanghai, Shandong, Shaanxi and Tianjin. Among them, 14 hotel groups were in Guangdong, eight in Beijing, five in Jiangsu, four in Zhejiang, and three in Shanghai. The result suggested that the majority of the hotel groups were located in coastal region of Southeast China. It was also found that hotel groups mainly concentrated in three main areas of the coastal areas in Chinese mainland: the Changjiang River Delta (mainly including Shanghai, Jiangsu and Zhejiang), the Bohai Sea Rim region (mainly including Beijing, Tianjin, Liaoning and Shandong) and Zhujiang River Delta (mainly including Guangdong). This study conducted a matching on comparison average value of the region proportion and got the result of  $T = -0.000$  (Sig. = 1.000) (Table 3). The result showed that there existed no significant difference among the overall hotel groups distribution area, so the hotel groups in this survey were representative in regional distribution.

In all the 51 hotel group samples, the number of state-owned hotel groups was 38, and that of private-owned hotel groups was 13. The investigated hotel groups in China are mostly owned by Chinese government. These data reflected the status quo of Chinese hotel industry. The representativeness of the samples is reliable.

#### 3.2 Unification management function scope and unification management degree

According to Equations (1) and (2), the measurement index of the unification management function scopes

Table 3 Region comparison of investigated object and sample

Region	Investigated object		Sample	
	Number of hotel group	Percentage (%)	Number of hotel group	Percentage (%)
Changjiang River Delta	22	24.2	12	23.5
Bohai Sea Rim region	27	29.7	14	27.5
Zhujiang River Delta	23	25.3	14	27.5
Others	19	20.9	11	21.6
Total	91	100.0	51	100.0

and unification management degrees of huge hotel group's three years ago, present and three years later were gotten. As mentioned above, the value domain of unification management function scope was 1–7, and that of the unification management degree ranged from 1 to 5.

Table 4 showed the average value and standard deviation of sample hotel group's unification management function scope and unification management degree three years ago, at present and three years later. Unification management function scope has increased from 5.3137 three years ago to 6.2941 at present, and will keep increase in three years later. The unification management degree has also increased, and will keep increase three years later. The median of the unification management function scope is 4, while the average value of it in different year is far higher than 4. So we can get the conclusion that China hotel group unification management function scope is relatively wide. At the same time, since the median of the unification management degree is 3, the average value of the unification management degree three years ago is smaller than 3, the average value of unification management degree at present is larger than 3, and the average value of unification management degree three years later will increase higher. Therefore, the unification management degree of China hotel groups is not so high.

### 3.3 Expansion process of hotel group in China

By the method of paired samples *T* test, the matching comparison of unification management function scope

and unification management degree in different time was gotten. The result was shown in Table 5.

According to Table 5, Chinese huge hotel group's unification management function scope increased gradually, and the unification management degree also increased gradually from three year ago, at present to three years later. This change was obvious. The process of hotel group expansion was also the process of widening unification management function scope and the enhancement of unification management degree.

### 3.4 Expansion strategy of hotel group

According to data, three years ago, the 51 hotel groups were clustered into four expansion strategies according to the two variables of unification management function scope and unification management degree: widespread alliance group, loose union group, close function group, and strategically concentrated group. There were 25 widespread alliance groups, seven strategically concentrated group, 15 loose union group and four close function groups. From Table 6, we can see the clustering centers of the two variables of each kind of hotel groups.

Figure 2 showed the 51 hotel groups' clustering results according to unification management function scope and unification management degree three years ago. Since some sample unification management's function scopes and degrees are totally the same, some of samples will overlap in this figure.

Comparing the unification management scope and unification management degree of four types of hotel gr-

Table 4 Unification management function scope and unification management degree of China's huge hotel groups

Item	Three years ago		Present		Three years later	
	Average value	Standard deviation	Average value	Standard deviation	Average value	Standard deviation
Unification management function scope						
Unification management degree	2.2785	0.68717	3.1425	0.57732	3.9163	0.73874

Table 5 Matching comparison of unification management function scope and unification management degree in different time

Index	Matching time	Average value	<i>T</i>	Sig. (2-tailed)
Unification management function scope	Three years ago to present	-0.9804	-5.643	0.000
	Present to three years later	-0.6078	-5.785	0.000
	Three years ago to three years later	-1.5882	-8.532	0.000
Unification management degree	Three years ago to present	-0.8640	-12.545	0.000
	Present to three years later	-1.6379	-14.637	0.000
	Three years ago to three years later	-0.7739	-9.762	0.000

Table 6 Expansion strategies and clustering centers of 51 hotel groups three years ago

Index	Widespread alliance group	Loose union group	Close function group	Strategically concentrated group
Hotel group number	25	15	4	7
Unification management function scope	6.36	4.40	2.25	5.29
Unification management degree	2.17	1.99	2.25	3.30

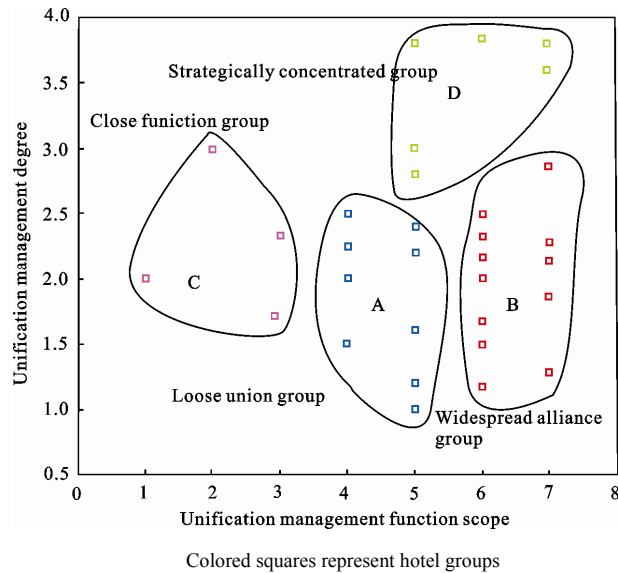


Fig. 2 Cluster of 51 hotel groups three years ago

roups three years ago, at present and three years later, we found that the unification management function scope and unification management degree of them have increased obviously (Table 7). The close function group, widespread alliance group and loose union group tend to evolve to strategically concentrated group.

### 3.5 Evolution path of hotel group

The 51 hotel groups were classified according to unification management function scope and unification management degree in different time. Figure 3 showed the expansion strategies and their change process of 51 hotel groups three years ago, at present and three years later. Loose union group decreases quickly, from 15 three years ago to six at present and will decrease to 0 three years later; widespread alliance group decreases gradually, from 25 three years ago to eight at present and will decrease to seven three years later; the number of close function group fluctuates greatly; and strategically concentrated group increases quickly, from seven three years ago to 17 at present and will increase to 40 three years later. The figure also shows that hotel groups with four different strategies have the tendency to grow to the upper right corner. That is to say, no matter what strategy type it belongs to, the majority of hotel groups are developing to the widening of unification management function scope and the enhancement of unification management degree.

In any time, hotel groups have four expansion strategies, namely, strategically concentrated group, close func-

Table 7 Evolution comparison of hotel group of different expansion strategies

Type	Sample number	Matching time	Unification management function scope		Unification management degree	
			<i>T</i>	Sig. (2-tailed)	<i>T</i>	Sig. (2-tailed)
Loose union group	15	Three years ago vs. present	-6.487	0.000	-8.411	0.000
		Present vs. three years later	-4.026	0.001	-4.647	0.000
		Three years ago vs. three years later	-12.616	0.000	-7.413	0.000
Widespread alliance group	25	Three years ago vs. present	-2.000	0.057	-11.146	0.000
		Present vs. three years later	-4.000	0.001	-7.048	0.000
		Three years ago vs. three years later	-6.000	0.000	-12.333	0.000
Close function group	4	Three years ago vs. present	-4.041	0.027	-2.046	0.133
		Present vs. three years later	-1.414	0.252	-8.809	0.003
		Three years ago vs. three years later	-6.971	0.006	-9.484	0.002
Strategy concentrated group	7	Three years ago vs. present	-3.361	0.015	-2.407	0.053
		Present vs. three years later	-1.922	0.103	-3.402	0.014
		Three years ago vs. three years later	-9.295	0.000	-3.752	0.009

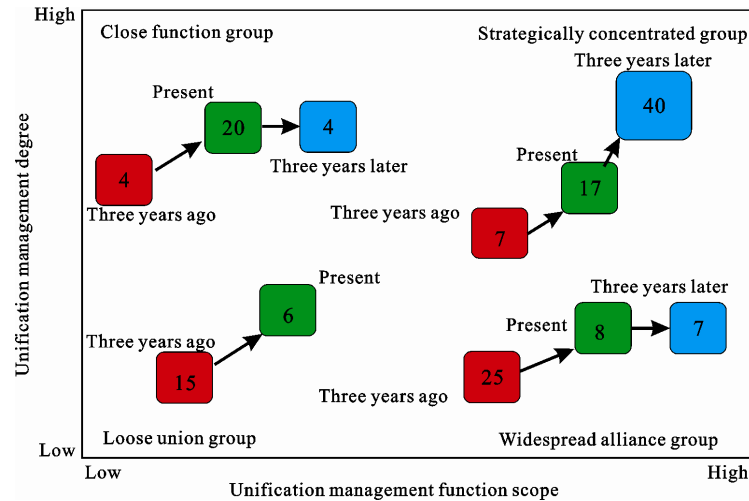


Figure in square is number of hotel group  
 Fig. 3 Change tendency of hotel group development strategy

tion group, widespread alliance group and loose union group. Since we have discussed three different time points, hotel groups may have 64 (4<sup>3</sup>) evolution paths. To simplify the analysis process, 64 evolution paths can be divided into 4 categories: stability path, growth path, degeneration path and undulation path (Table 8). If a hotel group always stays in one kind of expansion strategy in three different stages, it is in stability path. If a hotel group has increased in at least one dimension in three different stages without decrease, this hotel group is in growth path. Degeneration path is on the contrary of growth path. And if a hotel group has both increase and decrease in either dimension in three different stages, this hotel group is in undulation path. By the questionnaires, there were three evolution paths of hotel groups in China actually. Results of investigation data showed that there was no degeneration path in 51 hotel groups, and 15.7% were in stability path, 56.8% were in growth path, 27.5% were in undulation path. Generally speaking, 72.5% hotel groups had stability or grow-

th path of evolution, and a majority of China's hotel groups developed well in recent years.

### 4 Conclusions

This paper studied the development of hotel group in China by a survey on 91 hotel groups listed by China Tourist Hotels Association in 2007. Based on the questionnaires' result, the author drew some conclusions about expansion strategies and evolution paths of hotel groups in China.

By the two variables of unification management scope and unification management degree, hotel groups in China can be divided into four strategy types, namely, strategically concentrated group, close function group, widespread alliance group and loose union group. At the same time, there exist three different evolution paths, namely, stability path, growth path and undulation path. Generally speaking, 72.5% of the hotel groups possess a stability or growth path and the majority of hotel groups

Table 8 Four evolution paths of hotel groups' expansion strategies in China

Evolution path	Stability path	Growth path	Degeneration path	Undulation path
	b-b-b 3	a-a-b 1    a-d-d 2		a-c-b 1    c-a-d 1
	c-c-c 1	a-a-c 2    b-b-d 3		b-c-b 1    d-a-d 1
	d-d-d 4	a-a-d 1    b-d-d 1		b-c-c 1    d-c-d 2
		a-b-b 1    c-c-d 0		b-c-d 7
		a-b-d 1    c-d-c 1		
		a-c-d 6    1		
Sample number	8	29	0	14
Percentage	15.7%	56.8%	0	27.5%

Notes: 'a' refers to loose union group, 'b', widespread alliance group, 'c', close function group, and 'd', strategically concentrated group



developed well in recent years.

This study has conducted an exploratory research on China hotel groups' expansion strategy and evolution path. Since there is no research on hotel group evolution path and the questionnaire on hotel group expansion strategy is also very hard, the research content and method will contribute on the theory of enterprise growth and expansion. However, this research has not discussed the influence factors of the formation and change of hotel groups' expansion strategy. Furthermore, limited by the number of sample, this research has not conducted research to hotel group with different ownership. All of these directions can be guidelines for further research.

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