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Strategic Development and Operation of Deluxe Hotels Operating in Greece: management contracts vs franchising

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Abstract: As business environments become more complex and competition in the hotel industry increases, the majority of hotel owners recognize the need for strategic management to choose an effective operating arrangement. The central tenet behind strategic management is that a properly articulated strategic fit between organizational competence and various environmental situations is critical for good performance. Considering the fact that most business entities are concerned with a unique strategy for improving their performance in dynamic business environments, research should be designed to identify the link between the operating arrangement and performance, through a useful set of guidelines. This study attempts to investigate the effect of strategic alliances (equity and non-equity) on the performance of hotels operating in Greece by hotel chain brands and the efficiency of management contracted hotels in comparison to those hotels that operates in franchising. The results of this study reveal the distinctive characteristics of hotel operation in Greece.

Keywords: *Strategic Development, Hotel Operations, Hospitality Management, Greek tourism, Performance.*

Introduction

Literature regarding strategic management typically distinguishes between business and corporate strategies (Xiao *et al.*, 2012). Business strategy deals with the ways in which a single-business firm, or an individual business-unit of a large firm, competes within a particular industry or market, while corporate strategy deals with the ways in which a corporation manages a set of businesses together (Bowman and Helfat, 2001). The importance of business factors that determine performance differences between firms has been widely documented, and the literature has revealed that industry plays a critical role in profitability of firms (Xiao *et al.*, 2012). However, previous research has produced mixed results regarding the corporate effects, which were widely defined as the effects of corporate-level factors on the performance of a firm. While it is suggested that the influence of corporations on business units may vary in different industries, little empirical research has been conducted to examine the magnitude and the sources of corporate effects within specific industries (Xiao *et al.*, 2012). Additionally, there are very few research results dealing with the sources of corporate effects in the tourism industry and particularly in hotels.

In the field of hospitality management, previous studies regarding corporate-level strategies have primarily focused on topics of branding, franchising, internationalization, and leadership. Partially due to the lack of available industry-wide hotel performance data, little hospitality strategy research has been conducted on one of the most important dependent variables of strategic management – financial performance (Okumus, 2002; Tse and Olsen, 1999). Although a few recent studies, all built on national data sets provided by Smith Travel Research (STR), have sought to compensate for this limitation and have revealed that hotel

firms' and/or owners' strategies regarding branding, franchising, and service may have significant effects on hotel financial performance (O'Neill and Mattila, 2010; O'Neill and Xiao, 2006), there is no known comprehensive research that incorporates and focuses on multiple hotel strategy and/or competence constructs.

As business environments become more complex and competition in the hotel industry increases, the majority of hotel owners recognize the need for strategic management to choose an effective operating arrangement (Kim, 2008). The central tenet behind strategic management is that a properly articulated strategic fit between organizational competence and various environmental situations is critical for good performance (Bourgeois, 1985). Considering the fact that most business entities are concerned with a unique strategy for improving their performance in dynamic business environments, research should be designed to identify the link between the operating arrangement and performance, through a useful set of guidelines (Palia and Lichenberg, 1999; Snow and Hambrick, 1980).

Financial performance of a firm or the business-unit of a firm has been a key dependent variable in strategic management research (e.g. Tse and Olsen, 1999; Olsen, 2004). Strategic management researchers have sought to assess the relative importance of business-unit, corporate, and industry factors in determining performance differences of business-units between firms. While industry and business-unit effects have been widely documented as major factors explaining large portions of the variance in business-unit profitability, previous research has produced mixed results regarding the effects of the corporate-parent (Bowman and Helfat, 2001). While no evidence of corporate effects was reported by Schmalensee (1985), a number of studies have reported the relative importance of corporate effects (e.g. McGahan and Porter, 1997; Rumelt, 1991; Roquebert *et al.*, 1996). However, such corporate effects may range from 1.6 percent (Rumelt, 1991) to 17.9 percent (Roquebert *et al.*, 1996).

In general, previous research uses accounting measures, such as return on assets, to measure individual business-unit performance, and shows a wide range of estimated corporate effects. More research is needed to disclose the specific corporate effects of companies in unstudied industries, including the hospitality industry (Xiao *et al.*, 2012). Literature in strategic management has suggested a number of corporate-level factors that affect profitability, including scope of the firm, core competencies, organizational structure, organizational climate, planning and control systems, and corporate strategies (Bowman and Helfat, 2001). Specifically, Bowman and Helfat (2001) suggest that, theoretically, corporate strategy is a subset of total corporate effects on profitability, and corporate strategies that affect these corporate-level factors are believed to influence the firm's profitability. Strategic management researchers agree that strategies are the results of the strategic analysis of an organization, which focuses on an organization's external environment and its internal context (e.g. David, 2001; Mintzberg, 1990). From a resource-based view of the firm, corporate strategies are considered from an internal perspective, and previous studies have revealed that analysis of internal resources can enable firms to determine their potential or realized sources of competencies and capabilities, and a firm can achieve competitive advantage if its resources are inimitable by its competitors (e.g. Barney, 1991). According to Barney (1991), firm resources include all assets, capabilities, organizational processes, knowledge, etc. that are possessed by a firm and can enable a firm to develop and implement strategies that improve performance.

Based on Castellaneta and Gottschalg (2016) research the corporate effect is important under private equity governance and documenting its magnitude relative to other drivers of performance differentials (Castellaneta and Gottschalg, 2016). Their results complement those of previous studies by showing that corporate affiliation influences firm performance regardless of the form of governance: private or public, backed by private equity or by venture capital. (Castellaneta and Gottschalg, 2016). Chaddad and Mondelli (2013) mentioned that corporate strategy does matter and thus should continue to draw attention

from scholars interested in explaining profitability (Chaddad and Mondelli, 2013). Finally, a number of studies have reported that firm-related effects are the main profit driver (Hirsch and Schiefer, 2015; Elango *et al.*, 2016)

The purpose of this study is to recognize the importance of corporate effects of hotel performance and to be more specific we will try to prove the efficiency of hotels that participate in strategic alliances by comparing performances between hotels in Greece that participate in strategic alliances and hotels that don't. Also, we will investigate the efficiency of hotels that operates in management contracts by comparing performances between management-contracted and franchising operating hotels in Greece.

Literature Review

Strategic alliances and performance

Tourism is one of the most highly integrated industries in the world (Bullock, 1998). Poon (1993) argues that major players in the tourism industry, particularly airlines, hotels, travel agents and tour operators have increasingly integrated in an industry whose boundaries are becoming increasingly blurred. She argues that "it is no longer relevant whether a company is an airline, a travel agent, hotel or tour operator. As the boundaries among players are re-defined, what becomes more relevant are the activities along the value chain that they control" (Poon, 1993, p.215).

In the contemporary business environment organizations are tend to increase the deal with a wide range of social, financial, political, regulatory and cultural challenges (Coulson - Thomas, 1997), the impact of which, among other factors, is the demand for greater efficiency, better quality and lower costs (Wang and Ahmed, 2001). Hence, quality management has emerged not only as the most significant and enduring strategy in ensuring the very survival of organizations, but also a fundamental route to business excellence (Wang and Ahmed, 2001). Strategic alliances are more than simple instrumental means for achieving collective goals directly benefiting the collaborators. Strategic alliances are becoming one of the main tools to improve and maintain the level of competitiveness, especially when the size of business prevents them from undertaking many projects on their own (Lowensberg, 2010). Strategic alliances are a logical and timely response to intense and rapid changes in economic activity, technology, and globalization (Doz and Hamel, 1999), since they infuse existing hierarchical structures with the flexibility and adaptability needed to cope with a highly complex and rapidly changing environment.

As international strategic alliances have proliferated so has research aimed at increasing knowledge on consequences of their use (Christoffersen *et al.*, 2014). The terms strategic alliance and partnership agreement are used, and these terms denote several forms of cooperative working modes. Both these terms are, based on Mahoney *et al.* (2001, p.501), defined as: "Business arrangements where two or more firms choose to cooperate for their mutual benefit". Firms have always been collaborating in order to cope with the demands of the market (Poulymenakou and Prasopoulou, 2004). Common forms of marketing alliances focus on customer service, promotion and distribution (Das *et al.*, 2003). The specific forms of cooperation include shared brand names, advertising or promotion, shared distribution channels, sales force and sales offices, sharing of marketing and service networks and cross selling of products (Porter, 1985). Such alliances, particularly the one with a distributor or a complementary product manufacturer, can give firms entry into new geographical markets or customer segments thereby increasing product demand (Adler, 1966). Other benefits of marketing alliances include possible lowering of the fixed costs of the partners through sharing of common marketing activities (Porter, 1985).

The use of contractual agreements represents a possible entry form, and Nielsen (2003) states that firms often form alliances due to the many potential benefits for the firms involved, or as a way to compensate for a lack of resources or knowledge. There has been a sharp increase in the number of alliances formed since the 1980s, particularly among high-tech firms

(Krubasik and Lautenschlager, 1993). Ohmae (1989, p. 143) states: “Globalization mandates alliances, makes them absolutely essential to strategy.” Firms have a number of internal resources that may give the firm a competitive advantage, but a range of well chosen and well developed relationships may also strengthen the competitive edge, as described by Glaister (1996). Most of the available literature and research on strategic alliances as an entry strategy focuses on joint ventures from the perspective of large, multinational companies. As expressed by Varis *et al.* (2005), there is limited knowledge about how the firms may use partnership agreements as an effective strategy in markets in general, and in particular, partner selection and the reasons why firm allies with a certain partner have received limited attention. Obviously, a firm is not able to pick and choose whichever partner it wants; there will be a process of interaction and negotiation in order to reach an agreement and be accepted by a potential partner.

Strategic alliances are defined as purposive arrangements between two or more independent organizations that form part of, and are consistent with participants’ overall strategies, and contribute to the achievement of their strategically significant objectives that are mutually beneficial (Pansiri, 2005). Studies on strategic alliances have reported unsatisfactory performance with few signs of improving (Beamish and Delios, 1997); very high failure rates (Geringer and Herbert, 1991; Killing, 1982) and implications when the information exchange is restricted (Musarra *et al.*, 2016). Chuang *et al.* (2015) perform research on the effect of strategic alliances on the relationship between multimarket contact and firm performance (Chuang *et al.*, 2015). Brouthers *et al.* (2014) study made an important contribution to the literature by examining the moderating impact of alliance participation on the relation between EO and international performance (Brouthers *et al.*, 2014). Christoffersen *et al.* (2014) tested how performance measures used in the strategic alliance literature differ (Christoffersen *et al.*, 2014). Min and Joob (2016) found no significant differences in airline performances between airlines with strategic alliances and airlines without alliances. Also, it should be noted that airline performances before and after joining alliances did not show any signs of improvements (Min and Joob, 2016).

Writers and scholars in management have stressed the importance of cooperation and networking to achieve higher performance and efficiency (Smith *et al.*, 1995; Gulati *et al.*, 2000). Gulati appointed strategic alliances as “voluntary agreements between undertakings relating to the exchange or joint development of products, technologies or services.” (1998, p.293). Arino *et al.* established a strategic alliance as “a formal agreement to follow a number of private and common objectives, sharing of resources in cases involving uncertainty in the result” (2001, p.110). According to Gulati strategic alliances are defined as “any independent intranet link traffic that includes the exchange, sharing, or co-development [between undertakings]”. (1995, p.86). Smith *et al.* (1995) emphasize the critical role of cooperation and coordination to achieve organizational goals. They pointed out that while cooperation and coordination within the organization and among business was not new and the management and organization studies, the incidence of total quality management philosophies emphasized more as the need for cooperation among all the organizations and between businesses.

Preble, Reichel, and Hoffman (2000) and Pine and Phillips (2005) focused on the role of strategic alliances in the hotel sector (see. Also Hwang and Chang, 2003). Strategic alliances are often formed with competing firms holding complementary competencies and resources (Varadarajan and Cunningham, 1995). Basic resources are the location, brand, and customer base. Direct benefits for members are: fast access to new markets, technology, knowledge and customers, bypassing regulatory barriers, absorbing a major local competitor, reduce risks from cost-sharing and profit from political connections of a partner.

Management Contracts and performance

A business can be organized in one of several ways. The types of operation arrangement in the hotel industry are independent, franchise, and management contract firms (Helmers, 2010). Independent hotels are the properties owned and operated independently, including all non-branded hotels and select brands, which are membership-based (Mao and Mi, 2014). The merits for independent hotels are that they typically have the opportunities to present a more customized and personal plan (Ellis and Harris, 2013). A management contract, the third type of operation management, means that the properties with this operation code are all branded and may be either owned or managed by the chain or both owned and managed by the chain (Mao and Mi, 2014).

A management contract is the most common form of legal arrangement between owner and operator. It is most suitable where the owner wishes to invest in a hotel but not participate in the daily administration of the business. In maintaining the flexibility of maximum profitability the owner signs a management agreement with either a chain operator or with an independent operator. (Simons, 1994)

Under this type of arrangement the operator receives a commission based on a number of factors including room occupancy rates. However it is more often the case that the owner is paid a commission based on total revenue and some portion of profits (Simons, 1994). Management contracts in Australia are used by most of the four-five star chain operated hotels, though it is common now to find such contracts used among the two-three star hotel properties (Barge and Jacobs, 1991).

The duration of the period of the contract, namely its initial term as well as its renewal term, is often of concern to both parties to the contract. The owners seek to protect themselves by providing for a minimum term so that they may terminate the contract when necessary. The operators on the other hand, are at pains to protect their tenure with the property (Simons, 1994).

Gannon and Johnson (1997) note an increase in the relative popularity of the hotel management contract internationally. Table 1 highlights the predominance of the management contract across North America, Europe and Asia in the late 1990s. Further, Slattery (1996) noted 75% of listed Asian hotels operating under a management contract. As cited by McCarthy and Raleigh (2004), more recent evidence from Smith Travel Research (2003) indicates that management contract use in the U.S. has further increased. Contractor and Kundu (1998) found 40.76% of US hotels had a management contract, while Smith Travel Research (2003) noted an increase to 55%. Beals and Denton (2005), Panvisavas and Taylor (2006), and Corgel (2007) have provided further recent testimony to the increasing popularity of management contracts.

Table 1: Distribution of hotel operating modal types by major geographical region

Modal choice	**North America**	**Europe**	**Asia**
Owner-operator (fully owned)	9.46%	28.60%	22.40%
Owner-operator (partially owned, e.g. joint ventures)	11.46%	6.20%	22.93%
Franchise agreement	38.31%	28.66%	12.45%
Management contract	40.76%	36.53%	42.21%

Source: Contractor and Kundu (1998)

The management contract is an important component of the operating arrangement in the hotel sector, and has been recognized as a factor affecting the profitability and market value of hotels (Butler and Benudiz, 1994; Sheridan, 1995). Previous studies on the relationship between the operating system and performance have assumed that hotels that are managed through management contracts have outperformed hotels operated through franchise or hotels that are owned and operated independently. Brown and Dev (2000) and Jacobson (1990) found that hotel management contract had a positive influence on performance.

Previous studies on the relationship between the operating arrangement and performance have hypothesized that management-contracted hotels perform better than franchised or independently owned and operated hotels (Kim, 2008). Kim and Kim (2005) found that the value of brands (for this study were selected luxury hotels in Korea that are managed via management contract) significantly improved the performance of enterprises in the hotel business. Ingram and Baum (1997) also reported that the inclusion of hotels in a hotel chain through management contract showed improved survival in hotels in Manhattan in most cases. In an effort to analyze the relationship between performance and brand, technical management, brand recognition, and the culture of the brand using the regression analysis, Jacobson (1990) argued that the management technique had a positive effect on performance on investment (ROI). Brown and Dev (2000) attempted to explore the effects of strategic and organizational decisions on the hotel's productivity. Their results were generally in favor of the fact that hotels that are managed via management contract produce higher added value production only when holding a large market share.
On the other hand, some studies have found that the relationship between the management contract and the performance is not important. Van Dyke (1985), in an effort to explore the key variables affecting the efficiency in the hotel industry, found that the relationship between the entry of the chain and the performance was not significant, although the initial correlation test showed a significant relationship between two. These mixed findings made it difficult to export obvious conclusions, but believe that further studies that certain subsidiaries chain companies to be consistently more profitable required. Rubin (1998) also showed skepticism regarding the relationship between entry into management contract and service stating that it was still unclear and cannot be accurately determined as to how the brand influence income generation and value, if an average hotel occupancy rates, and net income of affiliated hotel exceeded market rules. Moreover, Dev and Brown (1991) could not find significant differences in profitability for the three operation modes: franchise, management contract, and sole venture hotels via a comparison strategy. However, chain-managed hotels were found to be more prevalent in stable, or moderately stable, than in volatile environments (Kim, 2008).
Hirsch (1994) describes, however, only 20% of management-contracted hotels had operated profitably for their owners. Today, hotel owners want distinct results from the management company, not merely ambience (Kim, 2008). From the perspective of hotel owners, management contracts negotiated in the late 1980s and early 1990s became increasingly burdensome because management fees had to be paid first, regardless of the property’s financial performance, while a hotel owner might be unable to pay off the property’s debt as the industry faltered (Sheridan, 1995). Owners have accordingly included performance guarantees in the management contract allowing for termination of the contract if the management company does not meet its performance targets (Eyster, 1997; Johnson, 1999). Therefore, with regard to hotel management contracts, great attention has to be focused on its relationship with performance (Kim, 2008).
According to Mao and Mi (2014) franchise hotels exhibit a much higher RevPAR than management contract hotels do. This is a clear implication that franchises indeed have an efficiency advantage over management contract hotels (Mao and Mi, 2014). Management contracts are associated with a better overall effectiveness (Aissa and Goaied, 2016; de Soto-Camacho and Vargas-Sanchez, 2014). Based on the research of Stringam *et al.* (2015), self-managed resorts had improved performance metrics over resorts managed by management contracts in areas of maintenance fees costs, collection of maintenance fees, and reserve funds. However, self-managed resorts offered less assistance to owners in rental, resale and exchange programs, and had the lowest resale pricing (Stringam, Mandaback and VanLeeuwen, 2015).

Although the empirical evidence on the role of the management contract on performance is unclear, management contracts have dominated in the hotel industry in the pursuit of larger market share and higher revenues and profits (Kim, 2008). It is expected that management contracts in the hotels will be more profitable than the independent property and franchise, based on the following facts. First, the management contract based on a powerful combination of hotel brand and management skills of the management company should improve the performance of hotels that are managed by management contracts (Kim, 2008). And secondly, a management company requires compliance with these stringent requirements and standards for furniture, fixtures and equipment of the hotel, the quality of goods, the structure and building system, so they can contribute to high performance (Kim, 2008).

Franchising and performance

Another type of operation management is franchise. A franchise agreement is a contract that a franchise owner (franchisor) grants rights to a business owner (franchisee) (Friebe and Bowler, 2012). During the franchising process, business owners pay a franchise fee or royalties to a parent company (the franchisor) for benefits, which include access to brand names, trademarks, reservation services, preparatory steps of feasibility, site selection, financing, marketing, designing, and planning (Welsh, Desplaces, and Davis, 2011). Hotel franchising entails the value of a whole package of services, including all of the elements essential to establish the franchisee (hotel owner) as the executive of a hotel with the identical look, quality, and criteria as other hotels managed by the franchisor or other franchisees under a same brand (Friebe and Bowler, 2012).

Franchising is an important form of organizational control. Possible benefits of franchising include its ability to reduce agency costs that increase with costly monitoring, and provide incentives for the use of local information by onsite managers (Madanoglu and Karadag, 2016). However, these benefits may come at a cost, as franchisees may reduce quality by choosing to free ride. While many studies have investigated the reasons for franchising, few studies have documented the impacts of franchising on unit level operating performance. According to Wu (2015), franchisees' intention to remain in the franchise system positively relates to franchisees' performance (Wu, 2015). Based on Lee *et al.* (2015) research, top management factors such as management emphasis and risk aversion can lead to market orientation. Franchisor market orientation was found to lead differentiation and cost strategies, which, in turn, increase financial and non-financial business performance. Also, market orientation directly increases financial and non-financial business performance (Lee *et al.*, 2015). Several researchers tried to explain the performance of franchised companies and its drivers (Akremi *et al.*, 2013; Hua and Dalbor, 2013).

Branding becomes increasingly important (O'Neill and Mattila, 2004), not only in hotels. It has been argued that the old maxim of Statler "location, location, location" could now be replaced with "flag, flag, flag", as the three most important factors for a successful hotel business (Taylor, 1995). The extension and the importance of brands and branding are evident in all areas of hospitality. The increased importance of the brand is also unique in the academic literature, where research has been presented by many disciplines and can also apply to other industries or contexts. In the marketing literature, for example, signals and related issues have been discussed and researched, and much of the knowledge gained from this research could be applied to the hotel industry (O’Neil and Carlback, 2011). The name is treated more and more as an asset (Tollington, 2002), and there is a question about how to clean the name with the correct accounting mode (Standfield, 2005).

In the literature, studies have been conducted to determine the value of the brand, which is a part of the intangible value of the business assets, an automated valuation model for hotels, (Mard *et al.*, 2002; Anson, 2001; O’Neill, 2004; O’Neill and Belfrage, 2005). It is important for many stakeholders in the hospitality sector to be able to identify and calculate its value.

The calculation of the value of the hotel brand is the foundation for deciding between different brands of the hotel. The brand hotels is expected to add value to the individual hotel units due to their global distribution networks, loyalty programs, and awareness, resulting in relatively higher operating volume for each hotel separately connected with the brand. These benefits should accrue to branded hotels during both economic growth and as the economic downturn because previous research has concluded that, overall, branded products and services can obtain a higher market share of the unbranded (Szymanski and Busch, 1987).
Franchising presents a set of special considerations for brand management. When the owner of the brand is not the property operator, issues may arise, both in terms of consumer perceptions and a franchisee's willingness to sign or stay with a particular hotel brand (Prasad and Dev 2000). Since hotel franchisees are quick to change their brand loyalty, it may be more important than ever for hotel brand executives to maintain consistent brand quality (O'Neill and Mattila 2004). To that end, most lodging firms, when entering new markets, prefer to control high-risk activities such as branding decisions while they might be willing to leave other, lower-risk marketing decisions (e.g., pricing) to local partners (Dev, Brown, and Zhou 2007). One issue that arises with franchising is the potentially adverse effect on the brand perception in a property that is operated by a third-party manager (O'Neill and Mattila 2004). The percentage of franchised units within a hotel brand has been shown to be negatively correlated with both guest satisfaction and occupancy percentage (O'Neill and Mattila 2004). This matter could become more salient as hotel brand executives continue to focus their growth strategies to a greater extent on brand management and franchising rather than actual property management.

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, 1991).
The performance of firms requires further investigation from the perspective of different company or country interactions (Bodur, Alpay, 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, 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; Walker and Ruekert, 1987), to integrate financial and non-financial measures (Chakravarthy, 1986; Eccles, 1991), 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; Lenz, 1981).

Numerous authors (Chen C.F., 2007; Evans, 2005; 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; Mia and Patiar, 2001; Winata and Mia, 2005) 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 (Collier and Gregory, 1995; Harris and Brander Brown, 1998) and the existence of a high spatial concentration (destinations) (Baum and Mezias, 1992; Dredge, 1999; Enright and Newton, 2004; Ingram and Inman, 1996).
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) (Crawford-Welch, 1991; Gedajlovic, 1993; Rowe and Morrow, 1999; Rumelt, 1978; Tse, 1988), return on sales (ROS) (Tallman and Li, 1996; Tse, 1988), gross return on assets (GROA) ordinary income to total asset, IBIT to total revenue, operating income to invested asset, and return on invested capital (ROIC) (Gedajlovic, 1993; 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.
The measures of stability are expected to relate to a strategic choice: debt leverage (Baker, 1973; Beard and Dess, 1981; Bringham, 1982; Cleverly and Harvey, 1992; Fisher and Hall, 1969; Hall and Weiss, 1967; Hill, Perry, and Andes, 1996) and capital intensity (Conmanor and Wilson, 1967; Lee and Blevins, 1990; Lubatkin and Chatterjee, 1994; O'Neil and Duker, 1986; Stimpert and Duhaime, 1997; Strickland and Weiss, 1976) represent financial leverage. Liquidity is tested by credit activity (Hill *et al.*, 1996), 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 (Ballantine *et al.*, 1992; Gomez-Mejia and Palich, 1997; Markides andWilliamson, 1996), firm size (Capar and Kotabe, 2003; Hatten, Schendel, and Cooper, 1985; Kotabe *et al.*, 2002; Luttman and Silhan, 1995; Porter, 1979; Ravenscraft, 1983; Schoeffler *et al.*, 1974), labor productivity (Amato and Wilder, 1985; Hambrick and Schecter, 1983), and expense control (Berman *et al.*, 1999; Cleverley and Harvey, 1992; Kotabe *et al.*, 2002) assess the operating efficiency of the firm.
Based on the literature review, the hypothesis that will be tested during this specific research are:
Hypothesis 1. The involvement of a hotel in Greece in any kind of strategic alliance affects its performance.
Hypothesis 2. There are significant differences in performance between management-contracted hotels and franchising operating hotels in Greece.

Method

To test these hypotheses, the Mann–Whitney U test will be used. In statistics, the Mann–Whitney U test is a nonparametric test of the null hypothesis that it is equally likely that a randomly selected value from one sample will be less than or greater than a randomly selected value from a second sample. Unlike the t-test it does not require the assumption of normal distributions. It is nearly as efficient as the t-test on normal distributions. The Mann–Whitney U test is used to compare and determine significant differences in performance between hotels in Greece operating in any kind of strategic alliances and hotels that don't and

between management-contracted hotels and franchising operating hotels in Greece. To be more specific, during this analysis, we compared different performance measurements used to check the performance of several aspects of hotels between hotels in Greece that participate in strategic alliances and hotels that don't and between management-contracted and franchising operating hotels in Greece.

Sample

The population of this study is composed of 84 deluxe hotels (5* Hotels) in Greece, covering the majority of Prefectures on Greece, as shown in Table 2. Fifty one hotels are management contacted and the other are either independently owned, either franchised. Nineteen of the hotels participate in joint venture. For the implementation of this research we needed only financial information used and calculated by financial statements of each Hotel. So what we did was to select the most well known and highly rated (more than 8.5/10 rate) by their customers in "Trip Advisor" website using the Trip Advisor popularity ranking based on travel reviews, reflecting each hotel standing against other businesses within each geographical location, in order to have in our sample the most preferred hotels by their customers and then we proceed with the collection of their financial statements for the last three years. Phone interview were implemented when needed more clarifications and details. The study covered the economic period from 2012 to 2015. The data available derived from the Hellenic Chamber of Hotels.

Table 2. Demographic Data of 5 Hotels per Prefecture (Greece) in total and in our sample*

Prefecture	Total 5* Hotels	5* Hotels in our Research	Percentage of 5* Hotels per Region in our Research	Percentage of 5* Hotels in our Research
East Macedonia and Thrace	10	1	10%	1.23%
Central Macedonia	41	4	9.76%	4.76%
West Macedonia	3	0	0	0
Epirus	9	1	11.11%	1.23%
Ionian Islands	25	5	20%	5.95%
Thessaly	28	3	10.71%	3.57%
North Aegean	6	0	0	0
West Greece	4	3	75%	3.57%
Central Greece	10	2	20%	2.38%
Attica	30	6	20%	7.14%
Peloponnese	20	10	50%	11.90%
South Aegean	121	24	19.83%	28.57%
Crete	88	25	28.41%	29.70%
Total	395	84		100%

Source: Hellenic Chamber of Hotels and NAI Hellas (2016)

Results

H1 Testing. The involvement of a hotel in Greece in any kind of strategic alliance affects its performance.

The Mann–Whitney U test is executed to prove the relationship between hotels that participates in any kind of strategic alliances and performance. The results of the test show that hotels that participate in any kind of strategic alliances are significantly and positively related with performance (Table 3). The hotels that participate in any kind of strategic alliances have higher ROIC, firm size and Current ratio. ROIC is a measure of investor

satisfaction, while market share, growth rate, or revenue reflects a focus of managers on the external growth of the operation. Therefore, ROIC is an optimum measure of profitability, if the key metric on which to focus, from the perspective of the investing owner of a capital-intensive business, is not the external growth but the value of the company based on operating results. As a result hotels that participate in any kind of strategic alliances outperform hotels that don't on profitability, liquidity and operating indices. After this analysis, the Hypothesis 1 is accepted.

Table 3. Impact of management contract on performance (2012-2015)

	Mann – Whitney U test to examine significant differences in performance between hotels that operate in any kind of strategic alliance and hotels that don't participate in any kind of alliance	
Measures	**Z value**	**Two-tailed p**
ROIC	-1.654**	0.017
ROE	-0.335	0.748
ROS	-1.025	0.102
ROA	-0.845	0.789
Ordinary income to total asset ratio	-2.001	0.297
Operating income to invested asset ratio	-0.286	0.333
Fixed asset to total capitalization ratio	-2.899	0.184
Current ratio	-0.888*	0.097
Debt – equity ratio	-0.452	0.944
Advertising expense	-0.009	0.856
Firm size	-2.084***	0.008

Notes: *p<0.10, **p<0.005, ***p<0.01.

H2 Testing. There are significant differences in performance between management-contracted hotels and franchising operating hotels in Greece.

The Mann–Whitney U test is executed to prove the relationship between hotels operating in management contract and performance. The results of the test show that hotel management contract is significantly and positively related with performance (Table 4). The management-contracted hotels have higher ROIC, ROS, ordinary income to total asset ratio, fixed assets to total capitalization ratio, current ratio and firm size. As a result management-contracted hotels outperform the franchising operating hotels on profitability, liquidity, stability, and operating indices. After this analysis, the Hypothesis 2 is accepted.

Table 4. Impact of management contract on performance (2012-2015)

	Mann – Whitney U test to examine significant differences in performance between management – contracted hotels and franchising operating hotels	
Measures	**Z value**	**Two-tailed p**
ROIC	-1.953**	0.024
ROE	-0.558	0.541
ROS	-1.422*	0.094
ROA	-0.984	0.582
Ordinary income to total asset ratio	-2.088***	0.009
Operating income to invested asset ratio	-0.322	0.453
Fixed asset to total capitalization ratio	-2.330**	0.044

Current ratio	-1.028*	0.098
Debt – equity ratio	-0.663	0.864
Advertising expense	-0.049	0.964
Firm size	-3.001***	0.002

Notes: *p<0.10, **p<0.005, ***p<0.01.

Discussion and Conclusion

The purpose of this study was to prove the efficiency of hotels that participate in strategic alliances by comparing performances between hotels in Greece that participate in strategic alliances and hotels that don't. Also, we investigated the efficiency of hotels that operates in management contracts by comparing performances between management-contracted and franchising operating hotels in Greece. The results provide broad support for the hypothesized positive effects of the hotel management contract, while simultaneously confirming that hotels participating in strategic alliances. Performance measures showing significant relationship with management contract.

Concerning the first hypothesis, the results of the test show that hotels that participate in any kind of strategic alliances are significantly and positively related with performance. The hotels that participate in any kind of strategic alliances have higher ROIC, firm size and Current ratio. ROIC is a measure of investor satisfaction, while market share, growth rate, or revenue reflects a focus of managers on the external growth of the operation. Therefore, ROIC is an optimum measure of profitability, if the key metric on which to focus, from the perspective of the investing owner of a capital-intensive business, is not the external growth but the value of the company based on operating results (Kim, 2008).

Concerning the second hypothesis, the results of the test show that hotel management contract is significantly and positively related with performance. The management-contracted hotels have higher ROIC, ROS, ordinary income to total asset ratio, fixed assets to total capitalization ratio, current ratio and firm size. The results of the second hypothesis support also the research of Aissa and Goaied (2016) and of de Soto-Camacho and Vargas-Sanchez (2014) who claimed that management contracts are associated with a better overall effectiveness. However, the better performance of management contracted hotels contrary to franchised ones, comes opposite to the research of Mao and Mi (2014) who revealed that franchise hotels exhibit a much higher RevPAR than management contract hotels do, claiming that this was a clear implication that franchises indeed have an efficiency advantage over management contract hotels.

In the literature there are no specific researches that conclude to a positive result on performance for those businesses that participate in strategic alliances. In contrary, Min and Joob (2016) found no significant differences in airline performances between airlines with strategic alliances and airlines without alliances. Also, it should be noted that airline performances before and after joining alliances did not show any signs of improvements (Min and Joob, 2016). However, there is no relevant research on the performance of businesses on hospitality sector that operates in strategic alliances and as a result we can claim our results as being a very first effort to this topic. Concerning management contracts and franchising, there are relevant researches that present an advantage on management contracts and others on franchising. After our research we came to the conclusion that the best results that comes either from management contracts either from franchising, depends also on other variables like firm size but also the specific country and region characteristics.

Limitations

In order to be able to accept the findings of this research, it is important to mention two limitations. First of all, the study of this research sample was based on subjective selection after sufficient examination rather than being a random assortment. And also, there is no objective criterion to select various performance measures for evaluating the effects of management contract, the author has no other way than choosing performance measures

based on a literature review. Apart of these limitations, the research is completed and its results are representative on the hotel performances in Greece is those specific strategic alliances.

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