

Internationalization and Hotel Performance: Agglomeration-related Moderators

Abstract

This study provides a robust analysis of the impact of internationalization on performance in the hotel industry. We focus on two distinct facets of internationalization (i.e., international intensity and international diversity) to capture the complex patterns of internationalization and then we analyze the impact of internationalization within the context of two interesting moderating variables (positive differentiation within the cluster and location of the cluster). The reasoning behind investigating these moderators relies on arguments from both agglomeration and internationalization theories. The results support distinct relationship patterns between internationalization and hotel performance. In particular, we show how international hotels face different kinds of costs and benefits at different levels of international intensity and diversity. The selection of new international locations needs to be carefully aligned with the type of internationalization strategy.

Keywords: Internationalization; International intensity; International diversity; Hotel performance; Agglomeration effect; System dynamic model

1. Introduction

With increased competition and market saturation, internationalization continues to be one of the most crucial yet risky strategies for hotel firms. A hotel firm such as Starwood currently operates in more than 100 countries and earns over 50% of its revenue from its overseas locations (IBISWorld, 2017). Several hotel firms have also expanded into emerging markets such as China, India, Brazil, and Mexico (IBISWorld, 2015). The sales potential in some of these markets, however, remains uncertain (Euromonitor, 2015). Hotel executives are finding it increasingly challenging to develop successful internationalization strategies and to select the next international destination (Oates, 2016).

The literature has provided several potential solutions to the problem of expanding into uncertain international markets. There is still an ongoing debate as to whether firms actually realize higher performance in international markets. International competition is certainly tough, and the relationship between internationalization and firm performance is unlikely to be completely linear or even continuously positive (e.g., Hennart, 2007; Hitt, Tihanyi, Miller, & Connelly, 2006; Rugman & Oh, 2010; Verbeke, Li, & Goerzen, 2009). Thus far, research has been difficult to apply to practice due to the uncertainty regarding what implications to draw from the findings. These findings have indeed been inconsistent and at times even contradictory (Assaf, Josiassen, & Oh, 2016; Bausch & Krist, 2007; Contractor, Kundu, & Hsu, 2003; Hsu & Pereira, 2008; Ruigrok & Wagner, 2003; Vermeulen & Barkema, 2002). According to Osegowitsch and Zalan (2005, p. 8), “the only conclusive verdict that can be reached is that internationalization and performance results are truly inconclusive.” While some studies have found a positive and linear effect of internationalization on firm performance (Bausch & Krist, 2007; Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Lee, Upneja, Özdemir, & Sun,

2014), other studies have indicated a non-linear (Assaf et al., 2016; Lee, 2008; Lee, Koh, & Xiao, 2014; Tang & Jang, 2010) or even negative (Goerzen & Beamish, 2003; Ramaswamy, 1993, 1995) and insignificant relationship (Hennart, 2007).

Such contradictions in the literature are generally caused by two main limitations: the simplicity of conceptual frameworks and the failure to recognize and distinguish the different facets of internationalization. The question of whether internationalization affects hotel performance is interesting, but it is also imperative for both theory and practice to explore the contingencies that affect this relationship across various contexts. Most studies in the hotel context have failed to address the complexity of the internationalization-performance (I-P) relationship. Assaf et al. (2016) argue that testing such a direct relationship without accounting for potentially intervening variables might be too much of a stretch if not misleading. There is one of the few studies that accounts for moderating variables in testing the I-P relationship in the hotel industry (Assaf et al., 2016). Specifically, their study focused on the moderating roles of cultural distance, locational density, development congruence, and restrictions and regulations.

Equally important when testing the I-P relationship is the need to distinguish between the different phases of internationalization in order to “fully grasp this complex phenomenon” (Wiersema & Bowen, 2011, p. 154). There are two main facets of internationalization, scale and scope, and these should be tested separately. “Scale” or “depth” reflects the firm’s penetration into the foreign markets (Annavarjula & Beldona, 2000; Thomas & Eden, 2004). The internationalization literature has widely addressed this concept, operationalizing it through the ratios of foreign-to-total sales, number of foreign subsidiaries and total subsidiaries, number of foreign employees and total employees, and foreign-to-total assets (Annavarjula & Beldona, 2000; Hitt, Tihanyi, et al., 2006). Additionally, “scope” or “breadth” captures the heterogeneity of internationalization (Goerzen & Beamish, 2003; Tallman & Li, 1996), a concept that has been measured as the geographical diversity of the firm’s subsidiaries and international asset dispersion. This is mostly quantified by the number of countries in which the firm operates (Goerzen & Beamish, 2003).

Motivated by the above, the purpose of this study is to offer two main contributions to the assessment of the I-P relationship in the hotel industry. First, we consider several interesting moderating variables in testing the I-P relationship. We build on arguments from both agglomeration and internationalization theories, introduce two location specific moderators (the nature of clusters and the location of clusters) and test their effect on the I-P relationship. It is well known that hotels often cluster in groups across international locations (Canina, Enz, & Harrison, 2005); however, there is less knowledge of how differentiation in these clusters and the location of these clusters result in different performance outcomes. In the literature, two types of moderating variables have been identified: firm-specific (e.g., product diversification and top management team experience) and environmental moderators (e.g., location, industrial competitiveness) (Hitt, Tihanyi, et al., 2006). While most studies on hotels have focused on firm-specific moderators, such as firm size or financial leverage, the role of location has surprisingly not garnered sufficient attention (Assaf, Josiassen, & Agbola, 2015; Dev, Brown, & Zhou, 2007; Lee & Jang, 2013; Yang, Wong, & Wang, 2012). The search for attractive locations is one of the main drivers for hotels expanding internationally. There is growing evidence that international hotel firms strategically select locations in which they can achieve resource advantages (Assaf et al., 2015; Yang et al., 2012). Not only does location affect customer demand but

it also affects hotel resources (e.g., new or evolving knowledge from local stakeholders; adequate human resources; and potential investment opportunities) and profitability (Assaf et al., 2016; Rodtook & Altinay, 2013).

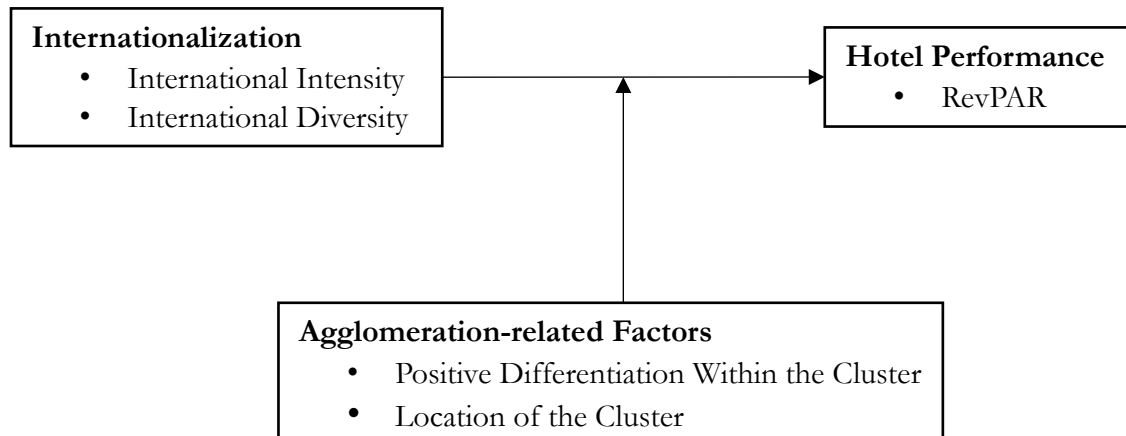
Second, for the first time in the literature, we differentiate between two distinct facets of internationalization strategy: international intensity and international diversity. These two facets measure the breadth and depth of internationalization, and hence their outcome on performance may be different. Studies have thus far focused on a single dimension of internationalization (Bausch & Krist, 2007; Rodtook & Altinay, 2013; Sullivan, 1994; Wiersema & Bowen, 2011) without distinguishing between different types of international strategies (Banalieva, 2007). Based on insights from Miller et al. (2015) and Shi et al. (2017), we argue that these distinct facets may affect hotel performance differently. In other words, the findings may have different practical implications depending on whether hotels favor one strategy over the other.

2. Theoretical framework and hypotheses

Internationalization is often used interchangeably with the terms international diversification, international expansion, global expansion, globalization, and multinationality. It is “an evolutionary process..., and thus implies dynamic change” (Rodtook & Altinay, 2013, p. 93) and “can be multifaceted” (Wiersema & Bowen, 2011, p. 155).

As mentioned, we suggest two distinct facets of internationalization: scope and scale. Scope reflects the breath or heterogeneity of internationalization and aims to capture the geographical diversity of the firm’s subsidiaries (Goerzen & Beamish, 2003; Tallman & Li, 1996). Scope is mostly measured by the number of countries in which the firm operates (Goerzen & Beamish, 2003). Scale represents the depth of internationalization and aims to capture the firm’s foreign involvement or penetration (Annavarjula & Beldona, 2000; Thomas & Eden, 2004). Scale is usually measured by the ratios of foreign sales to total sales or the number of foreign subsidiaries to total subsidiaries (Annavarjula & Beldona, 2000; Hitt, Tihanyi, et al., 2006). Regarding internationalization, Miller et al. (2015) used the term “international diversity” to refer to its scope and “international intensity” to refer to its scale.

Figure 1. Conceptual framework of the study



Our framework is depicted in Figure 1. Similar to Miller et al. (2015) and Shi et al. (2017), we argue that internationalization should not be measured along one dimension. We differentiate between international diversity and international intensity and measure their effect on hotel performance separately. We provide arguments below for each of these hypotheses. Our framework also accounts for two location-related moderators (positive differentiation within the cluster and the location of the cluster). We use arguments from the theory of agglomeration¹ to discuss how each of these moderators influences the relationship between international diversity, international intensity, and hotel performance.

2.1.2. International intensity and hotel performance

Most studies have focused on the international intensity dimension of internationalization. As mentioned, international intensity is usually measured as the proportion of a firm’s sales (revenue) in foreign countries to its total sales, or as the number of the parent firm’s foreign subsidiaries relative to the total number of subsidiaries. Hence, hotels can increase international intensity by increasing the proportion of their sales or properties in foreign markets they have already entered.

Different arguments in the literature have been advanced regarding the relationship between international intensity and performance. In line with most studies, and in line with the most compelling theoretical arguments, we argue that this relationship is not linear. As hotels first expand into new markets, they often encounter “liabilities of newness and foreignness” in which they must pay some “tuition” in the form of reduced profits resulting from such disadvantages, and this “cost can outweigh the benefits of internationalization, thus extending the time until net positive performance” (Lu & Beamish, 2004, p. 601). With more internationalization, however, hotel companies learn how to adapt to foreign markets, and they eventually have less concern about the costs of unfamiliarity (Welch &

¹ The theory of agglomeration explains “why competitors often cluster in groups” (Canina et al., 2005, p. 566). Agglomerations or geographic clusters of firms are common in the service industry, including the hotel, restaurant, and retail sectors, where firms have locations worldwide (e.g., Canina et al., 2005; Gan & Hernandez, 2012; Teller, Alexander, & Floh, 2016).

Welch, 2009). Finally, with more expansion, hotels also realize economies of scale and scope (Capar & Kotabe, 2003; Contractor et al., 2003).

While such a U-shaped relationship is possible, other authors have argued for an extra phase as hotels continue to increase their international intensity. Accordingly, at higher stages of international intensity, there may be more incongruence between the values and managerial practices of the home country and those of the foreign market (Bartlett & Ghoshal, 1989; Daft & Macintosh, 1981; Egelhoff, 1991). This provides additional challenges, often resulting in more costly governance, more complex coordination, and less efficient resource allocation (Miller et al., 2015; Rosenzweig & Singh, 1991). Studies have also highlighted the role of consumer ethnocentrism (Eden & Miller, 2004; Miller et al., 2015), which is understood as a negative psychological disposition toward foreign brands (Sharma & Wu, 2015; Watson & Wright, 2000). Travelers tend to prefer domestic hotels regardless of service quality (Kock, Josiassen, Assaf, Karpen & Farrelly 2018; Oh & Hsu, 2014). With more reliance on foreign markets, hotels need to overcome such tourism ethnocentrism by leveraging the reputation and familiarity of their brands. These efforts, however, increase costs and may eventually bring negative influences to firm performance (Eden & Miller, 2004; Miller et al., 2015).

Considering the above arguments, we propose these two competing hypotheses:

Hypothesis 1a: The relationship between international intensity and hotel performance is U-shaped; hotel performance first decreases and then increases as international intensity increases.

Hypothesis 1b: The relationship between international intensity and hotel performance is S-shaped; hotel performance first decreases, then increases, and then decreases as international intensity increases.

2.1.2. International diversity and hotel performance

When hotels expand internationally, they can choose to spread their operations across various countries. International diversity reflects the scope of internationalization and is defined as “the dispersion of a firm’s operations across the multiple host countries of its foreign subsidiaries” (Miller et al., 2015, p. 3) and is typically measured by the number of countries in which a firm operates (Hitt, Hoskisson, & Kim, 1997; Hitt, Tihanyi, et al., 2006).

The literature on international intensity (Ruigrok & Wagner, 2003) has found that as hotels enter new destinations, costs increase dramatically because hotels need to adapt to unfamiliar markets. When hotels start expanding into other countries, they often experience difficulties managing institutional and cultural differences (Kostova & Zaheer, 1999; Zahra, Ireland, & Hitt, 2000). Then there are the additional costs of coordination and communication (Li, 2005; Miller et al., 2015). In addition, and due to the intangibility and heterogeneity of services, hotels encounter difficulties in transferring their know-how and management expertise from domestic to foreign markets (Anand & Delios, 1997). Furthermore, it takes time to accumulate knowledge (e.g., customer’s needs) within each host country (Li, 2005). For example, many international tourism firms have asserted the need to develop customized travel packages from country-to-country based on widely varying customer preferences.

Hence, hotels find it difficult to realize economies of scale at the initial stage of international diversification. However, as hotels continue to diversify internationally, they learn how to develop effective strategies to overcome the initial challenges of internationalization (Rugman & Verbeke,

2004). Some hotels may also choose to enter markets that are geographically and culturally closer (Capar, & Kotabe, 2003; Li, 2005; Rugman & Oh, 2013). The greater familiarity with these markets helps them minimize transaction costs (Capar, & Kotabe, 2003) and more rapidly enjoy the benefits of internationalization (Li, 2005; Rugman & Verbeke, 2004). Moreover, there are other drivers that increase hotel performance as hotels diversify. At the mid-stage of international diversity, for instance, hotels can exploit economies of scale if local human and natural resources are less costly (Dunning & Kundu, 1995; Rugman & Verbeke, 2004, 2008). Hotels may also have more opportunity to access critical and diverse resources from multiple countries (Assaf, Josiassen, Ratchford, & Barros, 2012; Ghoshal & Bartlett, 1990), thus broadening the market in which they can sell services at lower costs (Kogut & Kulatilaka, 1994; Lovelock & Yip, 1996; Miller et al., 2015).

Several authors (e.g., Lu & Beamish, 2004) have argued that a third and important phase exists in which hotels have entered the easy-to-reach markets and then begin to struggle. A higher level of international diversity suggests that many hotels are likely to have already entered most of the lucrative international destinations. Hotels then begin expanding into less familiar destinations with greater geographic, institutional, cultural, and economic differences. As a result, these hotels may face increased risks and inefficiencies as they transfer and access resources (Miller et al., 2015). Thus, the transaction costs of coordination and governance start to exceed the benefits derived from increasing economies of scale (Contractor et al., 2003; Lu & Beamish, 2004).

Hence, considering the above arguments we advance these competing hypotheses:

Hypothesis 2a. The relationship between international diversity and hotel performance is U-shaped; hotel performance first declines and then increase again as international diversity increases.

Hypothesis 2b. The relationship between international diversity and hotel performance is S-shaped; hotel performance first declines, then improves, and then decreases again as international diversity increases.

2.2. Agglomeration-related Moderators

An effective location strategy can directly and indirectly affect the performance of international hotels (Assaf et al., 2015; Dev et al., 2007; Lee & Jang, 2013; Yang et al., 2012). Consistent with the findings from international business studies (Dunning & Kundu, 1995; Johnson & Vanetti, 2005), there is growing evidence that international hotels strategically select local markets where they can realize resource advantages (Assaf et al., 2015; Yang et al., 2012). Moreover, hotels tend to locate in clusters (i.e. agglomeration) (Kalnins & Chung, 2004) to benefit from the resources generated in these shared locations (Kalnins & Chung, 2004; Lee & Jang, 2013; McCann & Folta, 2008). Several studies have discussed the spillover effects from firms' co-location, also known as "agglomerating effects" and "agglomeration externalities" (Canina et al., 2005; Chung & Kalnins, 2001; Lee & Jang, 2012; Tsang & Yip, 2009). Co-locating next to other hotels may provide enough resources for hotels to survive in that location, operate their properties, and produce benefits (Canina et al., 2005; Chung & Kalnins, 2001; Lee & Jang, 2012; Tsang & Yip, 2009). For example, local market knowledge is an essential resource for international hotels to survive and compete in foreign markets (Assaf et al., 2016; Dev et al., 2007). One of best ways to access this local knowledge is to co-locate near other hotels that have already entered the market (Tan & Meyer, 2011). In the hotel industry, hotels commonly build social

ties with neighboring hotels by sharing occupancy and rate information (Ingram & Roberts, 2000; Kalnins, 2006).

Not all clusters, however, lead to the same effect on hotel performance. We argue that differentiation within a cluster (locating next to hotel properties that provide higher quality service) and the location of a cluster (e.g. global cities vs. non-global cities) can lead to different spillover effects and hence different performance benefits. We use arguments from the theory of agglomeration to discuss how these two variables moderate the relationship between internationalization and hotel performance.

2.2.1. Positive Differentiation within the Cluster

Obtaining knowledge from local markets is vital for the performance of international hotels (Assaf et al., 2016; Dev et al., 2007). It is common to see new firms co-locating next to other firms that have already penetrated markets to benefit from local knowledge (Tan & Meyer, 2011). In particular, the interaction between firms can facilitate the access and transfer of knowledge (Polanyi, 1962).

The hotel industry is no exception. It is common to see hotels building connections with other neighboring hotels to reduce the costs of researching market information and to facilitate the assimilation of local knowledge (Ingram & Roberts, 2000; Kalnins, 2006). Studies have discussed the complex interdependence between agglomeration and service differentiation, often finding that not all hotels receive the same benefits from being near their counterparts (Baum & Haveman, 1997; Canina et al., 2005; Kalnins & Chung, 2004). For instance, lower-quality hotels are likely to enter into clusters where there is a large proportion of higher-quality hotels (Kalnins & Chung, 2004) to enjoy a positive spillover effect (Canina et al., 2005; Kalnins, 2006).

High quality or upscale hotels are more likely to provide agglomeration benefits to new foreign hotels entering the markets because they possess high levels of resource acquisition and local knowledge (Batt, 2002; Sun, Aryee, & Law, 2007). In other words, foreign hotels locating in clusters with a concentration of higher-quality hotels (i.e. positive differentiation with the cluster) may enjoy higher performance. Studies on U.S. hotels, for instance, have found that lower-quality hotel brands tend to achieve higher performance in clusters where there is a high proportion of higher-quality hotel brands (Canina et al., 2005; Kalnins, 2006; Kalnins & Chung, 2004). The competitive knowledge from high-quality hotels can be diffused within a cluster allowing other hotels to enjoy their positive knowledge spillovers. This also reduces the costs of researching market information and facilitates the assimilation of local knowledge for lower-quality hotels. The opposite can be true for high-quality hotels. Canina et al. (2005) found that higher-quality hotels co-located with lower-quality hotels suffered negative spillover effects and decreased performance.

In general, it is also difficult to deny the counter-effects of agglomerations. In the traditional economic view, co-locating with competitors typically lowers performance because it increases competition over suppliers, labor, materials, capital, and market share (i.e., losing customers to competitors). By analyzing Manhattan hotels in 1989 and 1990, Baum and Mezias (1992) found that localized competition increased the failure rate of hotels. Moreover, the negative effects of agglomeration intensified when demand was limited (e.g., low seasons or low market demand), generating local competition rather than cooperation (Lee & Jang, 2013) and resulting in price competition and possibly lower hotel performance (Lee & Jang, 2012).

According to Thompson et al. (1998), international hotel firms have a high degree of similarity, despite many companies' claims of uniqueness. As international hotels increase their presence in a cluster, differentiation within the cluster decreases, and it becomes more difficult for hotels within the cluster to realize the benefits of differentiation (i.e. advantages from the nature of clusters). International hotel firms are "forced to share the same economic and competitive pie" (Aung & Heeler, 2001, p. 638) with existing local hotels in the cluster. In other words, internationalization increases room supply within the cluster and causes price competition, leading to lower firm performance.

Considering the above arguments, we propose these competing hypotheses:

Hypothesis 3a. The positive differentiation within the cluster moderates the effect of internationalization (intensity and diversity) on hotel performance in such a way that locating next to other hotels of higher level of service increases the performance gains attributed to internationalization.

Hypothesis 3b. The positive differentiation within the cluster moderates the effect of internationalization (intensity and diversity) and hotel performance in such a way that locating next to other hotels of higher level of service decreases the performance gains attributed to internationalization

2.2.1. Location of the Cluster

Internationalization is a risky decision that requires efficient expansion. Global cities such as London, New York, and Paris are central locations that connect local and global markets (Sassen, 2010; Wall & van der Knaap, 2011) and attract international tourists (Gladstone & Fainsten, 2001). According to Goerzen et al. (2013), the unique characteristics of global cities help firms reduce the liability of foreignness. For example, residents in global cities are more familiar with foreign brands. The complexity of operating in foreign markets is also more easily managed in global cities because their cultural diversity facilitates the use of foreign labor (Martinez & Jarillo, 1989). Global cities have also higher quality infrastructure and are more attractive to international tourists (Goerzen, Geisler Asmussen, & Nielsen, 2013). Additionally, the connections to local and global markets in global cities give hotel firms better access to information and knowledge about foreign markets (Poulis & Yamin, 2009). Easy access to foreign tourists helps international hotels reduce the learning costs of foreign countries and leverage their internationalization more effectively.

Agglomeration studies have also observed that hotels tend to locate in central business districts (Chou, Hsu, & Chen, 2008; Urtasun & Gutiérrez, 2006) to achieve the advantage of a "premium" on room rates (Thrane, 2007). According to Lee and Jang (2012, p. 165), this premium of central cities "justifies higher land costs and ... serves as indirect evidence of guests' willingness to pay higher rates." Consistent with the findings from urban agglomeration economies, this indicates that international hotels may benefit from both supply- and demand-side spillover in global cities (Freedman & Kosová, 2012).

To sum up, international hotels can reduce the liability of foreignness and benefit from more spillover effects by locating in global cities. When international hotels select locations (i.e. increase internationalization), they tend to choose clusters in global cities to benefit from both demand- and supply-driven agglomerations.

Hypothesis 4. The location of the cluster moderates the relationship between internationalization (intensity and diversity) and hotel performance in such a way that locating more operations in global cities increases the performance gains attributed to internationalization

3. Methodology

3.1. Sample and Data Sources

To test our hypotheses, we use a rich panel sample of 107 international hotel brands ranging from 2008 to 2012 (535 observations). The sample includes major hotel brands (e.g., Aloft, Best Western Premier, Holiday Inn, JW Marriott, Mandarin Oriental, Shangri-La, and W) located in 56 different countries (see Table 1). Most hotels such as Marriott International targets different types of consumers through their various brands (e.g. JW Marriot (Luxury), Marriott (Upper Upscale), Courtyard (Upscale), Moxy (Upper Midscale)). Using brand level data would hence allow for more robust hypothesis testing (Morgan & Rego, 2009).

The country of origin² of these hotel brands was based on the location of their headquarters. The data were collected from three databases: Euromonitor, Smith Travel Research (STR), and World Bank's Databank. Initially, a total of 501 hotel brands were identified from the Euromonitor database. Of these brands, 348 were excluded because they only focused on domestic markets. Independent hotels were excluded from this sample to control for brand-level effects (Canina et al., 2005; Kalnins, 2006).

Table 1. Countries where the hotel brands are located

Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Ecuador, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Malaysia, Mexico, Morocco, Netherlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, USA, Venezuela, and Vietnam

3.2. Variables

3.2.1. Hotel Performance

Some commonly adopted measures of performance include ROA (Jang & Tang 2009), and Tobin's Q (Lee, 2008; Lee et al., 2014). However, these measures are problematic in our context due to the differences in accounting standards between countries (Wan & Hoskisson, 2003).

²These include Austria, Belgium, Canada, France, Germany, India, Japan, Malaysia, Malta, Norway, Spain, Sweden, Switzerland, Taiwan, Turkey, the United Kingdom, and the US.

We use here the “Revenue per available room” (RevPAR)³, a critical measure of performance that is heavily used by investors, hotel owners, and general managers (Canina et al., 2005; Higgins, 2006; Ismail, Dalbor, & Mills, 2002). As a global and standard measure, RevPAR allows a more fair comparison between the various hotel brands in our sample.

3.2.2. International Intensity and International Diversity

Both facets of internationalization were measured at the brand-year level. International intensity involves the dispersion of a hotel brand across foreign countries. Following previous studies (Goerzen & Beamish, 2003; Miller et al., 2015), we define international intensity as the number of hotel brand i 's properties operating in foreign countries, divided by the total number of hotel brand i 's properties.

International diversity reflects the dispersion of a hotel firm's operations across foreign countries. In line with the literature (e.g., Jacquemin & Berry, 1979; Miller et al., 2015; Tallman & Li, 1996), we measure international diversity using the Herfindahl index ($1 - \sum P_c^2$): where P_c is the proportion of the number of hotel properties that hotel i has in a foreign country c to its total number of foreign properties.

3.3. Moderating variables

As mentioned, we have two moderating variables in this study: the positive differentiation within the cluster and the location of the cluster. Both moderating variables are calculated at the brand-year level.

To define clusters, we use the “tract” level classification of STR, where a “tract” is a geographic subset of a STR market.⁴ Here, STR classifies hotels by location at two levels: the market and the tract. Unlike the former, the latter is more narrowly defined and is the smallest location grouping (Canina et al., 2005). The tract level more adequately captures the characteristics of the hotel industry because it reflects “the realistic options available to a consumer who desires to visit a particular location” (Canina et al., 2005, p. 571). For consistency, tracts are referred to as “clusters.”

Following Canina et al. (2005), we measure the “positive differentiation within the cluster” by taking the proportion of hotel properties in the target tract that provide higher quality service than a particular hotel brand. This was then aggregated for all clusters⁵. To calculate the “location of a cluster”, we code each cluster into three categories (a score of 3 for a global city; a score of 2 for a metropolitan area

³ Annual data were used to avoid problems of seasonality (Garín-Muñoz, 2006). For hotels located outside of US, their performance was converted to US dollars based on the year-on-year exchange rate.

⁴ In the US, a market is regarded as a geographic area composed of a Metropolitan Statistical Area (MSA) or a group of MSAs. Outside the US, the market is measured by a geographic unit in which more than 30 hotels are located, such as city, region or country.

(Retrieved from <https://www.strglobal.com/resources/glossary#M>).

⁵ To differentiate between the various quality categories, we follow the STR's classification of global hotel brands: luxury, upper upscale, upscale, upper midscale, midscale, and economy.

surrounding a global city; and a score of 1 in the periphery), using the Goerzen et al.'s (2013) restrictive definition of global cities, which is itself based on the theoretically transparent and empirically rigorous classification of world cities of Beaverstock et al. (1999)⁶. For example, hotels located in the “Berlin city center east” cluster were coded as 3; those in “Berlin surroundings” were coded as 2; and those in the “Rostock” cluster were coded as 1. Each “location of a cluster” was also weighted by the proportion of particular hotel’s properties in this specific cluster.

3.3.4. Control variables

In line with previous studies, we considered five control variables: difference in purchasing power parity (PPP) between host and home country, peer competition, entry mode, global financial crisis, and size.

When firms select new markets, their executives usually analyze the target country’s exchange rate and PPP (Khanna, Palepu, & Sinha, 2005). Growing differences in PPP may affect the cost of resources and internationalization (Elango & Sethi, 2007; Thomas & Eden, 2004). The PPP conversion factor is preferred over the actual exchange rate because “it reflects differences in price levels for both tradable and non-tradable goods and services and therefore provides a more meaningful comparison of real output” (The World Bank, 2011).

Following previous studies (Bausch & Krist, 2007; Miller et al., 2015), this study also controlled for the effect of peer competition. Competition with local hotels has an effect on both agglomeration and firm performance (Lee & Jang, 2013; Teller, Alexander, & Floh, 2016; Tsang & Yip, 2009). The effect of peer competition was measured by the number of hotel rooms provided in the clusters. This measure also includes domestic competitors to control for host-country rivals (Chang & Park, 2005).

Studies have found that when hotel firms intensively expand into foreign markets, they tend to pursue the franchising approach (Alon, Ni, & Wang, 2010; Altinay, 2005; Wang & Altinay, 2008). According to the STR’s definition, a franchised hotel is a property that pays franchise fees or royalties to a parent firm for the use of a brand name, marketing, and a reservation service. This type of entry mode offers rapid growth with minimal risk of agency problems and generates steady performance (Wang & Altinay, 2008). Accordingly, we took the ratio of franchising hotels for each hotel brand weighted by the number of international countries where the hotel is located.

Finally, this study also includes a dummy variable to account for the effect of the global financial crisis (2008, 2009 = 1 and 2010, 2011, 2012 = 0). Although the crisis occurred in 2008, hotel performance continued to be negatively affected in 2009 (Kosova & Enz, 2012). As mentioned, we also control for the effect of firm size using the number of rooms operated by a hotel brand as a control variable.

⁶ The selection of global cities is based on the theory of global cities (Sassen, 1991). Global cities must have three significant characteristics: 1) high degree of interconnectedness to local and global markets 2) clusters of high level of advanced producer services (e.g., finance, law, accounting and advertising) and 3) high quality of physical (e.g., ports and airports) and informational (e.g., mass media) infrastructures (Goerzen et al., 2013). Thus, cities with large population but without global city characteristics were not considered as global cities.

4. Methods

As explained, in this study, we differentiate between international intensity and international diversity⁷. Following Miller et al. (2015), this study tested the hypotheses using separate models for each internationalization mode. This approach allows avoiding the multicollinearity problem from a full model that includes all of the internationalization effects.

As in previous studies (Assaf et al., 2012), we also added the lagged of the dependent variable (RevPAR)⁸ to control for time-variant heterogeneity. This approach enables a handling of the dynamic structure of performance in which performance changes are considered endogenous. Theoretically, we also know that firms learn from their past performance in international markets to improve their performance over time (Tsiomas, 2006). Hence, the use of a dynamic structure of performance is compatible with the learning process that takes place in international markets (Assaf et al. 2012). Firms with poor performance are also less likely to choose risky strategies such as internationalization, while high-performing firms more actively pursue internationalization due to their resource affluence (Fiegenbaum, Shaver, & Yeung, 1997; Jung & Bansal, 2009; Tihanyi, Ellstrand, Daily, & Dalton, 2000). Therefore, the effect of prior performance needs to be considered to avoid overestimation.

Given our specification, we used the dynamic panel data estimation method to achieve better estimations and reduce endogeneity, such as specific-firm effects, omitted variables, reverse causality, and measurement error (Sequeira & Nunes, 2008). Specifically, system dynamic models are used to reduce the imprecision and potential biases related to the first-difference estimator (Yang, 2012).⁹ The study uses the methodology proposed by Arellano and Bover (1995) and Blundell and Bond (1998), in which system dynamic panel-data estimations were used in an attempt to simultaneously control time-variant and time-invariant heterogeneity (Zaheer & Hernandez, 2011).

5. Results

Table 2 presents the descriptive statistics and correlation matrix for all of the variables included in the models. The mean variance inflation factors (VIFs) did not indicate any significant multicollinearity in the data (< 10). In line with Blundell and Bond (1998), we tested our hypotheses using the two-step dynamic panel models with Arellano-Bover/Blundell-Bond system estimators. To deal with panel-specific autocorrelation and heteroscedasticity, we used the WC-robust standard errors (Yeh & Roca, 2012).

Table 2. Descriptive Analysis and Correlation Matrix

⁷ Note that in the international intensity model, we control for the effect for international diversity, and we do the same for the international diversity model. In each model we also have interaction terms to test for moderating effects.

⁸ Due to the highly skewed nature of RevPAR we use its logarithm in our estimation.

⁹ In a static model, the Ljung-Box test for autocorrelation rejects the null hypothesis of first-order autocorrelation (p-value at 0.000). Therefore, in this study the system dynamic models were used as per the literature.

	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10
1. ln(RevPAR)	4.49	0.62	1									
2. International Intensity	0.55	0.38	0.19	1								
3. International Diversity	0.43	0.36	0.19	-0.03	1							
4. Positive Differentiation within the Cluster	1.19	2.10	-0.29	-0.02	0.25	1						
5. Location of the Cluster	1.12	0.86	0.06	0.04	0.57	0.59	1					
6. PPP	2241.70	3394.11	0.24	0.11	0.44	0.40	0.66	1				
7. Peer Competition	3,674,525	3,178,830	0.21	0.26	0.39	0.42	0.83	0.60	1			
8. Ownership	3.98	6.90	-0.17	0.09	0.19	0.70	0.67	0.31	0.51	1		
9. Global financial crisis	0.40	0.49	-0.01	-0.01	-0.01	-0.04	-0.05	-0.11	-0.07	-0.05	1	
10. Size	35.99	53.44	-0.29	-0.27	0.24	0.62	0.56	0.28	0.36	0.56	-0.02	1

Table 3. Results for the International Intensity and Performance and Moderating Effects

	Basic Model (Controls)	Model 1a (Quadratic)	Model 1b (Cubic)	Model 1c (Interaction)
International Intensity (II)	-0.322	3.423**	4.588**	2.997**
International Intensity ²		-3.614**	-6.897**	-3.154*
International Intensity ³			2.127	
International Diversity	-0.527**	-0.335**	-0.252*	-0.243*
Positive Differentiation Within the Cluster x II				-0.320*
Location of the Cluster x II				0.272
Positive Differentiation Within the Cluster	-0.083	-0.140*	-0.128	0.080
Location of the Cluster	0.039	-0.072	-0.059	-0.247
Prior Performance	0.967	0.751**	0.745**	0.736**
PPP	-1.7E-06	9.8E-06	1.2E-05	1.1E-05
Peer Competition	1.2E-08	1.8E-08	1.5E-08	1.6E-08

Ownership	0.004	0.004	0.001	0.007
Global financial crisis	-0.216**	-0.185**	-0.187**	-0.179**
Size	0.004**	0.004**	0.005**	0.005**
Wald Chi ²	138.62(10)	156.46(11)	258.23(12)	158.42(13)
AR (1)	-1.479	-1.566	-1.584	-1.592
AR (2)	-1.030	-1.485	-1.347	-1.381

** p<0.05; *p<0.1

The results are reported in Table 3 (the international intensity-performance relationship) and in Table 4 (the international diversity-performance relationship). The baseline model is reported in both Tables, and the linear terms of internationalization are included in this model. In Model 1a, we added the quadratic terms of international intensity, and in Model 1b we added the cubic term to test for the S-shaped relationship between international intensity and hotel performance. Model 1c includes the moderating effect along with the quadratic term of internationalization¹⁰. The same procedure is repeated for the international diversity model (Table 4) where we started with the basic model, and then added the quadratic and cubic terms. The results of several tests are also reported in Tables 3 and 4. This study used Arellano-Bond tests with the null hypothesis of no second-order serial correlation in the first-differenced errors to check the validity of instruments and autocorrelations. As presented in both tables, the results of the AR (2) test did not reject the null hypothesis, hence indicating that there is no serious problem of second-order serial correlation in the models.

Table 4. Results for the International Diversity Models and Moderating Effects

	Basic Model (Controls)	Model 2a (Quadratic)	Model 2b (Cubic)	Model 2c (Interaction)
International Diversity (ID)	-0.527**	-0.845	-5.925**	-3.872**
International Diversity ²		0.328	14.023**	8.833**
International Diversity ³			-8.819**	-5.822**
International Intensity	-0.322	-0.231	-0.313	-0.369
Positive Differentiation Within the Cluster x ID				0.122
Location of the Cluster x ID				0.693*
Positive Differentiation Within the Cluster	-0.083	-0.087	-0.083	-0.151
Location of the Cluster	0.039	0.033	-0.049	-0.350

¹⁰ As the cubic term is insignificant in Model 1b, we dropped it from the full specification in Model 1c.

Prior Performance	0.967**	0.969**	0.974**	0.832**
PPP	-1.7E-06	-1.9E-06	-4.7E-06	-2.8E-06
Peer Competition	1.2E-08	1.2E-08	6.9E-09	1.2E-08
Ownership	0.004	0.005	0.006	-0.013
Global financial crisis	-0.216**	-0.214**	-0.213**	-0.198**
Size	0.004**	0.005**	0.005**	0.004**
Wald Chi ²	138.62(10)	165.56(11)	176.06(12)	207.58(14)
AR (1)	-1.479	-1.444	-1.320	-1.472
AR (2)	-1.030	-1.167	-1.132	-0.886

** p<0.05; *p<0.1

In terms of the relationship between international intensity and performance (H1), we can see from Models 1a ($\beta = -3.614$; $p < 0.05$), 1b ($\beta = -6.897$; $p < 0.05$), and 1c ($\beta = -3.154$; $p < 0.1$)¹¹ that the results are inconsistent with the prediction that the quadratic terms of international intensity are positive and significant (H1a). Moreover, the cubic term in Model 1b was insignificant. Thus, Hypothesis 1b is not fully supported because the quadratic term is negative and the cubic term is insignificant (as required for the S-relationship). However, the result indicates that the relationship between international intensity and hotel performance follows an inverted U-shaped relationship¹².

However, there is strong support for H2b (i.e. S-shaped relationship between international diversity and hotel performance). Models 2b and 2c show the negative effect of the linear term of international diversity ($\beta = -5.925, -3.872$; $p < 0.05$), the positive effect of the quadratic term ($\beta = 14.023, 8.833$; $p < 0.05$), and the negative effect of the cubic term ($\beta = -8.819, -5.822$; $p < 0.05$)¹³.

To test the moderating effects associated with Hypotheses 3 and 4, the interaction terms are included in Models 1c and 2c. Model 1c includes the interaction terms with international intensity (i.e. the positive differentiation within the cluster x international intensity and the location of the cluster x international intensity). According to the Wald chi-square test, the inclusion of interaction terms

¹¹ For testing the shape of intensity and diversity we also tried the models without leaving the positive differentiation within the cluster and the location of the cluster as control variables but the results were largely similar.

¹² We followed the three step approach recommended by Haans et al. (2016) to further validate the inverted U-shaped relationship. For example, we confirmed that the turning point is within the range of the data and the slope is “sufficiently steep” at both ends of the data. These results can be obtained from the authors upon request. We also provide a graphical illustration of this relationship in Figure A.1 (Appendix 1).

¹³ To further confirm the S-relationship we further confirmed that the curve has two distinct roots (i.e. minimum and maximum) and that the minimum and maximum are within the range of data. These results can be obtained from the authors upon request. We also provide a graphical illustration of this relationship in Figure A.2 (Appendix 1).

improved the model fit. The product of the positive differentiation within the cluster and the international intensity is negative and significant in Model 1c ($\beta = -0.320$; $p < 0.1$)¹⁴. However, the product of the location of the cluster and international intensity (location of the cluster x II) is insignificant.

Model 2c shows a significant moderating effect of the location of the cluster in the international diversity model (Location of cluster x ID). The interaction term of the positive differentiation within the cluster and international diversity (positive differentiation within the cluster x ID) is insignificant. In sum, Hypothesis 3 is only marginally supported for the international intensity models, and Hypothesis 4 is fully supported for the international diversity models. Therefore, these findings provide some validation that our results differ depending on the type of internationalization.

6. Robustness Checks

We conducted several robustness tests to check the sensitivity of the results. First, we multiplied the moderators by the square and cubic term of internationalization (intensity and diversity), but none of these turned out to be significant. Hence, this result provides further justification for dropping these variables from the models.

Second, we used the one-step estimation procedure instead of the two-step estimation we used in this study (Blundell & Bond, 1998). The results of the one-step models were generally consistent with those of the two-step models. Next, the occupancy rate was used as an alternative performance measure (Sainaghi & Baggio, 2014). When the occupancy rate was used as a dependent variable, the inverted U-shaped effects of international intensity, the S-shaped effect of international diversity, and the moderating effects of the nature and location of clusters remained consistent, yet the results became less significant. Additionally, this study also tested the results using alternative measures for internationalization. The proportion of the number of hotel rooms operating in foreign countries was used for international intensity, and the number of foreign countries in which the hotels operated was used for international diversity. Both alternative measurements produced similar results. Overall, the robustness tests bestow confidence in the findings.

7. Discussion

This study explored the complex nature of the relationship between internationalization and hotel performance. Given the ambiguous findings in the literature, we posed competing hypotheses. The results support the argument that internationalization is multifaceted (i.e., international intensity and international diversity). Based on the two different facets of internationalization, the results confirmed

¹⁴ Note that the moderating effect is only a constant. As indicated in in Section 6, none of the terms resulting from multiplying the moderators by the square and cubic term of internationalization turned out to be significant. These terms also affected poorly the specification of the model.

different patterns of relationships between internationalization and hotel performance (i.e., inverted U-shaped and S-shaped). These findings indicate that hotel brands can expand internationally by increasing their intensity or diversity, but their performance is affected differently depending on the type of internationalization strategy that hotels pursue.

The results showed an inverted U-shaped relationship between international intensity and hotel performance, supporting some related studies in the field (Gomes & Ramaswamy, 1999; Hitt et al., 1997) while contradicting others (Assaf et al., 2016; Lee, 2008). Hence, it seems that the initial learning costs of the early stage of international intensity are less, or can be effectively overcome, by increased experience with international markets. Furthermore, hotels can realize the benefit of economies of scales more rapidly from international markets through franchising (Dev et al., 2007). Thus, as hotels first increase their level of international intensity, they can avoid initial costs and improve their performance by benefitting from the learning process and its resulting familiarity with foreign markets (Li, 2005; Welch & Welch, 2009). However, excessive international diversity increases transaction costs, such as governance and coordination costs, and ultimately reduces firm performance (Lu & Beamish, 2004). At a higher high level of international intensity, hotel performance may also decline because of the increasing cost of customer ethnocentrism (Eden & Miller, 2004).

However, these results also showed that increasing international diversity had a sigmoid effect on hotel performance, with performance first decreasing, then increasing, and then decreasing again. At a low level of international diversity, hotel performance declines due to the higher cost incurred from entering unfamiliar foreign markets (Ruigrok & Wagner, 2003). As hotels gradually increase their international diversity, they start experiencing improvements in performance by overcoming the liabilities of foreignness and exploiting economies of scale (Rugman & Verbeke, 2004).

Hypotheses 3 and 4 focused on the moderating effects. In both hypotheses, this study argued that the relationship between internationalization and hotel performance is dependent on agglomeration effects (i.e., positive differentiation within the clusters and location of clusters). Even though international hotels pursue a similar level of internationalization, they may exhibit different levels of performance based on the types of clusters in which they operate.

According to Hypothesis 3a, international hotels can enhance their performance more efficiently by locating near other hotels providing a higher quality of service (Canina et al., 2005). This hypothesis was rejected for both models that covered international intensity and international diversity. These findings imply that international hotels do not, in fact, benefit from the shared knowledge and resources with local hotels in the same cluster, as was previously indicated in the literature. One possible explanation is that there is a high degree of similarity between global hotels despite claims of differentiation (Litteljohn, Roper, & Altinay, 2007); therefore, the effect of differentiated agglomeration may not be influential enough to affect the relationship between internationalization and firm performance. The findings from the literature were also based on one specific state (Texas) or country (US) (Canina et al., 2005; Kalnins & Chung, 2004) and focused only on domestic hotels. This study provides further justification for the examination of the full spectrum of internationalization.

The result from Hypothesis 3b indicates that the effect of positive differentiation with the cluster only significantly influenced the relationship between international intensity and performance. This finding suggests that the international intensity-performance relationship becomes weaker if hotels are located

in clusters with highly differentiated agglomerations. In other words, hotels experience a lower level of performance when they are located in clusters that have a large proportion of high-quality service hotels. Such finding supports other studies that highlight the negative spillover effects of competition (Baum & Mezias, 1992). For international hotels, the cost of competing with strong local rivals may be higher than the positive spillover benefits of differentiated agglomeration (i.e., the nature of the cluster). There is no difference, however, in the effect of international diversity on performance, based on whether hotels are located in a high-quality cluster. Hence, being located near high-quality hotels may not be relevant to hotels entering new foreign markets.

Hypotheses 3a and 3b were inspired by notions of demand-driven agglomeration benefits, while Hypothesis 4 was developed based on urban agglomeration (related to both demand- and supply-driven agglomeration benefits). The findings from this study support the argument that hotels can enhance their performance when they internationalize into clusters located in global cities. By locating in such clusters, hotels can easily overcome the liability of foreignness and effectively accrue resources because of the distinctive characteristics of global cities (Goerzen et al., 2013).

Hypothesis 4 was significant in the context of the international diversity model, indicating that hotels that expand into new foreign countries can enhance their performance by locating inside global cities. With a large number of international and domestic tourists, international hotels in global cities may suffer less from seasonality and often have more diverse knowledge about their customers (Poulis & Yamin, 2009). Moreover, local people and partners in global cities are more open to foreign firms (Goerzen et al., 2013).

However, the moderating effect of the location the cluster was insignificant for the relationship between international intensity and hotel performance. This finding shows that hotels may not significantly outperform in global cities when they increase their involvement in an existing foreign market. The benefits of the location of a cluster might not be effectively realized for international hotels that have already entered the market because they had already accumulated knowledge and gained familiarity with that local market.

8. Implications and Concluding Remarks

This study contributes to the literature on the internationalization-performance relationship by testing specific relationship patterns among intensity, diversity, and performance, and by demonstrating the effects of important interactions. The study shows how international hotels produce different kinds of costs and benefits at different stages of international intensity and diversity. These findings provide new theoretical insight and help clarify the mixed results in the hospitality literature regarding the I-P relationship. Research in the field of hospitality has not examined the effects of international diversity on hotel performance, instead ascribing all performance effects to international intensity. The results also highlight interesting moderating effects. The positive differentiation within the cluster has a negative influence on performance when hotel brands increase their penetration into foreign markets, while the location of the cluster has a positive influence on performance when hotel brands expand into new markets.

This study provides valuable insight that can help guide hotel firms when creating internationalization strategies, thereby enhancing their performance. International hotels should determine which aspect

of their internationalization strategy they wish to improve: increasing presence in new overseas markets (i.e., international diversity) or increase their penetration into existing foreign markets (i.e., international intensity). For hotels that are just starting to internationalize, the recommendation is to expand into new overseas markets until they see improvements in their performance, and then to re-engage with the foreign markets in which they are already operating because they may more rapidly increase their performance. For hotels that already have a significant international presence, the recommendation is to carefully manage their levels of international intensity and diversity because these involve considerations of optimum efficiency. When experienced firms observe a decrease in their performance as a result of changes in their level of international diversity, they may consider not expanding any further. However, some strategies may require expansion beyond what is efficient in order to achieve other goals (i.e., market dominance). Related to moderating effects, firms are advised to avoid clusters with a high proportion of luxury hotels when seeking to increase their penetration in foreign markets. Lastly, when hotels enter a new foreign market, the most advisable choice is that of a global-city cluster.

However, like all studies this study also has some limitations. Despite its extensive use, RevPAR only accounts for the revenues from the room department (Brown & Dev, 1999; Douglas, 2000) and expenses are not reflected into its calculation (Schwartz, Altin, & Singal, 2016). Future studies may consider using the gross operating profits per available room (GOPPAR) which is based on the revenues and expenses from all departments. Internationalization is also a long-term process and a challenging strategy. Because of data availability, this study tested the proposed hypotheses using only a 5-year period. Future studies may consider investigating a longer time frame.

References

- Alon, I., Ni, L., & Wang, R. Y. (2010). Internationalization of franchising. In *Franchising globally* (pp. 54–72). Palgrave Macmillan UK.
- Altinay, L. (2005). Factors Influencing Entry Mode Choices : Empirical Findings from an International Hotel Organisation. *Journal of Hospitality & Leisure Marketing*, 12(3), 5–29. <https://doi.org/10.1300/J150v12n03>
- Anand, J., & Delios, A. (1997). Location Specificity and the Transferability of Downstream Assets to Foreign Subsidiaries. *Journal of International Business Studies*, 28(3), 579–603.
- Annavarjula, M., & Beldona, S. (2000). Multinationality-Performance Relationship: a Review and Reconceptualization. *International Journal of Organizational Analysis*. <https://doi.org/10.1108/eb028910>
- Arellano, M., & Bover, O. (1995). Another look at the instrumental variable estimation of error-components models. *Journal of Econometrics*, 68(1), 29--51.
- Assaf, A. G., Josiassen, A., & Agbola, F. W. (2015). Attracting international hotels: Locational factors that matter most. *Tourism Management*, 47, 329–340. <https://doi.org/10.1016/j.tourman.2014.10.005>
- Assaf, A. G., Josiassen, A., & Oh, H. (2016). Internationalization and hotel performance: the missing pieces. *Tourism Economics*, 22(3), 572–592. <https://doi.org/10.5367/te.2015.0460>
- Assaf, A. G., Josiassen, A., Ratchford, B. T., & Barros, C. P. (2012). Internationalization and Performance of Retail Firms: A Bayesian Dynamic Model. *Journal of Retailing*, 88(2), 191–205. <https://doi.org/10.1016/j.jretai.2011.11.005>
- Aung, M., & Heeler, R. (2001). Core competencies of service firms: A framework for strategic decisions in international markets. *Journal of Marketing Management*, 17(7–8), 619–643.
- Banalieva, E. R. (2007). *A Contingency Framework of Internationalization-Performance: The Moderating Role of Regional Diversity*. Indiana University.
- Bartlett, C., & Ghoshal, S. (1989). *The transnational corporation*. New York.
- Batt, R. (2002). Managing Customer Services : Human Resource Practices , Quit Rates , and Sales Growth. *The Academy of Management Journal*, 45(3), 587–597.
- Baum, J. A. C., & Mezias, S. J. (1992). Localized Competition and Organizational Failure in the Manhattan Hotel Industry, 1898- 1990. *Administrative Science Quarterly*, 37(4), 580–604.
- Baum, J. a C., & Haveman, H. a. (1997). Love thy neighbor? Differentiation and agglomeration in the Manhattan Hotel industry, 1898-1990. *Administrative Science Quarterly*, 42(2), 304–338. <https://doi.org/10.2307/2393922>
- Bausch, A., & Krist, M. (2007). The Effect of Context-Related Moderators on the Internationalization-Performance Relationship : Evidence from Meta-Analysis. *MIR: Management International Review*, 47(3), 319–347.

- Beaverstock, J. V., Smith, R. G., & Taylor, P. J. (1999). A roster of world cities. *Cities*, 16(6), 445–458.
- Blundell, R., & Bond, S. (1998). Initial conditions and moment restrictions in dynamic panel data models. *Journal of Econometrics*, 87(1), 115–143. [https://doi.org/10.1016/S0304-4076\(98\)00009-8](https://doi.org/10.1016/S0304-4076(98)00009-8)
- Canina, L., Enz, C. a, & Harrison, J. S. (2005). Agglomeration Effects and Strategic Orientations: Evidence from the U.S. Lodging Industry. *The Academy of Management Journal*, 48(4), 565–581. <https://doi.org/10.5465/AMJ.2005.17843938>
- Capar, N., & Kotabe, M. (2003). The relationship between international diversification and performance in service firms. *Journal of International Business Studies*, 34(4), 345–355. <https://doi.org/10.1057/palgrave.jibs.8400036>
- Capar, N., & Kotabe, M. (2003). The relationship between international diversification and performance in service firms. *Journal of International Business Studies*, 34(4), 345–355. <https://doi.org/10.1057/palgrave.jibs.8400036>
- Chang, S. J., & Park, S. (2005). Types of firms generating network externalities and MNCs' co-location decisions. *Strategic Management Journal*, 26(7), 595–615.
- Chou, T. Y., Hsu, C. L., & Chen, M. C. (2008). A fuzzy multi-criteria decision model for international tourist hotels location selectio. *International Journal of Hospitality Management*, 27(2), 293–201.
- Chung, W., & Kalnins, A. (2001). Agglomeration effects and performance: A test of the Texas lodging industry. *Strategic Management Journal*, 22(10), 969–988. <https://doi.org/10.1002/smj.178>
- Contractor, F. J., Kundu, S. K., & Hsu, C.-C. (2003). A three-stage theory of international expansion: the link between multinationality and performance in the service sector. *Journal of International Business Studies*, 34(1), 5–18. <https://doi.org/10.1057/palgrave.jibs.8400003>
- Daft, R. L., & Macintosh, N. B. (1981). A Tentative Exploration into the Amount and Equivocality of Information Processing in Organizational Work Units. *Administrative Science Quarterly*, 26(2), 207–224.
- Dev, C. S., Brown, J. R., & Zhou, K. Z. (2007). Global Brand Expansion: How to Select a Market Entry Strategy. *Cornell Hotel and Restaurant Administration Quarterly*, 48(1), 13–27. <https://doi.org/10.1177/0010880406294472>
- Dunning, J. H., & Kundu, S. K. (1995). The Internationalization of the Hotel Industry: Some New Findings from a Field Study. *MIR: Management International Review*, 35(2), 101–133.
- Eden, L., & Miller, S. (2004). Distance matter: liability of foreignness, institutional distance and ownership strategy. *Advances in International Marketing*, 16(4), 187–221.
- Egelhoff, W. G. (1991). Information-Processing Theory and the Multinational Enterprise. *Journal of International Business Studies*, 22(3), 341–368.
- Elango, B., & Sethi, P. (2007). An Exploration of the Relationship between Country of Origin (COE) and the Internationalization-Performance Paradigm. *Management International Review*, 47(3), 369–392.

- Euromonitor. (2015). *Global hotels: Catering to a new traveller*.
- Fiegenbaum, A., Shaver, J. M., & Yeung, B. (1997). Which firms expand to the Middle East: The experience of US multinationals. *Strategic Management Journal*, 18(2), 141–148.
- Freedman, M. L., & Kosová, R. (2012). Agglomeration, product heterogeneity and firm entry. *Journal of Economic Geography*, 12(3), 601–626. <https://doi.org/10.1093/jeg/lbr022>
- Gan, L., & Hernandez, M. a. (2012). Making friends with your neighbors? Agglomeration and tacit collusion in the lodging industry. *Review of Economics and Statistics*, 95(July), 120515125242009. https://doi.org/10.1162/REST_a_00289
- Garín-Muñoz, T. (2006). Inbound international tourism to Canary Islands: A dynamic panel data model. *Tourism Management*, 27(2), 281–291. <https://doi.org/10.1016/j.tourman.2004.10.002>
- Ghoshal, S., & Bartlett, C. (1990). The Multinational Corporation as an Interorganizational Network. *Academy of Management Review*, 15(4), 603–626. <https://doi.org/10.5465/AMR.1990.4310825>
- Gladstone, D. L., & Fainsten, S. S. (2001). Tourism in US global cities: A comparison of New York and Los Angeles. *Journal of Urban Affairs*, 23(1), 23–40.
- Goerzen, A., & Beamish, P. W. (2003). Geographic scope and multinational enterprise performance. *Strategic Management Journal*, 24(13), 1289–1306. <https://doi.org/10.1002/smj.357>
- Goerzen, A., Geisler Asmussen, C., & Nielsen, B. B. (2013). Global cities and multinational enterprise location strategy. *Journal of International Business Studies*, 44, 427–450. <https://doi.org/10.1057/jibs.2013.11>
- Gomes, L., & Ramaswamy, K. (1999). An Empirical Examination of the Form of the Relationship Between Multinationality and Performance. *Journal of International Business Studies*, 30(1), 173–187. <https://doi.org/10.1057/palgrave.jibs.8490065>
- Haans, R. F., Pieters, C., & He, Z. L. (2016). Thinking about U: Theorizing and testing U-and inverted U-shaped relationships in strategy research. *Strategic Management Journal*, 37(7), 1177–1195.
- Hennart, J. F. (2007). The theoretical rationale for a multinationality-performance relationship. *Management International Review*, 47(3), 423–452. <https://doi.org/10.1007/s11575-007-0023-3>
- Higgins, S. M. (2006). Higgins, S. M. (2006). RevPAR still king, but GOPPAR on the rise. *Hotel & Motel Management*, 1, 26–30.
- Hitt, M. A., Bierman, L., Uhlenbruck, K., & Shimizu, K. (2006). The Importance of Resources in the Internationalization of Professional Service Firms: The Good, the Bad, and the Ugly. *The Academy of Management Journal*, 49(6), 1137–1157. <https://doi.org/10.5465/amj.2006.23478217>
- Hitt, M. A., Hoskisson, R. E., & Kim, H. (1997). International diversification: Effects on innovation and firm performance in product-diversified firms. *Academy of Management Journal*, 40(4), 767–798.
- Hitt, M. A., Tihanyi, L., Miller, T., & Connelly, B. (2006). International Diversification: Antecedents, Outcomes, and Moderators. *Journal of Management*, 32(6), 831–867. <https://doi.org/10.1177/0149206306293575>

- Hsu, C.-C., & Pereira, A. (2008). Internationalization and performance: The moderating effects of organizational learning. *Omega*, *36*, 188–205. <https://doi.org/10.1016/j.omega.2006.06.004>
- IBISWorld. (2015). *IBISWorld Industry Report 72111: Hotels & Motels in the US*. IBISWorld Inc. Retrieved from www.ibisworld.com
- IBISWorld. (2017). *IBISWorld Industry Report: Global Hotels & Resorts*. IBISWorld. Retrieved from <http://clients1.ibisworld.com.ezproxy.royalroads.ca/reports/gl/industry/default.aspx?entid=1460>
- Ingram, P., & Roberts, P. W. (2000). Friendships among Competitors in the Sydney Hotel Industry. *American Journal of Sociology*, *106*(2), 387–423. <https://doi.org/10.1086/316965>
- Ismail, J. A., Dalbor, M. C., & Mills, J. E. (2002). Using RevPAR to analyze lodging-segment variability. *Cornell Hotel and Restaurant Administration Quarterly*, *43*(6), 73–80. [https://doi.org/10.1016/S0010-8804\(02\)80073-8](https://doi.org/10.1016/S0010-8804(02)80073-8)
- Jacquemin, A. P., & Berry, C. H. (1979). Entropy Measure of Diversification and Corporate Growth. *Journal of Industrial Economics*, *27*, 359–369.
- Johnson, C., & Vanetti, M. (2005). Locational strategies of international hotel chains. *Annals of Tourism Research*, *32*(4), 1077–1099. <https://doi.org/10.1016/j.annals.2005.03.003>
- Jung, J. C., & Bansal, P. (2009). How Firm Performance Affects Internationalization, 709–732. <https://doi.org/10.1007/s11575-009-0014-7>
- Kalnins, A. (2006). Markets: The U.S. Lodging Industry. *Journal of Economic Perspectives*, *20*(4), 203–218.
- Kalnins, A., & Chung, W. (2004). Resource-seeking agglomeration: A study of market entry in the lodging industry. *Strategic Management Journal*, *25*(7), 689–699. <https://doi.org/10.1002/smj.403>
- Khanna, T., Palepu, K. G., & Sinha, J. (2005). Strategies That Fit Emerging Markets. *Harvard Business Review*, (June), 1–17.
- Kleinbaum, D. G., Kupper, L. L., Muller, K. E., & Nizam, A. (1998). *Applied Regression Analysis and Multivariate Methods*. Pacific Grove: Brooks/Cole Publishing Company.
- Kock, F., Josiassen, A., Assaf, A. G., Karpen, I., & Farrelly, F. (2018). Tourism Ethnocentrism and Its Effects on Tourist and Resident Behavior. *Journal of Travel Research*, 0047287518755504.
- Kogut, B., & Kulatilaka, N. (1994). Operating Flexibility, Global Manufacturing, and the Option Value of a Multinational Network. *Management Science*, *40*(1), 123–139. <https://doi.org/10.1287/mnsc.40.1.123>
- Kosova, R., & Enz, C. a. (2012). The Terrorist Attacks of 9/11 and the Financial Crisis of 2008: The Impact of External Shocks on U.S. Hotel Performance. *Cornell Hospitality Quarterly*, *53*, 308–325. <https://doi.org/10.1177/1938965512457021>
- Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review*, *24*(1), 64–81. <https://doi.org/10.5465/AMR.1999.1580441>
- Lee, S. (2008). Internationalization of US multinational hotel companies: Expansion to Asia versus

- Europe. *International Journal of Hospitality Management*, 27(4), 657–664.
<https://doi.org/10.1016/j.ijhm.2007.09.002>
- Lee, S., & Jang, S. (Shawn). (2013). Conditional Agglomeration Externalities in Lodging Markets. *Journal of Hospitality & Tourism Research*, 1–20. <https://doi.org/10.1177/1096348013491605>
- Lee, S. K., & Jang, S. (2012). Premium or Discount in Hotel Room Rates? The Dual Effects of a Central Downtown Location. *Cornell Hospitality Quarterly*, 53(2), 165–173.
<https://doi.org/10.1177/1938965512441056>
- Lee, S. K., & Jang, S. (Shawn). (2013). Asymmetry of Price Competition in the Lodging Market. *Journal of Travel Research*, 52(1), 56–67. <https://doi.org/10.1177/0047287512457268>
- Lee, S., Koh, Y., & Xiao, Q. (2014). Internationalization and financial health in the US hotel industry. *Tourism Economics*, 20(1), 87–105.
- Lee, S., Upneja, A., Özdemir, Ö., & Sun, K.-A. (2014). A synergy effect of internationalization and firm size on performance. *International Journal of Contemporary Hospitality Management*, 26(1), 35–49. <https://doi.org/10.1108/IJCHM-09-2012-0173>
- Li, L. (2005). Is Regional Strategy More Effective than Global Strategy in the US Service Industries? *MIR: Management International Review*, 45(1), 37–57. <https://doi.org/10.1007/sl>
- Litteljohn, D., Roper, A., & Altinay, L. (2007). Territories still to find - the business of hotel internationalisation. *International Journal of Service Industry Management*, 18(2), 167–183.
<https://doi.org/10.1108/09564230710737817>
- Lovelock, C. H., & Yip, G. S. (1996). Developing global strategies for service businesses. *California Management Review*, 38(2), 64–86. <https://doi.org/10.2307/41165833>
- Lu, J. W., & Beamish, P. W. (2004). International diversification and firm performance: The S-curve hypothesis. *Academy of Management Journal*, 47(4), 598–609. <https://doi.org/10.2307/20159604>
- Martinez, J. I., & Jarillo, J. C. (1989). The evolution of research on coordination mechanisms in multinational corporations. *Journal of International Business Studies*, 20(3), 489–514.
- McCann, B. T., & Folta, T. B. (2008). Location Matters: Where We Have Been and Where We Might Go in Agglomeration Research. *Journal of Management*, 34(3), 532–565.
<https://doi.org/10.1177/0149206308316057>
- Miller, S. R., Lavie, D., & Delios, A. (2015). International intensity, diversity, and distance: Unpacking the internationalization–performance relationship. *International Business Review*.
<https://doi.org/10.1016/j.ibusrev.2015.12.003>
- Morgan, N. A., & Rego, L. L. (2009). Brand portfolio strategy and firm performance. *Journal of Marketing*, 73(1), 59–74.
- Oates, G. (2016). Interview: Commune and Destination Hotels CEOs Explain Their Merger. *Skift*. Retrieved from <https://skift.com/2016/02/01/commune-and-destination-hotels-ceos-explain-their-merger/>
- Oh, H., & Hsu, C. H. C. (2014). Assessing equivalence of hotel brand equity measures in cross-cultural contexts. *International Journal of Hospitality Management*, 36, 156–166.

<https://doi.org/10.1016/j.ijhm.2013.09.002>

- Osegowitsch, T., & Zalan, T. (2005). Two Decades of Multinationality-Performance Research: the Persistent Problem of Under-Specification. In *Australian Centre for International Business* (pp. 1–33).
- Polanyi, M. (1962). Tacit knowing: Its bearing on some problems of philosophy. *Reviews of Modern Physics*, *34*(4), 601–616.
- Poulis, K., & Yamin, M. (2009). Tourism as a leverage of internationalization for consumer goods firms: a case study approach. In *New Challenges to International Marketing* (pp. 69–85). Emerald Group Publishing Limited.
- Ramaswamy, K. (1993). Multinationality and Performance: An Empirical Examination of the Moderating Effect of Configuration. In *Academy of Management Proceedings* (pp. 142–146).
- Ramaswamy, K. (1995). Multinationality, configuration, and performance: A study of MNEs in the US drug and pharmaceutical industry. *Journal of International Management*, *1*(2), 231–253.
- Rodtook, P., & Altinay, L. (2013). Reasons for internationalization of domestic hotel chains in Thailand. *Journal of Hospitality Marketing & Management*, *22*, 92–115.
<https://doi.org/10.1080/19368623.2012.632711>
- Rosenzweig, P. M., & Singh, J. V. (1991). Organizational environments and the multinational enterprise. *Academy of Management Review*, *16*(2), 340–361.
<https://doi.org/10.5465/AMR.1991.4278953>
- Rugman, A. M., & Oh, C. H. (2010). Does the regional nature of multinationals affect the multinationality and performance relationship? *International Business Review*, *19*(5), 479–488.
<https://doi.org/10.1016/j.ibusrev.2009.02.012>
- Rugman, A. M., & Oh, C. H. (2013). Why the Home Region Matters: Location and Regional Multinationals. *British Journal of Management*, *24*(4), 463–479. <https://doi.org/10.1111/j.1467-8551.2012.00817.x>
- Rugman, A. M., & Verbeke, A. (2004). A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, *35*(1), 3–18.
- Rugman, A. M., & Verbeke, A. (2008). A regional solution to the strategy and structure of multinationals. *European Management Journal*, *26*(5), 305–313.
<https://doi.org/10.1016/j.emj.2008.04.004>
- Ruigrok, W., & Wagner, H. (2003). Internationalization and Performance: An Organizational Learning Perspective. *MIR: Management International Review*, *43*(1), 63–83.
- Sainaghi, R., & Baggio, R. (2014). Structural social capital and hotel performance: Is there a link? *International Journal of Hospitality Management*, *37*, 99–110.
<https://doi.org/10.1016/j.ijhm.2013.11.004>
- Sassen, S. (1991). *The Global City: New York, London, Tokyo, Princeton*. NJ: Princeton.
- Sassen, S. (2010). Global inter-city networks and commodity chains: any intersections? *Global Networks*, *10*(1), 150–163.

- Sequeira, T. N., & Nunes, P. M. (2008). Does tourism influence economic growth? A dynamic panel data approach. *Applied Economics*, *40*(18), 2431–2441.
<https://doi.org/10.1080/00036840600949520>
- Sharma, P., & Wu, Z. (2015). Consumer ethnocentrism vs. intercultural competence as moderators in intercultural service encounters. *Journal of Services Marketing*, *29*(2), 93–102.
- Shi, Y., Lim, J. M., Weitz, B. A., & France, S. L. (2017). The impact of retail format diversification on retailers' financial performance. *Journal of the Academy of Marketing Science*, 1–21.
<https://doi.org/10.1007/s11747-017-0559-0>
- Sullivan, D. (1994). Measuring the degree of internationalization of a firm. *Journal of International Business Studies*, *25*(2), 325–342.
- Sun, L.-Y., Aryee, S., & Law, K. S. (2007). High-performance human resource practices, citizenship behavior, and organizational performance: a relational perspective. *Academy of Management Journal*, *50*(3), 558–577. <https://doi.org/10.5465/amj.2007.25525821>
- Tallman, S., & Li, J. (1996). Effects of International Diversity and Product Diversity on the Performance of Multinational Firms. *Academy of Management Journal*, *39*(1), 21–38.
<https://doi.org/10.2307/256788>
- Tan, D., & Meyer, K. E. (2011). Country-of-origin and industry FDI agglomeration of foreign investors in an emerging economy. *Journal of International Business Studies*, *42*(4), 504–520.
<https://doi.org/10.1057/jibs.2011.4>
- Tang, C.-H., & Jang, S. (2010). Does International Diversification Discount Exist in the Hotel Industry? *Journal of Hospitality & Tourism Research*, *34*(2), 225–246.
<https://doi.org/10.1177/1096348009350617>
- Teller, C., Alexander, A., & Floh, A. (2016). The impact of competition and cooperation on the performance of a retail agglomeration and its stores. *Industrial Marketing Management*, *52*, 6–17.
<https://doi.org/10.1016/j.indmarman.2015.07.010>
- The World Bank. (2011). PPP conversion factor, GDP (LCU per international \$). Retrieved from <http://data.worldbank.org/indicator/PA.NUS.PPP>
- Thomas, D. E., & Eden, L. (2004). What is the Shape of the Multinationality-Performance Relationship? *Multinational Business Review*, *12*(1), 89–110.
<https://doi.org/10.1108/1525383X200400005>
- Thompson, P., Nickson, D., Wallace, T., & Jones, C. (1998). Internationalisation and Integration A Comparison of Manufacturing and Service Firms. *Competition & Change*, *3*, 387–415.
- Thrane, C. (2007). Examining the determinants of room rates for hotels in capital cities: The Oslo experience. *Journal of Revenue & Pricing Management*, *5*(4), 315–323.
- Tihanyi, L., Ellstrand, A. E., Daily, C. M., & Dalton, D. R. (2000). Composition of the top management team and firm international diversification. *Journal of Management*, *26*(6), 1157–1177.
- Tsang, E. W. K., & Yip, P. S. L. (2009). Competition, agglomeration, and performance of Beijing hotels. *The Service Industries Journal*, *29*(2), 155–171.

<https://doi.org/10.1080/02642060802294896>

- Tsionas, E. G. (2006). Inferences in Dynamic Stochastic Frontier Models. *Journal of Applied Econometrics*, 21(5), 669–676.
- Urtasun, A., & Gutiérrez, I. (2006). Hotel location in tourism cities: Madrid 1936–1998. *Annals of Tourism Research*, 33(2), 382–402.
- Verbeke, A., Li, L., & Goerzen, A. (2009). Toward more effective research on the multinationality-performance relationship. *Management International Review*, 49(2), 149–162.
<https://doi.org/10.1007/s11575-008-0133-6>
- Vermeulen, F., & Barkema, H. (2002). Pace, rhythm, and scope: Process dependence in building a profitable multinational corporation. *Strategic Management Journal*, 23(7), 637–653.
<https://doi.org/10.1002/smj.243>
- Wall, R. S., & van der Knaap, G. A. (2011). Sectoral Differentiation and Network Structure Within Contemporary Worldwide Corporate Networks. *Economic Geography*, 87(3), 267–308.
<https://doi.org/10.1111/j.1944-8287.2011.01122.x>
- Wan, W. P., & Hoskisson, R. E. (2003). Home Country Environments, Corporate Diversification Strategies, and Firm Performance. *Academy of Management Journal*, 46(1), 27–45.
<https://doi.org/10.2307/30040674>
- Wang, C. L., & Altinay, L. (2008). International franchise partner selection and chain performance through the lens of organisational learning. *The Service Industries Journal*, 28(2), 225–238.
<https://doi.org/10.1080/02642060701842290>
- Watson, J. J., & Wright, K. (2000). Consumer ethnocentrism and attitudes toward domestic and foreign products. *European Journal of Marketing*, 34(9/10), 1149–1166.
<https://doi.org/10.1108/03090560010342520>
- Welch, C. L., & Welch, L. S. (2009). Re-internationalisation: Exploration and conceptualisation. *International Business Review*, 18(6), 567–577. <https://doi.org/10.1016/j.ibusrev.2009.07.003>
- Wiersema, M. F., & Bowen, H. P. (2011). THE RELATIONSHIP BETWEEN INTERNATIONAL DIVERSIFICATION AND FIRM PERFORMANCE: Why it remains a puzzle. *Global Strategy Journal*, 1, 152–170. <https://doi.org/10.1111/j.2042-5805.2011.00005.x>
- Yang, Y. (2012). Agglomeration density and tourism development in China: An empirical research based on dynamic panel data model. *Tourism Management*, 33(6), 1347–1359.
<https://doi.org/10.1016/j.tourman.2011.12.018>
- Yang, Y., Wong, K. K. F., & Wang, T. (2012). How do hotels choose their location? Evidence from hotels in Beijing. *International Journal of Hospitality Management*, 31(3), 675–685.
<https://doi.org/10.1016/j.ijhm.2011.09.003>
- Yeh, H.-H. H., & Roca, E. (2012). Macroeconomic Conditions and Capital Structure over the Business Cycle: Further Evidence in the Context of Taiwan. *Emerging Markets Finance and Trade*, 48(October), 141–156. <https://doi.org/10.2753/REE1540-496X4805S309>
- Zaheer, A., & Hernandez, E. (2011). The geographic scope of the MNC and its alliance portfolio: Resolving the paradox of distance. *Global Strategy Journal*, 1, 109–126.

<https://doi.org/10.1002/gsj.6>

Zahra, S. A., Ireland, R. D., & Hitt, M. A. (2000). International Expansion by New Venture Firms : International Diversity , Mode of Market Entry , Technological Learning , and Performance. *Academy of Management Journal*, 43(5), 925–950. <https://doi.org/10.2307/1556420>

Appendix 1: Graphical Illustrations of International Intensity and International Diversity

Figure 1A. The International Intensity-Performance Relationship

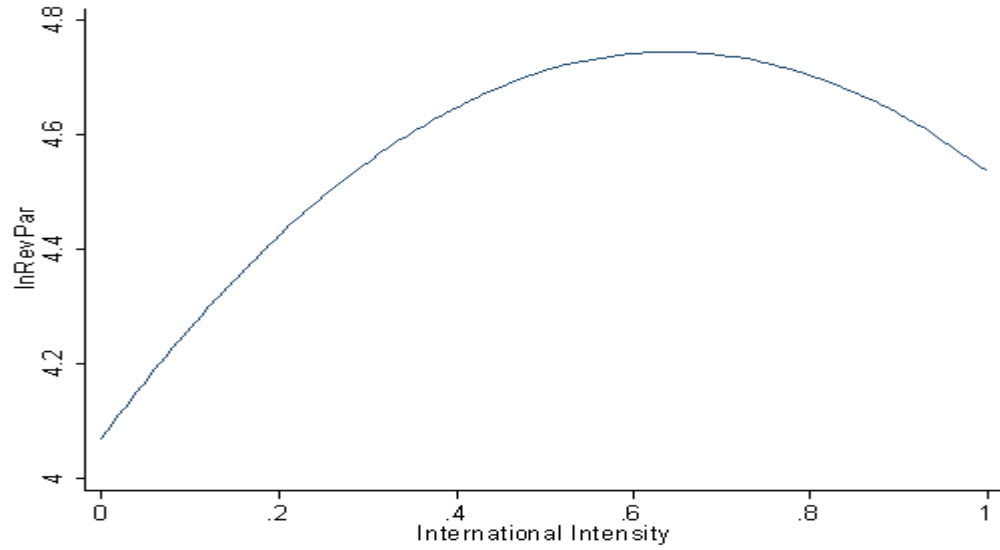


Figure 1A. The International Diversity-Performance Relationship

