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**THE CHINA FACTOR AND ITS INFLUENCE ON FDI DECISIONS
IN CHINA'S HOTEL REAL ESTATE SECTOR**

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Ph.D

The Hong Kong Polytechnic University

2010

The Hong Kong Polytechnic University
School of Hotel and Tourism Management

**The China Factor and its Influence on FDI Decisions
in China's Hotel Real Estate Sector**

Alexander Grunewald

A thesis submitted in partial fulfillment of
the requirements for the degree of

Doctor of Philosophy

August, 2009

CERTIFICATE OF ORIGINALITY

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Alexander Grunewald

ABSTRACT

In the past years, a wide body of research has been conducted on foreign direct investment (FDI) in transition economies. The special case of the People's Republic of China has received particular attention since the country's leadership officially sparked the economic reform process in 1978. The majority of research is firmly rooted in positivism. The positivistic understanding of FDI at the level of macroeconomic aggregates is in parts very different to the commercial reality of entities involved in FDI transactions on a project level. Stakeholders in various settings outside China already have very distinct views of conditions within the country. It is time to add to this discussion by presenting in detail how China is not a homogeneous market, but is in fact, highly diversified. What is more, the socio-political environment in China is subject to constant changes. Although literature available on the subject is vast, it requires continuous updates. This study investigates the determinants on which FDI-decisions in hotel real estate in China are based, therefore enhancing the stakeholders understanding. It provides an insight into dynamic decision-making processes in this specific area during times of socio-economic transformation in the world's largest transition economy and is based upon demographic magnitude, as well as geo-political and economic relevance. This research shows that hotel investment is taking place at the intersection of tourism policy, urban planning, and real estate economics. It sheds light on institutional conditions under which such transactions take place. This work is built on critical theory, adopting a (primarily *Straussian*) grounded theory approach. This *modus operandi* broaches relevant stakeholders' tacit knowledge, revealing the complexity of the socio-economic *reality* they experience. The more investors can understand the springs of their own behavior and the social institutions in which that behavior is involved, the more likely they are to be able to break away from previous business and political constraints. Analysis of this dissertation points to the abstraction of three distinct categories which capture specific concepts describing principal influences on

foreign-invested hotel properties in China. These are (1) hotels' hedonist appeal (HHA), (2) investors' sphere of influence (SOI), and (3) Poly-Politics (POP). Where HHA refers to the auxiliary nature of hotel assets in the wider area of real estate economics and whilst hotel developments are driven by hedonist motives, their immediate economic efficiency becomes secondary. SOI refers to the foreign investors ability to control their business environment. It becomes a function of a wider market entry strategy into China, and acknowledges the importance of actively developing and managing relationships with various parties involved in the development process. POP refers to the differences in political governance across China, its literally *amorphous* nature and the multi-directedness of political decision-making. This is dependent on (i) geography, (ii) administrative levels, and (iii) time, causing a certain degree of arbitrariness and constant policy changes to foreign investors. These effects can begin at the onset of an investment project development process through to its actual operation.

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LIST OF ABBREVIATIONS

ADS	Approved destination status
ASBE	Accounting Standards for Business Enterprises
ASEAN	Association of Southeast Asian Nations
BERI	Business Environment Index (cf. Poirier, 1997, p. 678)
CACAP	Chinese Association of Certified Public Auditors
CAPA	Confederation of Asian and Pacific Accountants
CBTT	China Bureau of Travel & Tourism
CICPA	Chinese Institute of Certified Public Accountants
CIRC	China Insurance Regulatory Commission
CITIC	China International Trust Investment Corporation
CJV	Contractual joint venture
CNTA	China National Tourism Administration
CPC	Communist Party of China
CTS	China Travel Service
EJV	Equity joint venture
FDI	Foreign direct investment
FHI	Foreign hotel investor
FIE	Foreign-invested enterprise
GAAS	Generally Agreed Accounting Standards
GATS	General Agreement on Trade in Services
HR	Human resources
IAR	Industry-specific Accounting Regulations
IASC	International Accounting Standards Committee
IFA	International Foundation of Accountants
JV	Joint venture
MNC	Multi-national corporation
MOFCOM	Ministry of Commerce, formerly MOFTEC (see below)
MOFTEC	Ministry of Foreign Trade and Economic Co-operation, now MOFCOM (see above)
OECD	Organization for Economic Co-operation and Development
PGs	Practical Guidelines
PRA	Political Risk Analysis (cf. Poirier, 1997)
PSIA	Practical Standards on Independent Auditing
PSSI	Political System Stability Index (cf. Poirier, 1997, p. 678)
REIT	Real Estate Investment Trust
RMB	Renminbi (Simplified Chinese: 人民币, pinyin: rénminbì)
SAR	Special Administrative Region
SEZ	Special Economic Zone
SFAC	Statement on Financial Accounting Concepts
SIAP	Statements on Independent Auditing Practices
SOE	State-owned enterprise
WFOE	Wholly foreign-owned enterprise
WPRF	World Political Risk Forecast (cf. Poirier, 1997, p. 678)
WTO	World Trade Organization
WTTC	World Travel and Tourism Council
UNWTO	United Nations World Tourism Organization

CHINA'S PROVINCES AND THEIR CAPITALS

22 provinces, 5 autonomous regions, 4 municipalities with province-level status, and 2 special administrative regions (S.A.R.)

Province	Capital
Anhui	Hefei
Beijing	n/a*
Chongqing	n/a*
Fujian	Fuzhou
Gansu	Lanzhou
Guangdong	Guangzhou
Guangxi (Zhuang)**	Nanning
Guizhou	Guiyang
Hainan Island	Haikou
Hebei	Shijiazhuang
Heilongjiang	Harbin
Henan	Zhengzhou
Hong Kong	n/a***
Hubei	Wuhan
Hunan	Changsha
Inner Mongolia**	Hohhot
Jiangsu	Nanjing
Jiangxi	Nanchang
Jilin	Changchun
Liaoning	Shenyang
Macau	n/a***
Ningxia Hui**	Yinchuan
Qinhai	Xining
Shaanxi	Xi'an
Shandong	Jinan
Shanghai	n/a*
Shanxi	Taiyuan
Sichuan	Chengdu
Tianjin	n/a*
Tibet (Xizang Zizhiqu)**	Lhasa
Xinjiang (Uygur Zizhiqu)**	Urumqi
Yunnan	Kunming
Zhejiang	Hangzhou

*) Municipality with provincial-level status, reporting directly to the Central Government.

***) Autonomous Regions.

****) S.A.R., not applicable for any China foreign investment investigation in this dissertation.



Figure 0-1: Map of China

Source: Cheng, P. (2009, April). China hand: The complete guide of doing business in China. Hong Kong: The Economist Intelligence Unit.

CHAPTER ONE

1 INTRODUCTION

1.1 Background, Relevance, and Contribution

China, as a transition economy, poses a unique business environment as she evolves from socialist planning to a (socialist) market economy (Bevan, Estrin, & Meyer, 2004, p. 44). Bevan et al. (2004) argue that institutions influence multi-national enterprises (MNE) on whether, and how (i.e. entry mode) they enter a foreign market. This study contributes to existing literature by collated evidence from foreign direct investment (FDI) decision makers on how aspects of institutional development in China influence their decision-making. This study will extend research on FDI as it distinguishes differences between FDI host countries that follow an authoritarian socialist market system, as opposed to liberal market economies, with China belonging to the former group.

According to Walder (1995b), China, as a transition economy is on a “*Sonderweg*” (German for: a politically and socially idiosyncratic development or path). In a similar manner, Hui (1998), describes the distinct historical context of China’s modernization. A relevant point is that Walder identifies a process, which is idiosyncratic with regard to China’s economic development as a transitional economy. Walder (1995b) concludes that “China’s [economic] reforms are highly path dependent” (p. 294). He argues that even earlier than 1978 China had already been involved in a process of decentralizing its political and consequently economic hierarchies (Qian and Xu, 1993), and that current developments are rooted in China’s past, prior to the year 1978 and the adoption of economic reform policies. They argue that China, as a communist country, differs in its transition process from all other communist countries, particularly the Soviet Union. They claim that China is “multi-layer-multi-regional” which enables the state to carry out “regional [economic] experiments” Qian & Xu (1993).

Even more so, with the promulgation of China's third constitution after 1949, the new leaders in 1978 "recognized that the relationship between economic development and individual rights is not an either/or proposition" (Cohen, 1978, p. 840). The distinct political and economic characteristics of China play a pivotal role as decisions regarding foreign-invested enterprises (FIEs) widely take place at regional level. This study will account for these idiosyncrasies in its investigation. Even more so, this investigation is currently very relevant given the rapid and constantly changing Chinese political and economic conditions during the climate of China's reforms (cf. China's property law, Chapter 2). Also, the newly introduced Chinese property law (as of October 2007) is a case in point for Huang's (1998) argument that a thorough investigation of FDI in China is continuously appropriate since the matter is exposed to ongoing "policy fluctuations" (p. 86).

There are many quantitative investigations regarding factors influencing FDI decisions. As a matter of fact, aggregate archival data sets are notable, and even in the case of China, are available on a longitudinal basis (Pan, 2003, p. 833). However, according to Pan (2003) FDI research lacks "the richness to study firm-level decision processes" (p. 833) in pursuing FDI. The present study will address this research gap, using in-depth interviews for data collection and investigating FDI decision-making at the 'firm' level. To further support this methodological approach, it is worth mentioning that generally "empirical studies of globalization in the service sector are often qualitative" (Greenwood et al., 1999. In Whitley, Walters, & Davies, 2007, p. 779). Furthermore, Pan (2003) found that China, as a transition economy, shows dissimilarities in attracting FDI compared to other countries of that group, e.g. the lesser importance of exchange rate fluctuations. In this respect, the study addresses firms' market-

entry motivations to China, including their timelines and holding periods when entering the Chinese market. Generally, holding periods are suggested to be longer, with foreign investors not planning to remove profits in the short-term¹.

Dolansky and Alon (2008, p. 38) found a link between religious diversity and FDI. These are new findings giving a clear indication that there are more than the commonly known economic factors to foreign investment decisions. It is an insight, which is reflected in the study's research question. In turn, it was also referred to in the investigation's interview guide. This study can make a relevant theoretical contribution by investigating whether, and how far, Eastern philosophy (or religion) affects foreign investors' perceptions of China as a host for FDI. Adopting the suggestions by Dolansky and Alon (2008, p. 38), it will incorporate, through a qualitative investigation, how different religious factors, particularly Eastern schools of thought, influence investors' perceptions of China's attractiveness for FDI. There appears to be a gap in available literature as to whether foreign investors associate different degrees of political stability or work ethics with a particular prevailing philosophical (or religious) value system, which may or may not benefit their FDI ventures.

All factors influencing FDI decisions will impact, in one way or another, the foreign investors' risk assessment when entering a foreign market. There is scant research on which grounds market-entry decisions are made. This includes the lack of information available within academic literature regarding under what circumstances hotel companies will pursue equity involvement, i.e. FDI with a minimum equity stake of 10%, as opposed to non-equity forms of market-entry, viz. franchising or licensing. As already mentioned, the body of FDI

¹ This argument is interesting in the fact that this should actually be the case for FDI in China as it is not truly in line with globalization tendencies. It prefers to be viewed in the context of business internalization, whereas Hirst and Thompson (1999) argue that capital invested under the premise of globalization is "footloose" capital. (Cf. also Chapter 3's section on FDI.)

literature available at macro level is broad. Yet, FDI decision-making at 'firm' level deserves further attention.

The author has identified four main reasons to argue his adoption of the 'hotel-sector case': (1) in the context of enterprise risk management (ERM) Lam (2006) claims that there is a need for "customized ERM framework" (p. 5), which, as this author argues, implies an industry-centered approach to enlighten FDI decisions at the micro level. Given the complexity and uniqueness of risk management in peculiar investment settings, i.e. hotel real estate², this is a strong enough rationale for conducting hospitality-centered risk assessment analysis. (2) As international service firms, Hotel businesses tend to be leaders when entering host countries. They are amongst the first movers when developing a given market, regardless of equity or non-equity forms of investments. Both such cases will inform this study on which factors lead to companies' decisions in adopting an equity form of market entry, which leads to FDI, or a non-equity market entry choice. The latter can be referred to as negative case studies according to Yin (2003b). Furthermore, (3) since as early as 1980, FDI in hotels has been prevalent in China, making them one of the earliest foreign investments (Chadee, 2002, p. 183). It has continuously existed over the last three decades, post 1978, though to varying degrees. In fact, FDI has been around in China even before Deng's Southern Tour in 1992, which led to a surge in FDI cases and volume in China, unprecedented in the 1980s (Hsiao & Hsiao, 2004, pp. 644 f.). It is likely to be a persistent type of FDI. Finally, (4) with the manufacturing sector in China maturing, it can be argued that FDI of international service firms will be an increasingly important type of FDI for China. The United Nations Conference on Trade and Development (UNCTAD) has found that FDI in China

² 'Real estate' for the purpose of this study is defined as a piece of land, including the air above it and the ground below it, and any buildings or structures on it. The otherwise common term 'realty' will not be used.

is undergoing a shift from the manufacturing sector towards services, especially, among others, in the case of real estate (2007, p. xx). The report also found that China has recently lifted foreign investment restrictions.

In addition to this, with most of the research on FDI being focused on the manufacturing sector, especially in the case of China there is a lack of research on FDI in respect of China's service sector (Chadee, 2002, p. 196). While this study must not ignore the literature on FDI in manufacturing, it has the ability to add new knowledge in the field by clearly distinguishing the market entry choices of hotel ventures in China.

This investigation will adopt the grounded theory approach. In line with Glaser and Strauss (2001, p. 230) the grounded theory generic objectives of this study will achieve the following: (1) to enable prediction and explanation of hotel property FDI decisions, (2) to be useful in theoretical advances in FDI theory with a focus on hotel property investments, (3) to draw conclusions which are usable for practitioners, enabling industry stakeholders to gain further understanding and control of FDI decisions, and (4) to provide guidance, i.e. introduce a replicable style of research for a specific type of FDI in transition economies.

This study will also follow a call for research by Olsen and Roper (1998, p. 116) which can still be found to be valid: "qualitative and internal, in-depth analysis of the intended and implemented strategy of hospitality multi-nationals has for too long been avoided by strategic researchers" (p. 169). While following Olsen and Roper's suggestion, the principal contribution of this research project is indicated in its title, i.e. 'The China factor in hotel development'. No academic work has yet filled that niche, viz. identifying the fundamental reasons of why and how potential hotel property investors decide to invest in the Chinese market for hotel real estate. The author argues that there is room to believe that *ceteris paribus*, foreign investors will invest in China instead of another foreign market. The author believes that apart from FDI and market entry theory suggestions, there

are 'China factors' which influence such decisions. These may include, but are not limited to, factors such as 'quality of labor', the 'role of overseas Chinese investors', various cultural issues such as 'Eastern philosophy (or religion)', 'China's path-dependent nature of reforms' as a transition economy, and its '(authoritarian) bureaucracy'.

In order to identify these factors this study has adopted a qualitative research approach to tap tacit knowledge only retrievable by conducting in-depth interviews with stakeholders in the area of hotel development in China in general, and hotel property investment in particular. Overall, this study contributes to the relevant stream of research, in-as-much as it will lead to an in-depth understanding of China as host to FDI of service businesses. In this respect, it follows a suggestion for future research from Litteljohn, Roper and Altinay (2007). They argue against the background of previous research, in that future studies on (hotel) internationalization should "provide greater depth in understanding relationships between choice and organization capabilities" (p. 179). They believe that previous investigations have led to "formulaic assessments" which have become "circular in nature and limited in vision" (p. 179). Hence, this study and its conceptual methodological approach have the aptitude to extend existing knowledge. "We are impressed [...] by the role of doctoral work in advancing the issues in internationalization – this type of work must continue and expand." (Litteljohn et al., 2007, p. 179). The author of this study argues that we can get closer to the truth if we dispose of rigid frameworks and look at issues in China's reality.

1.2 Problem Statement

Internationalization of hotel firms depends on market entry decisions. Several market entry modes are available to international hotel firms in particular and to hotel investors, in general. The group of hotel investors is not homogenous, but consists of various stakeholders. Comparatively little research has been

conducted on market entry decisions of international service firms, e.g. hotels. Furthermore, little is known about motivation of international service firms to seek equity involvement in hotel investment projects, especially in transition economies. It was found that China has a unique setting of political, economic and sociological characteristics as a FDI-host. Business decisions on market entry and FDI will be based on risk and return expectations.

Accepting a certain amount of risk is the natural trade-off for certain returns. A subjective view of business and investment risks can be expected at the 'firm' level. This is suggested by behavioral finance where it has been noted that investment decisions are imperfectly rational. If foreign investors do not understand the various and distinctive motivations related to entering the Chinese market they are not likely to achieve their desired return-levels, or may even fail completely with their hotel property venture. Investing in a culturally and socio-economic diverse environment, such as China's transition economy, inherits various complexities. It is paramount for foreign investors to comprehend these complexities to minimize the (environmental) risks involved and to avoid failure of their venture.

1.3 Concepts, Purpose and Objectives

Olsen and Roper (1998) describe hotel internationalization as a "slowly developing" (p. 114) field of research. They further criticize that work in the field indicates "little theoretical knowledge" (p. 114) (cf. Litteljohn et al., 2007, p. 167). This study settles in the wider context of (hotel) business internalization while adopting clear theoretical constructs. The theoretical constructs adopted in this study are rooted in the theories of market entry and FDI. The general conceptual framework is presented in Figure 1-1:

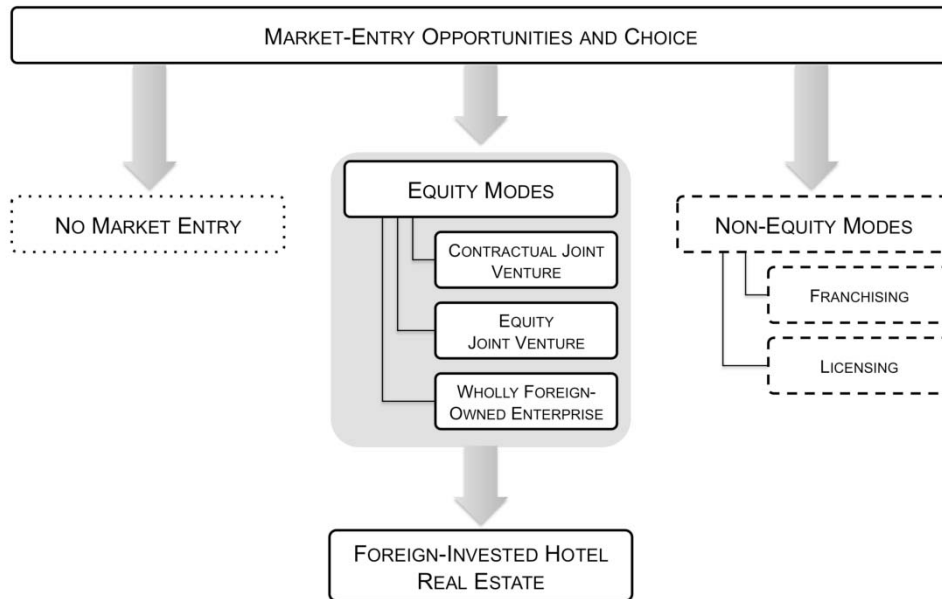


Figure 1-1: General Theoretical Background

Note: Own illustration

While the above depiction only presents a holistic conceptualization of the theoretical framework, a detailed conceptual framework will be presented at the end of Chapter 2 (cf. Figure 3-4: Conceptual Framework). It becomes obvious as the literature review demonstrates that it is crucial to leave the tourism and hospitality ‘research niche’ and move on to general economic and business theories. Every economic decision to invest in a host country will be influenced by macroeconomic variables such as interest rates, exchange rates and inflation levels. This investigation will have to take into account macroeconomic variables. At the same time it must not disregard the microeconomic perspectives of an organization, which, as previously mentioned, requires additional research to understand a firm’s motivation in market-entry decisions. It is well understood that stakeholders pursuing equity involvement in hotel properties are not homogeneous.

It can be asserted that hotel property investors range from pure property investors to institutional investors and service multinationals, i.e. hotel

corporations, who decide to pursue equity involvement in hotel properties thereafter managed by international hotel firms.

Given the above assumptions the purpose of this study is formulated as follows:

To examine and understand the determinants that influence foreign hotel investors' decision-making when investing in hotel real estate ventures in China.

The objectives of this study are:

1. To present a conceptual framework, identifying and capturing the determinants of FDI in hotel properties.
2. To investigate the determinants of foreign investors' decisions to invest in hotel properties in China.
3. To identify the risks as perceived by foreign investors in hotel real estate investments in China.
4. To define and analyze the nature, type and characteristics of hotel investment projects in China, under foreign involvement.

1.4 Research Questions

What are the unique challenges that decision makers will face when they consider entering China as hotel investors?

This study assumes that there is a subjective element to investors' views when assessing investment decisions, as suggested by research on behavioral finance. Investors' perception of related investment risks is imperfectly irrational (Bae & Wang, 2009). Firms and individuals that represent these entities will perceive decision-making challenges fundamentally different, i.e. with an element of bias.

Hence the outcome of this research question will answer 'what' and 'how' different micro- and macro-factors influence market-entry decisions, leading to an equity involvement in hotel properties in China. In general, this study helps to

understand the importance of different factors influencing FDI decisions in China at the 'firm' level.

How do recent changes in China's corporate tax policy or property laws, for example, impact on foreign investors' return expectations?

FDI theory suggests that increases in corporate tax will have a negative effect on FDI inflows to a host country. The investment conditions have recently changed with the Chinese government abolishing tax breaks for foreign investors, and incrementally aligning corporate tax at 25 per cent. This study will conceptualize on the basis of in-depth interviews, whether adapted corporate tax levels changes investors' rationale when considering investment in China. This research offers the opportunity to find contemporary evidence on how this may have changed the attitude of foreign investors. Furthermore, Ang (2008, p. 188) finds that in the case of Malaysia, macroeconomic uncertainty does not discourage but encourage FDI inflows. It is hypothesized on the basis of previous findings mentioned, that increased investment risks will not discourage FDI, but lead to different return expectations.

What are investors' reasons for financially structuring their hotel ventures in certain ways?

Making equity ownership decisions is a strategic issue (Chadee, 2002, p. 196). Over the past decades, hotel companies have adopted a 'light equity' strategy, i.e. they have grown through low equity methods (Litteljohn et al., 2007, p. 168). However, in order to maintain managerial control, holding an equity stake in a foreign venture is crucial, especially in the case of China. This investigation will help understand which circumstances have lead foreign hotel investors to opt for FDI, i.e. an equity-involvement of 10 per cent plus.

It appears that previous studies have overlooked such criteria, making them unable to explain what the particular reasons for FDI in hotel real estate were.

What are companies' timelines for their China ventures?

There is a gap in both academic and industry literature regarding the timelines, long-term or short-term, on which FDI decisions in China are made. It is unknown as to how international firms' return expectations and time commitment to the Chinese market are connected. Given recent policy changes in China, an investigation of this question is particularly relevant. This question will inform us of the expectations of investors, also for which periods of time they are planning to commit themselves to the Chinese market. In addition, it will shed light on the question as to whether e.g. the adjusted corporate tax rate is currently changing investors' perceptions of China as a FDI-host, as should be the case suggested by FDI theory.

What are the distinct cultural factors influencing the investment setting in China?

Dolansky and Alon (2008) have identified the importance of religion as one factor influencing FDI decisions. Through its qualitative data collection, this study will explore as to what extent investors perceive local philosophical (or religious) heritage as a significant factor influencing FDI decisions. It will show whether foreign investors relate philosophical (or religious) traditions to political stability or whether they see it as promoting a unique work ethic, which may or may not benefit their business ventures in China. Overall, this study explores Chinese social and political factors and how they affect foreign investors in their investment analysis.

1.5 Definitions of Terms

If not otherwise stated the term 'China' refers to 'Mainland China', i.e. the Chinese territory excluding Taiwan and the Special Administrative Regions (SAR) of Hong Kong and Macau, all of which, by definition, are major source regions of FDI to China.

According to the World Trade Organization (WTO) FDI, “occurs when an investor based in one country (home country) acquires an asset in another country (host country) with the intent to manage that asset”³. Whenever appropriate the author will identify contradicting definitions, i.e. understandings, of particular terminology and take a clear stance, explaining why a particular viewpoint has been adopted. Generally, new terminology will be introduced throughout the writing whenever it first occurs, either in the main text or in footnotes. Any abbreviations will only be used once the related term is introduced for the first time within this work. In order for the reader to avoid any obscurity this study offers a ‘List of Abbreviations’, antecedent to Chapter 1.

1.6 Thesis Outline

Chapters 2 and 3 (pp. 16 ff.) guide the reader through the literature review. Where Chapter 2 provides a general background and scope to the study, and Chapter 3 presents the concepts directly related to the theoretical framework of the study. The review of previous literature provides the frame of reference and is the system of inquiry for the purpose of the investigation. It will introduce the reader to fundamentally relevant readings, and also present more recent literature developments in which the phenomenon of hotel real estate FDI is situated. Chapter 4 (pp. 105 ff.) presents the research methodology. It outlines the underlying research philosophy as well as the actual methods used, to answer the research questions presented in Chapter 1. *How* those questions are answered will be explained, i.e. which methods have been used and *why* these particular methods have been chosen as opposed to other approaches also available. Chapter 5 (pp. 147 ff.) jointly presents findings and their discussion. Given the ‘natural closeness’ of the data analysis and its interpretation in

³ The objective to manage assets in a host country is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments.

grounded theory development, the outcome of this process is justly presented as an integrated whole. Chapter 6 (pp. 202) completes the dissertation by presenting its results, limitations and suggestions for further research.

CHAPTER TWO

2 LITERATURE REVIEW – SCOPE

The *Glaserian* strand of the grounded theory approach suggests to go about theory development in the absence of a preconceived theoretical framework. The author will not follow this extreme approach of conducting grounded theory development. 'Extreme' in a sense that it takes place in the total absence of a preconceived theoretical framework. However, the author will adopt the *Straussian* strand of grounded theory, where a general theoretical framework is adopted to guide the investigator through the research (see Chapter 4, pp. 105 ff., for a more detailed discussion). To achieve this, the literature review is divided into two chapters. Chapter 2 presents the general background and scope of the study. Chapter 3 more specifically presents the concepts directly related to the conceptual framework adopted. Chapter 2 introduces the reader to previous research (Section 2.1), China's characteristics as a transition economy (Section 2.2), and the special case of hotel development (Section 2.3) as the phenomenon that was investigated for this research.

2.1 Previous Research

Given the different components of the tourism product, accommodation plays an important role as a pivotal component of all business, as well as leisure related travel and tourism. It is understood, given the nature of this service-oriented product that there are a multitude of vantage points from which to look at a destination and its accommodation facilities. Furthermore, it is understood that the just mentioned vantage points are directly related to various stakeholder groups. When investigating the business of hotels and investment in hotel real estate sectors, one has first to undertake a localization of these as a business activity in a wider industry context. The terms hospitality and tourism are not transposable (Pizam, 2009, p. 184). , The hospitality industry provides services not only to locals, but also to tourists (cf. Figure 2-1: Classification of Hospitality,

Tourism and Travel Industries). Lodging is an important part in this respect. Furthermore, the development of lodging will depend on overall tourism planning and development.

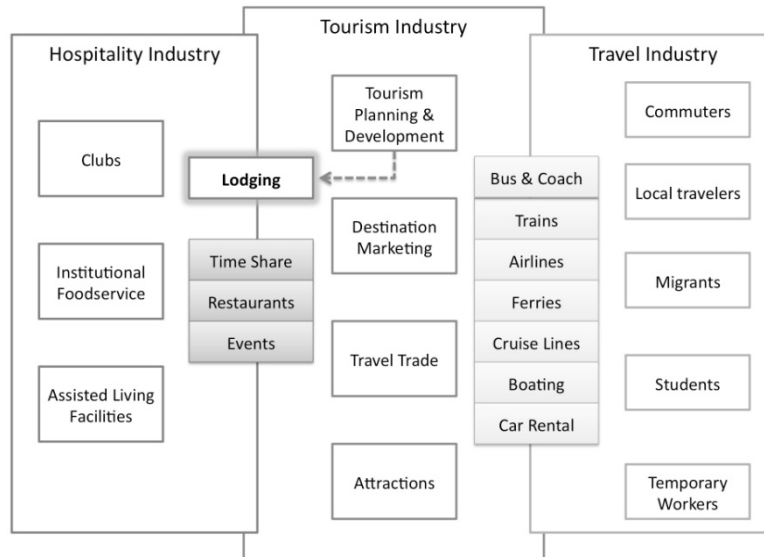


Figure 2-1: Classification of Hospitality, Tourism and Travel Industries

Adapted from "What is the hospitality industry and how does it differ from the tourism and travel industries?," by A. Pizam, 2009, *International Journal of Hospitality Management*, 28(2), p. 183.

The term hotel is commonly associated with providing hospitality, i.e. accommodation in a commercial context. Accommodation facilities vary from types of traditional hotels to resorts and time-share, among others. Brotherton (1999) noted that the Standard Industrial Classification (SIC) is widely used to constrain the hospitality industry (p. 168). The SIC is of American origin and was replaced in 1987 by the North American Industry Classification System (NAICS) (U.S. Census Bureau, 2006).

However, the term hospitality also includes other components which make up the hospitality experience such as food and beverages, adding to what are occasionally known to be the *holy trinity* of hospitality services. This study will focus on the accommodation services provided, respectively the premises that facilitate such services. As this may simplify the view on hospitality in general, this approach makes it slightly more complicated to constrain the object of this

investigation. Brotherton (1999) asked whether “hospitality research should be limited to the domain of commercial hospitality provision” (p. 171).

Being aware of the fact that there are various forms of non-commercial accommodation, this question is simply to be answered with ‘yes’. For non-commercial hospitality activities, the risk and return expectations are secondary. Hence, this study focuses on ventures in the commercial domain.

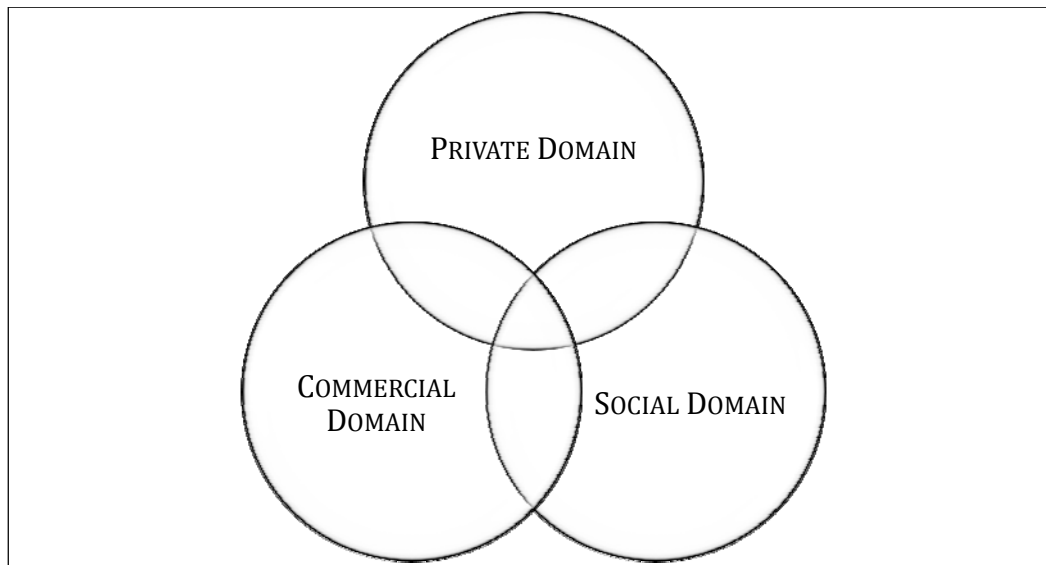


Figure 2-2: Hospitality Activities

From “In search of hospitality: Towards a theoretical framework,” by C. Lashley, 2000, *International Journal of Hospitality Management*, 19(1), p. 6.

In view of Lashley’s (2000) sketch of hospitality activities it is consequential to point out, in light of this study’s scope, that it will focus on the “commercial domain” as illustrated in Figure 2-2. Given the discussion above, it is for the author to decide which industry classification framework to adopt for conducting the desired investigation. Given the hegemony of the U.S. economy, the NAICS holds a wide circulation. The NAICS defines accommodation for travelers under subject code 721 as follows:

Providing temporary accommodation for travellers and others, typically comprising rental of a room with bed, or a site for a recreational vehicle or tent. The accommodation is not designed to be the principal residence. Sleeping facilities may be bundled.

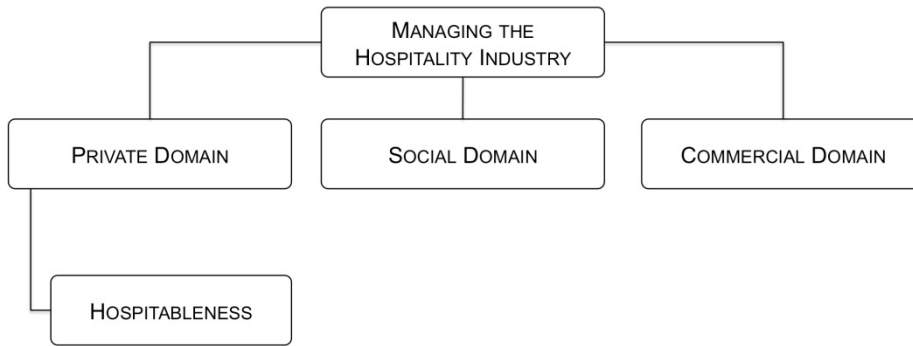


Figure 2-3: Influences on Managing the Hospitality Experience

Adapted from "In search of hospitality: Towards a theoretical framework," by C. Lashley, 2000, *International Journal of Hospitality Management*, 19(1), p. 6.

In order to further elaborate Lashley's (2000) conceptualization the following Figure will summarize the axioms of each of the constructs presented in the previous two figures.

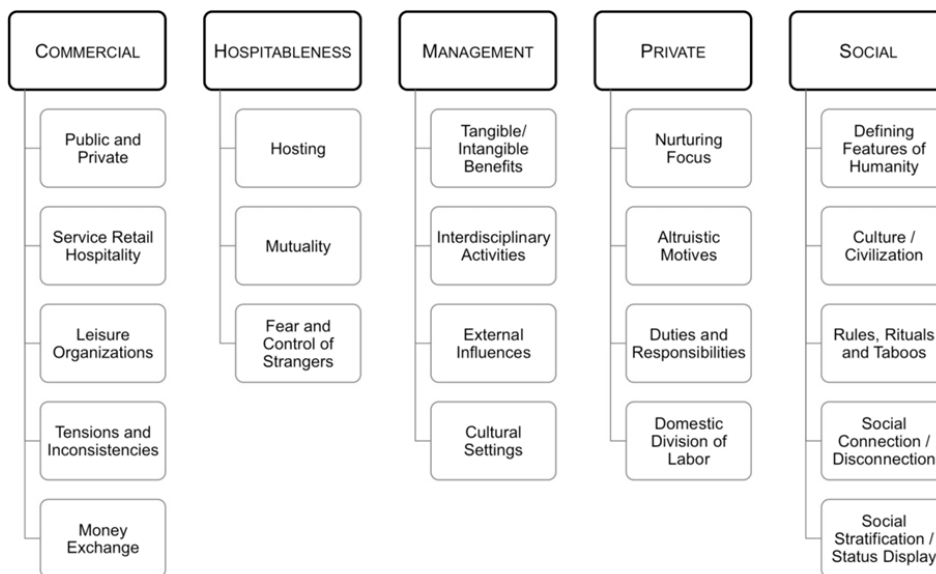


Figure 2-4: The Axioms of the Hospitality Domain

Own composition

However, given this study's objectives the definition of hotel services can only be one aspect of the conceptual framework examined in this investigation. This work is primarily interested in the hardware side of hotel services, i.e. hotel

properties. NAICS defines real estate and related services under subject code 531. Another possibility would be the industry classification scheme developed by the United Nations. Table 2-1, hereafter, presents an overview of previous research on FDI, investment risk and profitability:

Table 2-1: Summary of Previous Research on FDI, Investment Risk and Profitability

Author(s)	Contribution	Measurement / Result(s)
Ballot, Fakhfakh, & Taymaz (2001)	Study the effects of human and technological capital on productivity (large French and Swedish firms, n=200 each)	Constructs measures of a firm's human capital stock, based on their past and present training expenditure; a production function is used including K , L , H , R
Bae & Wang (2009)	Explore whether a firms' name has an effect on firm valuation.	They find a "China-name effect," which is consistent with the hypothesis that optimistic investor sentiment during the 'China stock market boom' drives up stocks, which feature the term 'China' in their name.
Brown & Dev (1999)	Explore how hotels can improve their productivity (two hotel chains in North America n=420 general managers)	Rooms output by sales, GOP and income before fixed charges, with labor and capital as input variables which were used to determine productivity
Buckley, Glaister, & Husan (2002)	Their article explored partnering skills needed for successful international joint ventures.	Their article presented a matrix to examine four essential categories in managing an international alliance: (1) inter-partner skills, (2) the joint venture managers, (3) 'upward management' skills, (4) skills for managing the venture itself.
Chathoth & Olsen (2007)	Tested for the explanatory variables of firm performance (48 publicly traded U.S. restaurant firms)	Constructs: Environment risk, corporate strategy, capital structure and financial performance
Chathoth & Olsen (2005)	Developed a multidimensional causal model to test the relationship between strategy and performance	Strategy as exogenous dimensions and performance as endogenous, including: ROS, ROA, CF from operations per room, RevPAR, Yield
Chen, Kim, & Kim (2005)	Examined the relationship between macroeconomic and non-macroeconomic variables, and hotel stock returns (using five hotel	Macro variables included: IP, CPI, UEP, M2, 10-year government bond yields, 3-month treasury bills. Non-macro: political events,

	companies listed in Taiwan)	natural disaster, sports events
Contractor & Kundu (1998)	The main question in their paper was: 'what determines the optimum choice of organization mode?' They synthesized theory combining concepts from transaction costs theory, agency theory, corporate knowledge and organizational capability theories.	Their paper then tested these concepts to explain the incidence of these modes in the international hotel business. The choice of entry mode is determined by both country or environmental variables, as well as firm-specific variables.
Delios & Henisz (2003)	They investigated the question whether specific types of experience exist with foreign investors that can reduce the influence of political hazards on rates of foreign direct investment entry.	They find that companies following the <i>stages model</i> (accumulation of relevant types of experience) will generate the capabilities required to mitigate political hazards. They suggest that policy uncertainty should be considered in theoretical treatments and practical applications of sequential entry models.
Dunning & McQueen (1982)	Original data presented on the growth of foreign-based international hotel chains and their distribution by host countries (81 TNCs)	Identifies sources of competitive advantage and that non-equity forms of involvement characterize the industry, i.e. leasing, management and franchise
Endo (2006)	Study aims to reveal global FDI patterns by investigating TNCs in lodging	Few studies on FDI in tourism; consistent with Dunning & McQueen (1982) relative size of FDI remains low
Go, Pyo, Uysal, & Mihalik (1990)	Examine global hotel industry characteristics and make risk vs. profitability recommendations	Recommend a framework including various screening criteria on how to weigh profitability against possible financial risks, on a CF analysis basis
Hsiao & Hsiao (2004)	Explain why China has been an above-average global attractor of FDI in years leading up to 2002.	Market size is the main determinant of investment decisions for U.S. and Japanese firms, whereas the wage differential is the more important criterion for firms from Hong Kong, Taiwan, and Korea.
Hovey, Li, & Naughton (2003)	Investigates the relationship between firm performance and corporate governance in China (n=97, Shanghai or Shenzhen listed firms)	Five explanatory variables as CG measures: ownership concentration (top 5), Herfindahl Index, firm's sales, debt/asset ratio, current growth rate; performance is measured by Tobin's Q

Jeon, Kim & Lee (2006)	Examine the relationship between the persistence of abnormal earnings and systematic risk of ROK hotel firms (n=36, over ten years)	Explanatory variables: exchange rate, existence of chains, grade of hotel, beta
Kantarci (2007)	Studies foreign investors' perception of tourism investment conditions in Central Asian Countries and tests for explaining overall investment conditions (n=61, from TTIA)	Explanatory variables for investment considerations are: market condition, investment incentives, labor, direct tourism facilities, tourism support facilities
Kim & Olsen (1993)	Develop a framework for the identification of political environmental issues faced by MN hotel chains in NIC in Asia (n=17, Delphi group)	58 political-environmental key factors affecting int'l hotel development, in four broad areas: (1) law and regulation, (2) administrative, (3) judicial and (4) lobbying
Gursoy & Swanger (2007)	Examine internal strategic factors likely to influence company financial performance for service organizations from managers' perspective (n=328)	Significant factors are R&D, IT, HR, and Sales
Liu, Song, Wei, & Romilly (1997)	Panel data set is used and error-components model is developed to analyze the economic, political and cultural determinants of FDI in China	Supports that inward FDI is determined by: (1) relative real wage rates, (2) relative exchange rates, (3) economic integration. Findings do <i>not</i> support that inward FDI is determined by: (1) relative borrowing, (2) country risk, and (3) geographic distance. Inclusion of industry-specific factors may further enhance the explanatory power of the tested model.
Kim, Gu, & Mattila (2002)	Examined risk features of hotel real estate investment trusts (REIT) firms, in particular systematic (i.e. β) and unsystematic risk of hotel REIT stocks and determinants of β (n=19, listed U.S. hotel REIT firms, 1993-99)	$\beta < 1$, generally less volatile; 83.60% of total volatility came from unsystematic risk caused by firm-specific events; high growth tends to increase β of hotel firms; determinants for β : QR, TD/TA, ROE, AT, DIV, CAP, GrTA ⁴ .

⁴ QR: the average quick ratio over the study period; TD/TA: the average total debt to total assets over the study period; ROE: the average return on equity over the study period; AT: the average assets turnover ratio over the study period; DIV: the average total dividend payout over the study period; CAP: the average total capitalization over the study period; GrTA: the average annual growth rate in total assets over the study period.

Meldrum (2000); also cf. Schmidt (1986)	Describes the general process used to create risk measures; and examines the ability of six measures to predict returns in manufacturing.	(1) economic, (2) transfer, (3) exchange, (4) neighborhood and location (incl. cultural distance), (5) sovereign, (6) political
Pan (2005)	Examined how market structures and hotels' location affect hotels' profitability	Market concentration in rooms improves profitability and location also significantly improves profitability
Pan & Tse (2000)	In their study they tested a hierarchical model of market entry modes.	Entry modes can first be viewed as equity-based versus non-equity based. Empirically they demonstrated that there are distinct influences, which affect market-entry decisions on the different levels of their model.
Phillips (1999)	Attempts to foster innovation in performance measurement in the hotel sector; proposing a hotel PM framework	Proposes a framework which evaluates hotel performance, involving the analysis of physical characteristics, market factors and general manager controlled factors
Pine (2002)	Describing China's hotel industry	Primarily presents an evaluation of various descriptive statistics from CNTA ⁵ Yearbook and UNWTO ⁶
Pine & Phillips (2005)	Compare performance of hotels using various hotel groupings according to ownership, size and star rating	Comparison indicate that better performance occurs in hotels that have foreign ownership connections, those that are bigger and those which have higher star rating; descriptive statistics
Poirier (1997)	Comprehensive literature review on political risk analysis (PRA) in tourism	Emphasizes the relation of political science research and FDI risks; stressing the importance of PRA as a tool for investment decision-making; boundaries between economic and political risk are difficult to define precisely

⁵ The China National Tourism Administration is responsible for developing, promoting, and regulating the Chinese tourism industry. It is a governmental body, which is directly regulated by China's state council.

⁶ United Nations World Tourism Organization, United Nations agency dealing with questions relating to tourism.

Quan, Li, & Sehgal (2002)	Analysis of the performance of lodging properties and in how far they differ from other commercial real estate	Use the LPI (Lodging Property Index, U.S.) and compare it to S&P 500 stocks, small company stocks and the NCREIF ⁷ ; lodging properties are negatively correlated with commercial real estate
Roy & Oliver (2009)	Their study set out to enhance understanding of how a host country's legal environment influences international joint venture partner selection criteria.	Their central finding was that legal aspects of the institutional environment of international joint ventures of the host country are an extremely important factor in establishing an international alliance.
Sun, Tong, & Yu (2002)	Determinants of FDI across China	An investigation of FDI and portfolio investment, as well as location theory and agglomeration effects with regard to China.
Tang, Selvanathan, & Selvanathan (2007)	Their paper investigated the causal link between foreign direct investment and tourism in China.	They found one-directional causality from foreign direct investment to tourism, which explains the rapid growth of China's tourism market during the past decades.
Tisdell & Wen (1991)	They examined the implications of China's tourism policy, and paid particular attention to the risks associated with an increasing dependence on foreign exchange earnings.	Problems are identified in managing the supply of hotels and transport systems, and policy measures are proposed to reduce the risks in developing an internationally competitive Chinese tourism industry.
Wei & Liu (2001)	Analysis of the determinants and impact of FDI on China's economy	In their book on FDI in China econometric techniques and economic theory are used to explore the role of FDI in China, hosting a sizeable amount of it on a global scale.
Zhao & Olsen (1997)	Exploratory study on factors influencing entry mode choices of MNC lodging firms (multiple case study, data was collected primarily through semi-structured personal interviews)	Findings include fifteen propositions that explain the relationship, broadly grouped into external environment and task environment

⁷ National Council of Real Estate Investment Fiduciaries, U.S.

Brown and Dev (1999) confirm that a firm's productivity will typically be viewed as the ratio of a firm's outputs to its inputs, and is a measure of the efficiency with which a firm's management employs the organization's resources. Ballot et al. (2001) found that firm-sponsored training, as well as research and development (R&D) investments are significant inputs in the case of French and Swedish firms, for high returns. Pan (2005) examined how market structure and hotel location can affect a hotels' profitability by using panel data from Taiwan. The study found that market concentration on rooms, as well as location, significantly improved profitability.

Chen et al. (2005) examined the relationship between macroeconomic and non-macroeconomic variables of hotel stock returns in Taiwan. In their regression analysis they find that only two macroeconomic factors, i.e. money supply and unemployment rate, significantly influenced the movement of hotel stock returns. On the other hand, all non-macroeconomic factors were found to have a significant influence on hotel stock returns. These factors include presidential elections, the Taiwan 9/21 earthquake in 1999, the 2003 Iraqi war, the outbreak of SARS, sports mega-events (e.g. Olympics), the Asian financial crisis and the 9/11 terrorists attack. Chathoth and Olsen (2005) developed a multidimensional causal model in order to test the relationship between strategy and performance. Performance included return on sales, return on assets⁸, cash flow from operations per room, revenue per available room, and yield⁹. Jeon et al. (2006) identified systematic risk, i.e. β , as the inherent risk of an entire market, respectively market sector. By definition, the market has a β of 1.0. Individual company risk will be rated in relation to the extent in which their stock performances deviate from the market. Kim et al. (2002) showed that U.S. hotel

⁸ Return on assets was used as a return on investment measure

⁹ Yield as the ratio of achieved revenue in one period against the overall potential revenue

REITs had 83.6 per cent of total volatility which came from unsystematic risk caused by firm-specific events, whereas high growth rates tend to increase the β of hotel firms. This study found that quick ratio, total debt to total assets, return on equity, asset turnover, total dividends paid and capitalization were also determining β . Phillips (1999) proposed a framework to evaluate hotel performance. This framework included analysis of the physical characteristics of the assets, market factors and operations factors, i.e. factors controlled by management. Quan et al. (2002) analyzed the performance of lodging properties. They examined to what extent it differs from other commercial real estates, using the U.S. lodging property index and comparing it to S&P 500 stocks, small company stocks, and the NCREIF¹⁰. The outcome was that lodging properties are in fact negatively related to commercial real estate. This led Quan et al. (2002) to the conclusion that lodging properties have investment characteristics distinct from other commercial real estate (p. 89). They state that one explanation for this is that hotel properties have the ability to pass on higher operating costs, viz. an inflationary environment, through higher room rates directly to their customers.

Dunning and McQueen (1982) asserted that hotel ownership, in fact, takes the form of portfolio investment and control is exercised by professional management companies (p. 90); reasons for this being that the owners feel they have little expertise in hotel property development. This diagnosis is the reason why an investigation of hotel investment might be complex, as the equity investment may be fragmented. Endo (2006), during a study aimed at revealing global FDI

¹⁰ I.e. the property index of the (U.S.) National Council of Real Estate Investment Fiduciaries

patterns by investigating TNCs¹¹ in lodging, found that the relative size of FDI in tourism related sectors remains low. Overall, few studies exist on FDI in tourism (Dunning & McQueen, 1982; Endo, 2006). Liu et al. (1997) studied determinants of FDI and found that inward FDI is determined by relative wage and exchange rates, as well as economic integration. However, their study found that relative borrowing costs, country risk and geographic distance are not significant factors in determining FDI. They suggest that the inclusion of industry-specific factors may further enhance the explanatory power of their model. Zhao and Olsen (1997) conducted an exploratory study on the factors influencing entry mode choices of MNC lodging firms, in a multiple case study approach, collecting data primarily through semi-structured personal interviews.

Their findings include fifteen propositions that explain this relationship, divided into external environment and task environment¹².

Go, Pyo, Uysal and Mihalik (1990) examined the hotel industry on a global level regarding its characteristics, and made risk versus profitability recommendations. This resulted in a framework including different screening criteria¹³, on how to weigh profitability against possible financial risks. The basis for their framework was cash flow analysis. Kim and Olsen (1993) identified 58 different events by conducting a Delphi study that impacts on multinational hotel businesses. This study may draw from Kim and Olsen by utilizing various events that influence what they referred to as the political environment. The events identified are said

¹¹ This study prefers to use the term MNC, i.e. multi national corporations. Please refer to Section 3.2 (also Footnote 22), to expand on the discussion re the use of the two distinct terms.

¹² For an elaborated presentation of Zhao and Olsen (1997) please refer to Section 3.1.1 Market

¹³ Go et al. (1990) screening criteria include: political stability, government attitude, repatriation of capital and earnings, investment incentives, ownership restrictions, controls on foreign managers, taxation provision, exchange rate, per capita income, GNP, prospect of economic growth, rate of inflation, size of market, tourist number growth, hotel occupancy rate, industry legislation, concentration, tour operator activities, attractions, availability of necessary supplies, cost of supplies, labor costs (p. 301).

to “be influential to the development [...] of the multinational hotel chain” (Kim & Olsen, 1993, p. 168). They declared that these events are a “starting point in the development of a framework for purposes of scanning and analyzing the political environment” (p. 172). Poirier (1997) emphasizes that a linkage exists between political science research and FDI risks. He points out the importance of political risk analysis (PRA) for investment decision-making. He argued that the boundaries between political and economic risks are difficult to define distinctively. This becomes evident when considering the factors identified by Kim and Olsen (1993).

Kantarci (2007) conducted a study on Turkish foreign tourism investors and their perceptions of foreign investment conditions in Central Asian countries. Kantarci found that the explanatory variables for investment decisions are: (a) market conditions, (b) investment incentives, (c) labor, (d) direct tourism facilities, and (e) tourism support facilities.

The study asked questions in five categories: (1) magnitude and intention of future investment, (2) market situation and structure, including nature and existence of incentives and workforce conditions, (3) tourism specific investment factors, (4) sustainable investment factors, i.e. positive investment conditions¹⁴ and (5) general investment conditions.

2.2 China's Transition Economy

This section identifies the idiosyncrasies of China as host of FDI compared to other transitional economies, such as Russia by elaborating on answers as to why China is a special case when looking into determinants of FDI. Broadly speaking, the distinction between China and Russia as examples for development in two transitional economies can be summarized as follows. After

¹⁴ This part related to favorable tourism policies and market conditions.

the collapse of communism, Russia adopted a “shock therapy” (Žižek, 2007, December 3). China, however, adopted the approach of using an authoritarian state system to control the transition into a market economy. Literature available on transition economies identifies various factors of how China’s political-economical development is unique. McMillan (1994) argued: “the fundamental reasons for China’s [economic] success are not unique to China” (p. 3). He argued that China did, in fact, like other transitional economies, introduce market competition by allowing economic units an incentive to produce more effectively and efficiently. According to McMillan (1994) the main *results* of the reforms were: (1) the break-up of agricultural communes into (essentially) private forms, (2) the massive entry by new non-state firms, (3) new incentives for state-owned enterprises and (4) the introduction of a dual-priced system (p. 5).

According to Dahrendorf (1990): after every revolutionary change, the road to new prosperity leads through a “valley of tears” (Žižek, 2007, December 3). While China’s reform process is an economic success story, she yet faces problems with the establishment of a social security system for all citizens.

This includes an aging society, undervaluation of her currency¹⁵ and mass protest against expropriation, among others. Whether this state of development should be referred to as “valley of tears” is not to be judged by this author. It is difficult to assess whether China’s reform process over the past decades is a success in absolute terms. Notwithstanding, it can be determined with certainty that China’s increase in economic wealth (i.e. per capita income) is a success in relative terms. Walder (1995a) formulated that the contrast between China and Eastern Europe

¹⁵ At the time when this dissertation was being completed China is taking steps which shows her determination to allow for a free trade of Yuan positions, in the future. Currently, measures are taken where transactions with Hong Kong, Macau and regional trade partners can be settled in Yuan denomination (“Mainland launches,” July 6, 2009). This, according to the People’s Bank of China, marks a pilot program in the cities of Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan.

and the former Soviet Union (EEFSU) “could not be more striking” (p. 963). Instead of declines of real income in the EEFSU, China has experienced continuous growth over the past three decades. During that time, China has widely ignored advice from prominent (often Western) advisors (cf. Walder, 1995a). Thus, it appears ironic that China’s development process can be regarded as highly successful.

2.2.1 China, Eastern Europe and the Former Soviet Union (EEFSU)

Various similarities existing between China and Russia, make it an inviting comparison of the two countries by analyzing their reform processes as transition economies. Both countries shared large communist party-states, large populations, militaries, and landmasses (Buck, Filatotchev, Nolan & Wright, 2000, p. 380; Johnson, 1994, p. 60). These similarities can be supplemented with economic factors such as large potential markets, cheap labor and rich natural resources (Buck et al., 2000, p. 380). Being agricultural economies up to the 20th century, they both started the industrialization process quite late on. But despite obvious similarities between the two countries their initial conditions for commencing their reforms were in fact distinctively different.

Russia, at the dawn of its reform process was already urbanized, as well as an industrialized country (Walder, 1995a, p. 971). China, however, began her reform process as a “peasant agricultural society” (Sachs & Woo, 1994, p. 103). Or as Gerschenkron (1962) polemically phrased it: China had the “advantages of backwardness.” Upon the advent of reforms in China, 75 percent of employment was in the agricultural sector, whereas in Russia, 75 percent of people were employed in the manufacturing industry (Walder, 1995a, p. 971). Apparently, China had much potential for growth and productivity improvement. On the contrary, in the EEFSU countries, this growth had already taken place in the decades preceding the 1980s.

The following data qualify the preceding statement using data from the U.S. Economic Research Service (<http://www.ers.usda.gov>). In 1978, China and Russia had real GDP per capita of US\$200 and US\$4,707, respectively. And even in 1991, when the reform process started in Russia, China had per capita GDP of US\$507, where in Russia the same figure amounted to US\$5,610.

In this respect, China had a comparative advantage as she could undergo a process of “normal economic development” (Sachs & Woo, 1994, p. 103), as opposed to the necessary “structural adjustments,” which were required in the EEFSU countries. According to Balcerowicz (1994), China was facing “only relatively mild macroeconomic imbalance” (p. 36) compared to EEFSU states. When China started her reforms she was hardly engaged in any international trade. But when the Soviet block collapsed, the intra-EEFSU trade almost came to a total standstill. It appears that the East Asian experience, including Taiwan, Singapore, Hong Kong and South Korea, seems to suggest that political authoritarianism can be a good facilitator of economic development. Related literature suggests that political democracy is not a significant factor in economic development. This argument is one of a much wider discussion. Recently, it has been proposed that the question is not to a lesser extent as to which political system prevails, but rather whether the form of capitalism adopted is of authoritarian or liberal nature (Gat, 2007; Žižek, 2007). In the case of China, the nature of capitalism is determined to be authoritarian. It was the will of China’s leadership to focus on economic development towards market orientation before engaging in political reforms: ‘capitalism first, democracy later.’

It can be found that Russia, too, after its more liberal approach to development under President Yeltsin, has more recently adopted a more authoritarian character under President Vladimir Putin (Gat, 2007).

China, with its widely homogeneous society (92 percent of her citizens are ethnic Han Chinese), is occasionally referred to as a ‘global tribe’. This indicates the

distribution of Chinese to different regions of the world. Overseas Chinese have proven to be beneficial to China's post 1978 development, providing China with both investment capital and know-how (Walder, 1995a, p. 971). Historically, they became China's bridgeheads into the global economy, not only into the geographically proximate and thriving economies of Taiwan, Hong Kong, Malaysia, Indonesia or Singapore, but also into the Chinese Diaspora in North America and Europe. These locations also retained Chinese entrepreneurship over the decades after 1949, when the entrepreneurs from commercially vibrant cities such as Shanghai, had turned their backs on China. Moreover, the historic interlude of pure communism lasted almost twice as long in Russia as it did in China. In this regard, China's Maoist legacy is noteworthy, as it introduced a much greater degree of decentralization, investment and material allocation, than was present in the EEFSU. It can be argued that this legacy can still be felt in China's geographically diverse investment environment. It has left local officials post-1978 "with the experience and capacity to respond in an entrepreneurial way to subsequent reform policies" (Walder, 1995a, p. 972).

2.2.2 The Chinese Model

In order to understand the characteristics of China's reform path, one has to recognize the 'Chinese model'. The term 'model' may be misleading as Chinese leadership did not have a grand plan for reform, but China's economic change is rather the result of a decades-long trial and error phase (Johnson, 1994, p. 60).

Nolan and Ash (1995) have argued, "the absence of clear objectives, let alone a visionary blueprint, [...] [has] worked to China's advantage by encouraging a gradual, evolutionary approach towards economic reforms" (p. 986).

Chow (1993, p. 120) denoted that two main factors worked to the advantage of China's reform ambitions: first, the relative stability of its political institutions and second, the support of China's economic reform ambitions. Due to the former factor, China is different from most other transitional economies (Walder, 1995b,

p. 295). The political institutional stability was the fact that the political system did not change, which made the conditions for reform remarkably different to the situation in Russia. Chow argued that this was because of the lessons China had learned. This was mainly through the Cultural Revolution, in that China's citizens had discovered the importance of political stability, as well as the "shortcomings of the planning system" (Chow, 1993, p. 120). Just as the former Soviet Union ceased to exist, Deng Xiaoping, in October 1992, announced that China was a socialist market economy. At that time, 65 percent of China's economic output was already produced by profit-oriented entities (Chow, 1993, p. 125).

Not having had a detailed blueprint for reform but only knowing the general direction, China has developed her own characteristics for her market economy, as the CCP formulated it (Chow, 1993, p. 126). Foremost, it was defined by the determined pragmatism of Chinese leadership, i.e. to adopt whatever reform-strategy was likely to work. Deng Xiaoping certainly paved this path of pragmatism when he said, "we don't care whether a cat is black or white as long as it catches mice" (1978). Thus, the remark of a party official in 1987 is only consequential when saying "nothing prevents us from adopting in our socialist system, anything that works well under a capitalist system" (Chow, 1993, p. 127). One such pragmatic approach has been the involvement of overseas Chinese.

For setting up the labor-intensive manufacturing exporters in China's coastal regions, the government utilized offshore (i.e. foreign by definition) capital, technology and management (Sachs and Woo, 1994, p. 104).

2.2.3 Summary of China's Transition Economy

Having outlined the characteristics of China and Russia in particular as transition economies, it can be found that the most specific characteristic of China's reform

process is 'gradualism' (Chow, 1993). While Russia adopted 'shock therapy'¹⁶ for her reforms, China adopted an incremental, more pragmatic approach in her economic development. Nevertheless, as Walder (1995a) points out, China also had her share of 'shock therapy' when she changed from collective agriculture to agricultural "family smallholdings" (p. 965). This rapidly led to a doubling of agricultural output, which is said to be the basis of entrepreneurial activities in other sectors of China's economy. Sachs and Woo (1994) argued that it was this initial agricultural reform which was "surprisingly radical" (Balcerowicz, 1994) and ignited the "burst of growth" (Walder, 1995a, p. 965) for the whole economy. Nolan and Ash (1995) argued that the different outcomes of the reform process in China and Russia were not the consequence of policy choices, but rather the consequence of different initial economic conditions. Walder (1995b), in addition, stressed the point that China's reform process is "highly path dependent" (p. 294) and is rooted in industrial hierarchies which were already more decentralized than those of the former Soviet Union. However, apart from the different initial conditions of the two countries, the process of China's gradual development is continuing. Even after 30 years of reform, the Chinese transitional development is distinctively different from other transition economies. Instead of changing at once to a market-oriented society, it was government officials who at local level became market-oriented (Walder, 1995b, p. 295).

Although China recently adopted property rights, she is yet a socialist market economy. Her reform process has shown that instead of creating ad hoc well-functioning markets and building of economic institutions, developmental problems can also be successfully solved "as ones of government administrative

¹⁶ The term 'shock therapy' is borrowed from psychiatry. Its use in an economic development has been criticized through literature of (cf. Balcerowicz, 1994), and has occasionally been replaced by the expression 'big bang'.

capacities and incentives for officials” (Walder, 1995b, p. 296). This provides evidence that China is a unique host for FDI.

2.3 Hotel Development

2.3.1 Ideal Hotel Development Process

Lodging is commonly referred to as a location driven business. A complete and comprehensive understanding of the site location process is crucial. The figure hereafter outlines an ideal hotel development process. The flow of development has been adopted from Horwath Consulting Company. The process can be considered generic as presented below, and also complies with other business literature on the issue (cf. Rushmore, 2001, pp. 21-1 ff.).

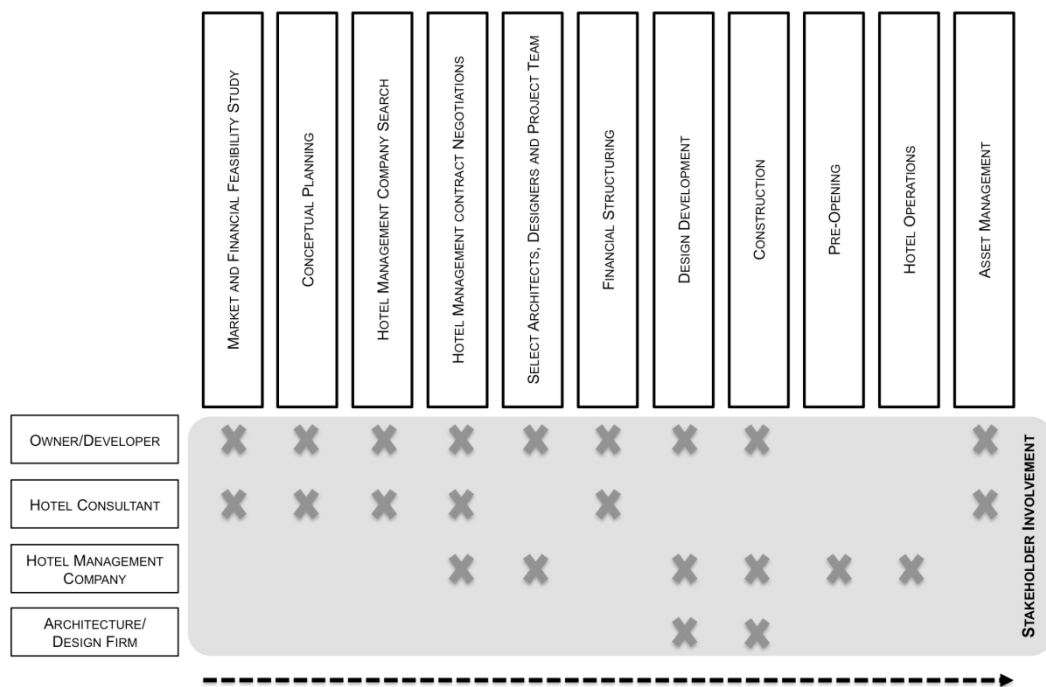


Figure 2-5: Hotel Development and Stakeholder Involvement

Adapted from “China Hotel Industry Study 2008: Financial Year 2007,” by H. Lu (Ed.), 2008, Beijing, *China Tourist Hotels Association and Horwath HTL*.

Naturally, the first step of feasibility analysis is crucial when assessing market-entry opportunities. The appropriate market for property development has to be identified and analyzed. When evaluating a particular investment location, competition and existing supply of rooms is of interest, but potential investors will

also consider the growth potential of a market. Once the “location paradigm” (Rushmore, 2001, p. 21-2) has been fulfilled the financial analysis of a project is of foremost importance. An important part of the financial planning involves the assessment of total capital cost. In general, the financial feasibility of a project revolves around various issues. What are realistic occupancy rates for the project proposed? What is the current and future degree of likely competition in a given market? What are the general market trends, locally, regionally, but also nationwide? A question of particular interest is, in the case of China where the foreign-investment conditions are constantly evolving: What are future conditions for FDI likely to be, and how might they affect an investor’s examination? Where Figure 2-5 describes the hotel development process according to ‘stakeholder involvement’, Figure 2-6 provides a generic account of the various steps involved in that process, including their estimated temporal sequence:

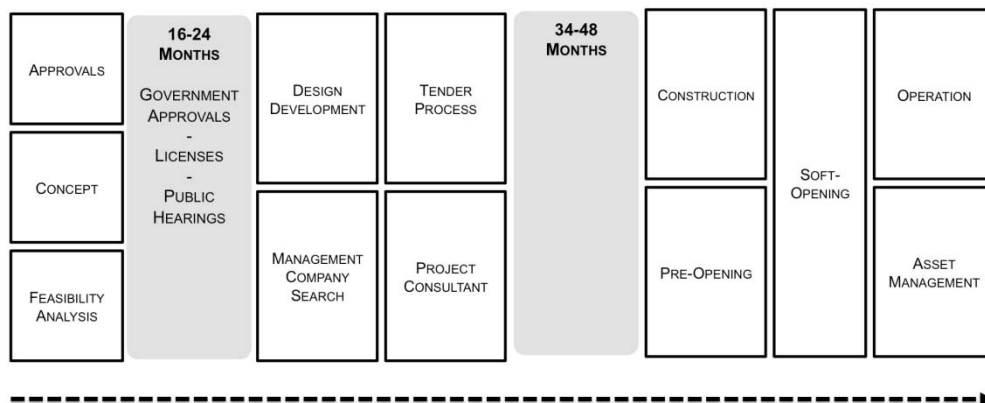


Figure 2-6: Generic Hotel Development Process

Own illustration

The conceptual planning and search for a hotel management company also have an influence on the financial planning. Different franchise brands or management companies have varying royalties and fees, accordingly. Target group and existing brand penetration will be appreciated at this stage, thus bringing the matter of brand selection to the interest of the developer. Apart from brand and management company selection, Rushmore (2001) distinguishes between

project cost (estimates) and project performance, both affecting financial planning of a project. Project costs include land, site preparation, construction, furniture and equipment, professional fees and development fees, as well as transaction and loan fees. The projected performance will be influenced by achievable rates and occupancy and overall expense factors, i.e. cost environment.

2.3.2 Internationalization of Firms: Political Aspects

When considering entering a foreign market, a host country for FDI and the investor must be aware of various political implications. Gee (1994) identified several impediments when it comes to the internationalization of lodging companies:

Table 2-2: Potential Government-based Impediments to Lodging MNCs

Investment	Operating
<ul style="list-style-type: none"> ▪ Limitations on foreign investment (or equity involvement) ▪ Requirement for equity participation of foreign hotel companies (investors) ▪ Import of special equipment, building materials ▪ Placing of contracts with local enterprises ▪ Discriminatory tax regimes ▪ Land tenure or ownership restrictions ▪ Investment subsidies for local lodging developers ▪ Lack of information on investing ▪ Excessive government approvals 	<ul style="list-style-type: none"> ▪ Restrictions on transfer of funds into and out of the country ▪ Restrictions on expatriate personnel ▪ Training and promotion requirements for local workers ▪ Taxation of imported goods ▪ Subsidies for domestic hotels ▪ Currency exchange implications

From "International Hotel Management," by C. Y. Gee, 1994, Lansing, MI, *Educational Institute of the American Hotel & Lodging Association*, p. 69.

In the case of China, the political climate regarding FDI is constantly changing. Over the past three decades, the industries open to FDI and their actual openness have been varying constantly, and are to the present day. Most recently, with the introduction of China's property law, the requirements for FDI have just taken another turn. This has implications for equity requirements of the foreign investor as well as cost structures, as the tax regime has lately been

changed. As from now, the corporate tax level will incrementally increase to 25 percent for foreign investors adjusting taxation of domestic and FIEs.¹⁷

Furthermore, China's openness to FDI in various sectors will depend on recommended guidelines in this respect brought forward by the MOFCOM. In the early 1980s for example, FDI in hotel properties was highly welcomed to develop China's underdeveloped tourism infrastructure, but this has now changed.¹⁸ At the current time, only investment in high technology sectors and sustainable (green) FDI projects are explicitly welcomed, but is not particularly encouraged in other areas. The author believes however, that China's quest for sustainable FDI will leave a loophole for international hotel investors, as tourism infrastructure takes primarily place on a regional level. Hotel investors have to integrate their internationalization and Chinese market entry strategies with existing tourism development plans, on a provincial or sub-provincial level, i.e. city or county level.

2.3.3 Hotel Ownership

Table 2-3 outlines the various types of hotel ownership in China, according to data from the Yearbook of China Tourism Statistics. The category 'FDI' denotes all origins of foreign investment, including special administrative regions (SAR) (Macau and Hong Kong), as well as Taiwan, according to the standard definition of FDI (cf. Section 1.5). The original data does not classify those investment-sources as FDI.

Rushmore (2001) stated that the decision to own a hotel depends on tax, legal and strategic considerations. While the first option to a potential foreign investor is sole ownership, it is common for FDI to take the form of joint ventures (JVs). There are a variety of stakeholders in the finance of hotel investments, the

¹⁷ For a more detailed account on this issue please refer to the section on China's New Property Law.

¹⁸ Please also refer to the section on Hotel development in China: The past three decades.

following to be clearly identified in the literature: (1) limited partnerships, (2) syndications, (3) real estate investment trusts, (4) securitization, (5) debt-equity swaps, (6) multi-party sourcing, (7) mixed used developed projects and (8) financing schemes.

Table 2-3: Hotel Ownership in China by Type

Type	1990		1997		1999		2000		2001		2002		2003		2004		2005		2006	
	a	%	a	%	a	%	a	%	a	%	a	%	a	%	a	%	a	%	a	%
State-owned	1420	71.46	3343	64.28	4512	64.14	6646	63.4	4339	59.0	5061	57.0	5622	57.7	5482	50.3	5528	46.7	5832	45.7
Collective	192	9.66	726	13.96	1003	14.26	1280	12.2	790	10.7	893	10.1	909	9.3	1007	9.2	964	8.2	902	7.1
Shareholding	0	0.00	0	0.00	0	0.00	69	0.7	115	1.6	172	1.9	189	1.9	254	2.3	309	2.6	334	2.6
Domestic JV (Alliance)	0	0.00	78	1.50	0	0.00	176	1.7	97	1.3	90	1.0	95	1.0	80	0.7	72	0.6	71	0.6
Ltd.	0	0.00	0	0.00	0	0.00	383	3.7	477	6.5	734	8.3	860	8.8	1547	14.2	1928	16.3	2278	17.9
Ltd. (shares)	0	0.00	223	4.29	0	0.00	395	3.8	276	3.8	327	3.7	359	3.7	462	4.2	518	4.4	593	4.7
Private	3	0.15	97	1.87	174	2.47	324	3.1	351	4.8	556	6.3	635	6.5	1264	11.6	1624	13.7	1871	14.7
Others	0	0.00	0	0.00	627	8.91	375	3.6	321	4.4	361	4.1	404	4.1	261	2.4	315	2.7	285	2.2
Foreign-invested	372	18.72	734	14.11	719	10.22	833	7.9	592	8.0	686	7.7	678	7.0	531	4.9	570	4.8	585	4.6
Total	1987	100.00	5201	100.00	7035	100.00	10481	100.0	7358	100.0	8880	100.0	9751	100.0	10888	100.0	11828	100.0	12751	100.0
Publication year		1991		1998		2000		2001		2002		2003		2004		2005		2006		2007

From "The Yearbook of China Tourism Statistics," by China National Tourism Administration, 1991, 1998, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007. Note: Type 'FDI' denotes all origins of foreign investment, including SARs (Macau and Hong Kong), as well as Taiwan, according to the standard definition of FDI.

The economic reality in present-day China is quite complex and it is worthwhile describing the statistics used by the CNTA. CNTA distinguishes different forms of hotel assets' ownership (cf. Table 2-3, p. 40): (1) state-owned, (2) collective, (3) share holding co-operative, (4) alliance, (5) limited liability, (6) private, (7) other and (8) foreign-invested. It is noteworthy that, in the actual statistics, FDI is divided into 'true' FDI and investment that originates from Taiwan, Macau and Hong Kong. The reason for this is supposedly political. This author has adopted the standard definition of FDI and has thus combined FDI from these sources into one category. Several other categories deserve further clarification. A collective enterprise is defined by two main properties: (i) vaguely defined property rights and (ii) government officials' significant involvement, of which the majority of these collective entities are made up by township-village enterprises (Tian, 2000, p. 248). Collective enterprises are in a gray zone, being neither state nor private enterprises. Furthermore, the official CNTA documents on hotel ownership feature the type 'alliance'. This term seems to be more appropriately translated into English by the description of 'domestic joint venture' (cf. Mak, 2008, p. 356).

The case of collectively owned hotels is remarkable. Tian (2000) suggests that initially, collective enterprises are supposed to have "economic efficiency [that] is very close to that of privately owned enterprises in China" (p. 248). Secondly, with the "continuing improvement of [China's] economic environment" (p. 263), they would be privatized in due course. However, in absolute terms, the number of collectively-owned hotel properties in China has continued to be relatively constant over the past years. Historically, this class of hotel ownership has underperformed compared to privately-owned hotels, especially when considering foreign-invested hotels in private ownership. In the case of the hotel industry in China, the main force in hotel market growth has traditionally been the SOEs and not the collectives, while that may be different in other sectors of China's society (cf. Tian, 2000, p. 263).

REITs represent a special case of hotel property ownership. They play an increasingly important role in hotel real estate ventures. REITs are capital funds, which pay out dividends to shareholders from the rent received from properties held by the fund. The basic concept of a REIT dates back to the late 19th century and the fundamental principles have not changed since then. Primarily a REIT avoids double taxation as income is not taxed on a corporate level when distributed to the fund's beneficiaries. Even as REITs in general have a fairly long history, there is a recent development in which REITs specialize in hotel real estate. CDL Hospitality Trust has been the first hotel REIT outside Japan in Asia (Chung, 2006). In Hong Kong, Regal International set up the first hotel property based REIT (Wong, 2006; Cheung, 2006a). Market observers seem to have different perceptions of REITs, which are specialized in hotel properties. Some argue that the hotel REITs' outlook is not too bright due to inconsistent cash flows resulting from the industry's seasonality (Chung, 2006). Another source is more optimistic, stating that a REIT backed by hotel properties is the very option to "tap a surge in tourism to Hong Kong" (Wong, 2006; Cheung, 2006a). According to Cheung (2006a), Regal's offer was less attractive than the IPO scheduled as being China's biggest hotel development company, as Jin Jiang was also due to go public in December 2006¹⁹. This forecast was supported by Regal International's share price development in December 2006 when its stock value decreased by a sharp 3.8 percent on December 19 (Cheung, 2006b) in light of its hotel REIT plans. In general, REITs have, in 2006, continued to "frustrate" (Cheung, 2006b) investors, as two of the then four publicly listed REITs in Hong Kong, i.e. Champion and Prosperity, have plunged by 20, respectively 24 percent below their initial offer price. There are grounds for doubt as to whether the setting-up of solely hotel properties backed by REIT will be attractive to investors.

¹⁹ As Jin Jiang went public according to schedule, the Regal offer became delayed.

General theory on risk aversion suggests that behavior should be more rational, to settle one's eggs in several baskets, instead of just in one, viz. hotel properties. The distinct investment characteristics of lodging properties can be attractive for a given portfolio in order to diversify. Lodging assets as such, can help to secure (hedge) a portfolio against inflation risks. Due to the yield management of accommodation businesses, i.e. flexible pricing, their performance in phases of inflation is relatively good. Furthermore, hotel investments offer the advantage of accelerated depreciation rates, as well as the possibility of mortgage interest deductions. According to Cheung (2006b), "some analysts said Hong Kong regulations do not bode well for the REIT product, giving it little prospect of long-term income growth". The taxation regime is also criticized for being less favorable than in the United States where the REIT framework was first developed, or of that of Singapore. In the cases of Singapore and the United States, REITs are exempted from profit tax and investors from stamp duty on the trusts.

2.3.4 Hotel Investment and Profitability

Gee (1994) noted that lodging properties are both high in capital investment and high in risk, i.e. especially operating risk. Following this line of argument it can be found that hotel investments are intensive in capital, management and labor. Real estate can be viewed as one part of an investment portfolio's assets. It is the scope of this research to particularly investigate the factors which cause profitability of hotel investments to fluctuate.

I regard the extension of the range of choices, that is, an increase in the range of effective alternatives open to people, as the principal objective and criterion for economic development; and I judge (public policy) principally by its probable effects on the range of alternatives open to individuals (Bauer, 1957, p. 113 cited in Stroup, 2007, p. 63).

The outlook for hotel property can be assumed to be similar to that of the property market in China, overall. However, considering previous research (Quan et al., 2002) the characteristics of lodging property will have to be kept in mind. At a time where the property market in major international Chinese cities is already maturing, foreign investors consider properties with an optimistic return outlook in secondary cities such as Tianjin, Qingdao, Chengdu or Xian (Ng, 2006).

2.3.5 Key Success Factors

Strong international business connections and established global information networks are the distinctive strengths that MNCs can use in entering the Chinese market, particularly in a JV (Yang & Lee, 2002, p. 101). Political stability and the conformity of economic units with the legal and political environment will decide on the success or failure of business undertakings in a foreign market. Building good relations with government agencies can sometimes be the key to business success in general, or solving operational problems on a short-term basis. Yang and Lee (2002) argued that “active participation in public activities and assistance to local educational and economic development projects will enhance the development of a company’s business reputation and good public image – which in turn, could bring more long-term business opportunities” (p. 102). The following table outlines the factors, which are found to facilitate success in Sino-foreign JVs:

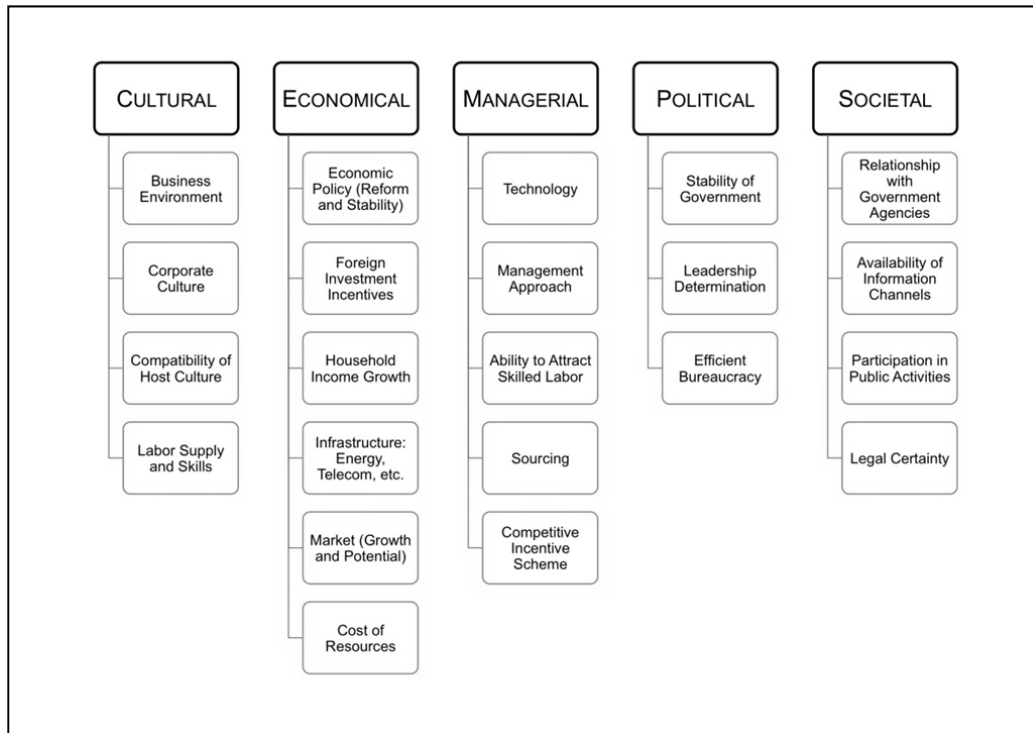


Figure 2-7: Key Factors and Sub-factors of Successful Joint Ventures

From "Identifying Key Factors for Successful Joint Ventures in China," by J. Yang and H. Lee, 2002, *Industrial Management and Data Systems*, 102(2), p. 104.

Whilst the above factors stem from the view on JVs they may be generalized to foreign investment scenarios, as a significant number of foreign investments are in fact JVs. In doing business in China, managers need to be aware of cultural differences. China is not a homogenous nation or country. China has more than 50 different minority groups, although the majority of Chinese are Han Chinese (approximately 92%), each having its own culture, custom, norm, tradition and even unique holidays and languages (Yang & Lee, 2002, p 102). Furthermore, according to Yang and Lee, one will find geographic distinctions in China as it is the world's third largest country and is divided into many different regions, each having unique cultural aspects. Yang and Lee (2002) interviewed 300 international JVs in the major Chinese cities of Beijing, Shanghai, Guangzhou, Tianjin, and Dalian (pp. 103-4). This survey showed that the foremost important success factor for foreign investors in China is political stability, accompanied by "determination of leadership" and the "stability of the economic policy". Understanding and appreciation of any cultural differences when doing business

in China are crucial for any foreign company considering entering the China domain.

2.3.6 The Hospitality Industry in China

For many years after 1949 the business world in China only consisted of state- and collectively-owned businesses. In December 1978, the post-Mao Chinese leadership announced that the country would “open to the outside” (Child, 1994, p. 215), adopting a policy of gradually transforming towards a market-oriented economy (Pine & Qi, 2004, p. 39); hence, creating a positive environment for business development. Today, the Chinese economy operates with a mixture of both traditional socialist planning and market economics. An important part of this policy and one that provided a direct link to the goal of modernization was to invite FDI and develop a legal framework for FDIs from 1978-9 onwards (Child, 1994, p. 215; Grünebaum, 1995, p. 52). Adams (1997) outlined the three phases of reforms, summarized in Table 2-4:

Table 2-4: Phases of China’s Economic Reforms

	Characteristics	From	To
Phase I	Agricultural and rural reforms	1978	1983
Phase II	Broadening of reforms	1984	1991
Phase III	Deepening of reforms	1992	onwards

From “China: Growth and Economic Reforms,” by C. Adams (Ed.), 1997, *International Monetary Fund*.

Since the late 1970s, reforms have brought a steady increase in the policies for a free market system in the Chinese economy. But the various plans, foremost the overarching CPC’s Five Year Plans, still have a substantial impact on the economic activities in China. Within this context, it is impossible for FIEs to ignore the state plans. On the 14th National Congress of the CPC, held in October 1992, the leadership reached a consensus to establish the *socialist market economic system* as an overall goal of China’s reform process. In November 1993, the 3rd Plenary of the 14th CPC Central Committee passed a 50

articles long decision on the strategies for further reform. The party leaders announced that “establishing a socialist market economic system means making the market a fundamental factor in the allocation of resources under state macro control”. The decision covers ten broad areas dealing with the need to restructure the market system, state enterprises, government functions, taxation and social security, foreign trade and law. By the end of June 1997, it was reported that over 200,000 business JVs had been registered in China, with a total FDI of US\$204 billion (China National Statistics Bureau cited in Yang & Lee, 2002, p. 98). However, China today still remains in a period of transition with risks to its continuing economic development. One of the most obvious threats in the past years was the Asian financial crisis. Even so, while 1998 was a grim business year throughout most of Asia, China managed to remain relatively unscathed (Patomäki, 2001, p. 28). Nevertheless, prospective investors should be aware that macroeconomic or non-macroeconomic risks (cf. Chen et al., 2005) may impact investment conditions and/or lead to a more severe downturn than those known from the Asian financial crisis or the SARS outbreak. Regardless of those investment risks, China is on its way to becoming one of the world’s largest economies by the end of this decade. In 1997, the World Bank indicated that between the largest developing countries, including Russia, India, Brazil, and Indonesia, China has the most potential for growth (cited in Yang & Lee, 2002, p. 98). With regard to tourism development in China, Zhang, Pine, and Zhang (2000) identified the following four main stages:

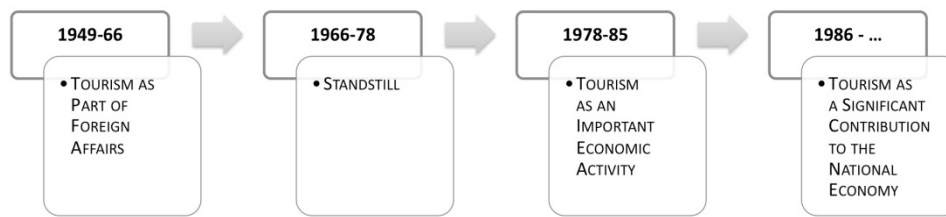


Figure 2-8: The Main Stages of China's Tourism Development since 1949

From "China's International Tourism Development: Present and Future," by G. Zhang, R. Pine, and H. Q. Zhang, 2000, *International Journal of Contemporary Hospitality Management*, 12(5), pp. 282 f.

During China's Communist Revolution (1966-1976) and in the early days of China, tourism was not encouraged. Leisure travel was beyond the means of most Chinese and was generally considered a form of bourgeois dissipation. The policy toward international tourism was, on the whole, consistent with the imperial xenophobia that had persisted over the previous several millennia: the fewer outsiders the better. Until the mid-1970s, this policy was well grounded in geopolitics; the Cold War and the Korean War pitted China and its allies against most of the tourist-generating nations of the world. The United States and other Western nations banned travel to China, and China for the most part refused entry to unofficial visitors.

For political reasons, however, a few foreigners were allowed to travel in China. The Chinese government's initial ventures into tourism were designed not so much to promote, but to control, increased traffic. In 1953 the Beijing Overseas Chinese Travel Service was established to manage visits to friends and relatives by expatriates and émigrés. Ten years later it was supplanted by the General Overseas Chinese Travel Service, which was in turn succeeded by the China Travel Service (CTS) in 1974. In 1954, the China International Travel Service (CITS) was set up to shepherd groups of *foreign friends* to a handful of approved sites. Ten years later, another layer of bureaucracy was added, with the creation of the China Bureau of Travel and Tourism (CBTT) under the jurisdiction of the Foreign Ministry. Despite these innovations, foreign tourism remained an

economically insignificant activity, as the CITS had approximately 4,500 foreign clients in 1966 (Richter, 1989, p. 24).

Intentional policies aside, China's political instability would probably have been sufficient to stymie expansion of tourism. Mao Zedong's 'Great Leap Forward' from 1958 until 1960 brought economic hardship to wide strata of China's population. The Cultural Revolution from 1966 until 1978 not only spread catastrophe throughout China but specifically demonized and assaulted everything foreign and virtually anything that might have been appealing to foreigners, from traditional Chinese art and relics of the imperial past to the cultural identity of the minority nationalities that had been liberated by the Communist Revolution.

After the *standstill* period of the Cultural Revolution in China was over, as pointed out in Figure 2-8 (The Main Stages of China's Tourism Development since 1949), tourism was eventually recognized as an important economic activity. Since 1986, tourism contributes significantly to China's GDP. Tourism plays an increasingly important role within the Chinese economy. In 1998 1.62% of Chinese GDP was from tourism revenue, and approximately half of China's foreign exchange revenues (DZT Vertriebsagentur Peking, 2004, p. 11). Now, China is on its way to becoming a country with developed tourism having constantly improving tourism facilities and services.

Since the beginning of the economic reform process in 1978 the "influx of foreign visitors created a great demand for China's undeveloped lodging industry" (Tsang, & Qu, 2000, p. 316). But, until recently the hotel and real estate business remains the biggest sector for FDI in the non-manufacturing sector of the economy (Maurer, 2002, p. 14). Hotel development was considered an important part of China's tourism development in the 6th Five-Year plan, 1981-1985, for China's economic and social development (Yu, 1992, p. 99). Pine and Qi (2004) stated: "local companies have learned a great deal by studying how foreign

companies work within China” (p. 42). They recommended appreciation of any differences in national and organizational culture; notably differences in behavior, expectations of domestic travelers, hotel staff and the different stakeholder needs. Hotel structure is one of the most important components of tourism infrastructure. A well-operated hotel industry is crucial to the success of China’s hospitality development. That is why the following section reviews literature available on service quality issues of China’s hotel industry as well as problems and experiences from serving the Chinese market, not least in human resource related matters. It can be argued that these implications are a bottleneck when it comes to success in delivering the lodging product in China.

Tsang and Qu (2000) focus on the perception of service quality from tourists and hotel managers. Although it is not the main focus of this work, their article serves well when pointing out problems in delivering quality service within China’s hotel industry. The Chinese Government, as Tsang and Qu (2000) pointed out, realized the problems that China’s hotel industry had with fulfilling international hotel standards as early as 1988 (p. 316). It was at this time that the Chinese Government introduced hotel classification standards and regulations. Yet, over a decade later, the same authors argue that the future of China’s hotel industry is [still] challenging. They emphasize that it is “important to identify the quality and variety of service and products provided by China’s hotel industry” (Tsang and Qu, 2000, p. 316). They found that the perceptions of service quality in China’s hotel industry, from the perspective of both international tourists and hotel managers, needs to be assessed. The objectives defined by Tsang and Qu are in turn useful for travel and tourism business developers entering the Chinese market. These objectives are:

Table 2-5: Perception of Service Quality – Key Objectives

-
- Assess the current expectations and perceptions held by international tourists with respect to the quality of services and products provided by the hotel industry in China
 - Assess the current expectations and perceptions held by hotel managers in China with respect to quality of hotel service and products provided
 - Identify any gap between the perception of tourists and hotel managers, with respect to the quality of hotel service and products provided
-

From "Service Quality in China's Hotel Industry: A Perspective from Tourists and Hotel Managers," by N. Tsang and H. Qu, 2000, *International Journal of Contemporary Hospitality Management*, 12(5), p. 317.

Gu (2003) identified three main problems for the hospitality sector in China: overcapacity, efficiency disparity and declining operation scale, i.e. measured by average number of rooms per property (pp. 387-8). Huyton and Ingold (1999) came to another relevant conclusion about the problems of hotel operators in the Chinese market. They argued that "for most companies who are about to, or who have already embarked upon a [JV] within China, one of their greatest problems is the lack of qualified staff" (p. 22). Lam and Xiao (2000) argued that the existing tourism institutions and vocational training schools "cannot fulfill the expanding needs for high quality service providers" (p. 291). They stated that the Chinese tourism employers "consider that [HR] problems are crucial, and [...] not healthy for tourism development in China" (p. 291). They summarized the HR problems in China's service industry as illustrated in the following table:

Table 2-6: Human Resources Problems in China's Tourism Industry

-
- International service ethic as expected by foreign operators rarely exists among Chinese employees
 - Few graduates from higher tourism education institutions and vocational training schools of tourism are dedicated to the industry and committed to their jobs
 - The salary packages of the industry are not competitive, paired with unrealistic expectations the nature of the job, work conditions, and human relations
 - Underdeveloped professional skills, which are not sufficiently provided during tourism education in China
 - Outdated teaching materials of education institutions; unfortunately most textbooks are simply translated from foreign texts without taking Chinese culture specifics into consideration
-

From "Challenges and Constraints of Hospitality and Tourism Education in China," by T. Lam and H. Xiao, 2000, *International Journal of Contemporary Tourism Education*, 12(5), pp. 291 ff.

The above table does not completely present new research results in this area, but Lam and Xiao (2000) refer to earlier research undertaken by Huyton and Sutton (1996) who came to the conclusion that the whole concept of service was foreign to most employees, regardless of their status or level of employment. As a consequence of the ongoing human resources problems of recruiting qualified staff, Huyton and Ingold (1999) found that many hotel companies have established their own training operations (p. 22). The same authors remarked that companies establishing their own training measurements need to be aware of the implications of such training functions. Is it to be in-house, on-the-job or are they to use vocational schools and colleges?

Hotels around the world are finding it harder to recruit and train good workers. One official with InterContinental Hotels Group (IHG) calls the problem nothing less than a "global war for talent, for skilled, experienced hotel staff." IHG says it will need about 120,000 new workers to staff the 1,500 hotels it has in development worldwide, and Marriott expects to need 23,000 new employees in its overseas markets this year alone.
(Staff Retention Issues, 2008, April)

Gu (2003) concluded that since 1993 the performance of the lodging industry has been declining (p. 391). He found that the problems mentioned (cf. beginning of this section), "have been hurting the industry's performance" (p. 391), and he proposes the following actions to solve these problems:

Table 2-7: China's Lodging Industry: Solutions to Current Problems

-
- Brake must be put on new hotel constructions
 - Let demand catch up with supply; expansion decisions are to be made based on thorough market analysis and comprehensive market analysis
 - Chinese hotel operators should capitalize on the booming domestic tourism market; in this regard low-end hotels will have a competitive advantage
 - Enhancement of management skills
 - The Chinese lodging industry should raise its operation scale; building large low-end hotels may be good investment
-

From "The Chinese Lodging Industry: Problems and Solutions," by Z. Gu, 2003, *International Journal of Contemporary Hospitality Management*. 15(7), p. 391.

To summarize, Gu (2003) recommended a prudent growth strategy, improved management efficiency of the domestically owned hotels and economies of scale, in order to help the Chinese lodging industry overcome difficulties (p. 391). It is to be noted that, for foreign investors, the above-mentioned recommendations will be useful guidance in solving their own problems for hotel business development in China. None-the-less, they have to be adopted with care, since Gu's (2003) research is primarily aimed at the Chinese lodging industry, so will very much be on the distinctiveness of a peculiar segment of the hotel market, both, standard-wise and geographically.

2.3.7 The Past Three Decades

1978 marked the watershed in which the CPC provided the political and economic framework, which enabled and promoted foreign trade, including FDI. Since then Chinese authorities have maintained a political environment which promoted FDI, not least in the hotel sector in which, particularly throughout most of the 1980s, substantial capital was needed to enhance China's underdeveloped hotel industry. The numeric starting point for China's hotel businesses was a mere 137 hotels offering 15,539 rooms in 1978 (Zhang, Pine & Lam, 2005). According to the latest figures of the China National Tourism Administration (CNTA) the country possesses 12,930 star-ranked tourist hotels nation-wide ("China has 12,930," 2007, January 2). These star-ranked hotels consist of 288 five-star hotels, 1,307 four-star hotels, 4,747 three-star hotels, and "more than 6,500 one- and two-star hotels".

Table 2-8: The First Phase of Foreign-invested Hotels in China

HOTEL	LOCATION	KICK-OFF	OPENING	SOURCE
Jianguo Hotel	Beijing	1979 (Oct.)	1982 (Apr.)	USA
Jinling Hotel	Nanjing	1980 (Mar.)	1983 (Oct.)	Singapore
White Swan	Guangzhou	1979 (Apr.)	1983 (Feb.)	Hong Kong
China Hotel	Guangzhou	1980 (Apr.)	1984 (Jun.)	Hong Kong
Garden Hotel	Guangzhou	1980 (Apr.)	1985 (Aug.)	Hong Kong
Zhaolong Hotel	Beijing	1980 (Jan.)	1985 (Oct.)	Hong Kong

From "Studies of the Development and Characteristics of the Chinese Hotel Industry" [original in Chinese], by J. Wen and J. Tang, 2005, *Overview of Humanity*, 12, p. 65

Looking at the sheer number of China's hotel development over recent decades the progress is significant. In the case of the first six developments (cf. Table 2-8), all invested by overseas Chinese, the pattern of these investments is rather typical. The Chinese Government created incentives for prospective investors, by offering them "inexpensive land, tax holidays of three to five years, a flat corporate income tax rate of 15 percent [sic], and inexpensive labor²⁰" (Cook, 1989, p. 64). These incentives were, and still are, particularly available in China's Special Economic Zones (SEZ), i.e. Shantou, Shenzhen, Xiamen, and Zhuhai, only to name the first four already established. Cook (1989) identified the climax of the "gold rush" (p. 65) in hotel real estate as 1984. At this point, something less likely in most constitutional states happened. Once it became clear to the Central Government that the construction situation in Beijing, Guangzhou, and Shanghai were out of control, it put a hold on all previously approved building projects of luxury accommodation in the cities (Cook, 1989, p. 65). While star-ranked hotels at A-class tourist destinations are a prerequisite for China's increasingly international tourist clientele, the growth leads to some problems. At this point in time, one of the major obstacles for tourism development in China is indeed trained staff (cf. previous section), according to industry sources, as well

²⁰ Cook (1989) reports that construction workers at that time earned the equivalent of US\$50 per month (p. 64).

as CNTA officials. Only taking into account three-star hotels and above, assuming that each property needs fifty trained and bilingual staff, this would add up to personnel demand of some 300,000 (Xinhua, 2007), over the next several years alone. Consequently it may be argued that human resource issues are in fact the bottleneck of China's lodging development. The development of China's hotel industry can be broadly divided into five stages, which Shen (2008) identified for the evolution of the Chinese hotel sector starting in 1978, as presented in the table below.

Table 2-9: Phases of Chinese Hotel Development – 1978 until Today

	LOCATION	FROM	TO
Stage I	Initial stage of industrial development	1978	1983
Stage II	Accelerated development	1984	1988
Stage III	Standardization and administrative adjustment	1989	1991
Stage IV	Collectivization and excessive competition	1992	1998
Stage V	Localization and globalization	1999	onwards

From "Hotel Industry Development in China: A Historical Perspective," by H. Shen, 2008, unpublished manuscript, The Hong Kong Polytechnic University – School of Hotel and Tourism Management.

In the early stages of this development, foreign investors were facing major differences in the attitudes of Chinese towards real estate. China as such, did not have a real estate industry and no separate legal structure (Cook, 1989, p. 67). According to Cook, before 1982, concepts such as asset appreciation, tax benefits, leveraging, or the idea of risk taking, were unknown to the Chinese counterpart of foreign investors. He elaborated that due to the always-successful nature of hotel developments in the eighties, "Chinese business people [did] not consider risk to be an element of hotel development" (p. 67).

This text passage up to the end of this section addresses recent developments in the Chinese hotel industry. One phenomenon that is quite common within other industries also prevails in the hospitality business. The general public readily sees the sector's landmarks, or *stars* of the hospitality industry instead of looking

at it more holistically. For example, the view of most market observers goes directly to the internationally established brands such as the *InterContinental*s, the Hiltons, *Marriott*s, or *Kempinski*s. Of course, the journey of this study must not be limited to these premium brands but shall address the whole range of hospitality products available, in order to provide a comprehensive picture. One phenomenon which should be pointed out is the fact that the Chinese hotel market is rather heterogeneous. As the rest of China's economy, the development of its industries is not taking place at an equal pace across the country.

The case of Dongguan can help exemplify some recent characteristics of hotel development in China, despite the fact that Jiang Qikang of the China Tourist Hotel Association remarked that "the hotel industry in Dongguan is very unique" (Lu, 2006). The main driver of hotel development in Dongguan, which used to be just a village two decades ago, is remarkable. The city hosts 15 five-star hotels which are about five percent of China's total five-star hotels, ranked third after Beijing and Shanghai. Business people, in excess of 8 million visitors, come to Dongguan annually, primarily to partake in the region's manufacturing trade, particularly attending the city's frequent trade fairs²¹. The average occupancy rate of hotels in Dongguan is 58 percent, but its five- and four-star hotels average about 70 percent. Nevertheless, in one way the local hospitality market of Dongguan is very different from the rest of China. Over 90 percent of Dongguan's hotels are privately owned, as opposed to nearly 80 percent of China's approximately 12,000 star-rated hotels which are state- or collectively owned (Lu, 2006). The example set by Dongguan illustrates that a notable amount of hotel investment stems from local business entrepreneurs. The city's

²¹ Four out of every ten pairs of sport shoes sold in the U.S. are made in Dongguan (Lu, 2006)

hotel industry “attracted more than 25 billion [RMB] [...] of private investment in the past 10 years” (Lu, 2006) and over 90 percent of Dongguan’s 95 hotels are the property “of local millionaires” (Lu, 2006). This singular example does demonstrate a fact which may not claim representativeness, but in further debating the issue of FDI it is generally an interesting case. People from outside China may perceive foreign investment as playing an important role in China’s economic development, but in fact the majority of invested capital in China is of ethnically Chinese origin, both domestic and internationally. In this regard, the case of Dongguan can indeed claim to be a representation of China’s foreign hotel investment, in general. At a time where the market for premium hotels in China appears already to be well established, it is the mid-priced and budget market that may receive increased attention by international investors (Chen & Fang, 2008). According to Chen and Fang (2008) Accor for example, plans to develop the majority of its new hotels in China in the one-star sector using its Ibis brand. This rapid expansion within the hotel sector is directly linked to China’s WTO concessions, which, since 2004, officially allow hotel investors to develop wholly owned hotels (Cheng, 2006, p. 23).

Table 2-10: Leading Economy Hotel Groups in 2006

	FOUNDED	ROOMS	HOTELS	GEOGRAPHIC COVERAGE	
				PROVINCES	CITIES
Jin Jiang Inn	1996	16,885	118	25	56
Home Inns	2002	16,162	134	25	50
Motel 168	2003	11,272	52	15	33
Hotel Home	2004	4,430	28	11	26
Super 8 China	2004	4,249	42	24	61
UTELS	2002	3,162	77	22	35
GreenTree Inn	2004	2,873	21	13	26
7 Days Inn	2005	2,818	25	9	13
Vienna	2005	2,168	8	5	5
JOYINN	2006	1,863	15	4	8

From "Economy Hotel Development Trends in Mainland China," by L. Chen and F. Fang, 2008, HVS. Retrieved 2008, August 7 from <http://www.hvs.com/Jump/?aid=3119>

A typical Overseas Chinese conglomerate which is increasingly active in the Chinese market is Singapore's Banyan Tree, a chain of luxury hotels and resorts, whose founder and chairman is Ho Kwon Ping. As of July 2009, the company operates three properties in China (Lijiang, Ringha and Sanya). It is determined to invest in and increasingly manage more properties in China. Recently, Banyan Tree had announced that it wants to raise US\$500-700m in private equity for its China expansion. From 2009 until 2012 nine more Banyan Tree properties are scheduled to open across China. Another case in point is Shangri-La, the hotel arm of Malaysia's Kuok Group. The company plans to raise US\$662m for its China expansion. The corporation is Asia's largest listed hotel chain by market value and controlled by billionaire Robert Kuok Hock Nien. Kuok's father came to British Malaya from Fujian province at the beginning of the 20th century. Robert Kuok is said to be the youngest of three brothers, born October 6, 1923 and enjoyed an English education during his youth. Compared to non-ethnic Chinese FDI, Overseas Chinese FDI appears to be more discrete. This is in line with Confucian beliefs in which the successful are demanded to be humble. In fact,

Robert Kuok for example, is said to be media shy and discrete. Most of his businesses are privately held by him or his family. Shangri-La runs 19 hotels across China and intends to double this number by 2010. Over the previous year, Shangri-La joined forces with Kerry Properties and Allgreen Properties to develop a site in Tianjin, into a mixed-use property. Starwood Capital has raised US\$ 2 billion and plans more than 20 new properties under the 'Baccarat' and '1' hotel and residences brand either through management agreements, equity investments, or by forming joint ventures with domestic developers (Li, 2009). Li reported that hotel projects would be invested under its recently closed global hotel fund, and residential projects would be invested under another non-hotel fund.

A most recent initiative is to be undertaken by Australian-based Grand Pacific Financial Group. It plans to invest more than US\$500m in China over the coming years, foremost in hotels. The corporation has until presently, invested more than RMB400m in China where its ventures range from hotels to semiconductors. As a matter of fact, Great China is controlled by ethnic Chinese investor Alfred Wong who plans to open 30 Grand Pacific hotels in China. Its first hotel development in China was opened in Shanghai in 2004.

CHAPTER THREE

3 LITERATURE REVIEW – CONCEPTUAL FRAMEWORK

While Chapter 2 provided literature on the background and scope of this study. Chapter 3 more specifically presents the literature related to the conceptual framework that was adopted to guide the study. In this respect the author follows the *Straussian* strand of grounded theory development, as has been mentioned before (p. 16).

3.1 Market Entry Modes

3.1.1 Market Entry Modes

Zhao and Olsen (1997) found that around half of the world's hotel chains hold foreign operations (p. 79). The rationale behind this strategy can easily be identified. Companies engaged in the mature home market, must also engage in lodging operations abroad. This is paramount for future growth and a pivotal strategy for continued existence. Tse and Olsen (1990, cited in Zhao & Olsen, 1997, p. 80) and Olsen, Crawford-Welch and Tse (1990, cited in Zhao & Olsen, 1997, p. 80) identified the following strategies of multinational hospitality firms employed in international business development, viz.: (1) strategic alliances, (2) franchising, (3) management contracts, (4) joint ventures, and (5) acquisitions. Zhao and Olsen (1997) have identified market entry decision factors in two broad areas, firstly, the external environment, and secondly, the task environment. The following Figure summarizes the results of their study:

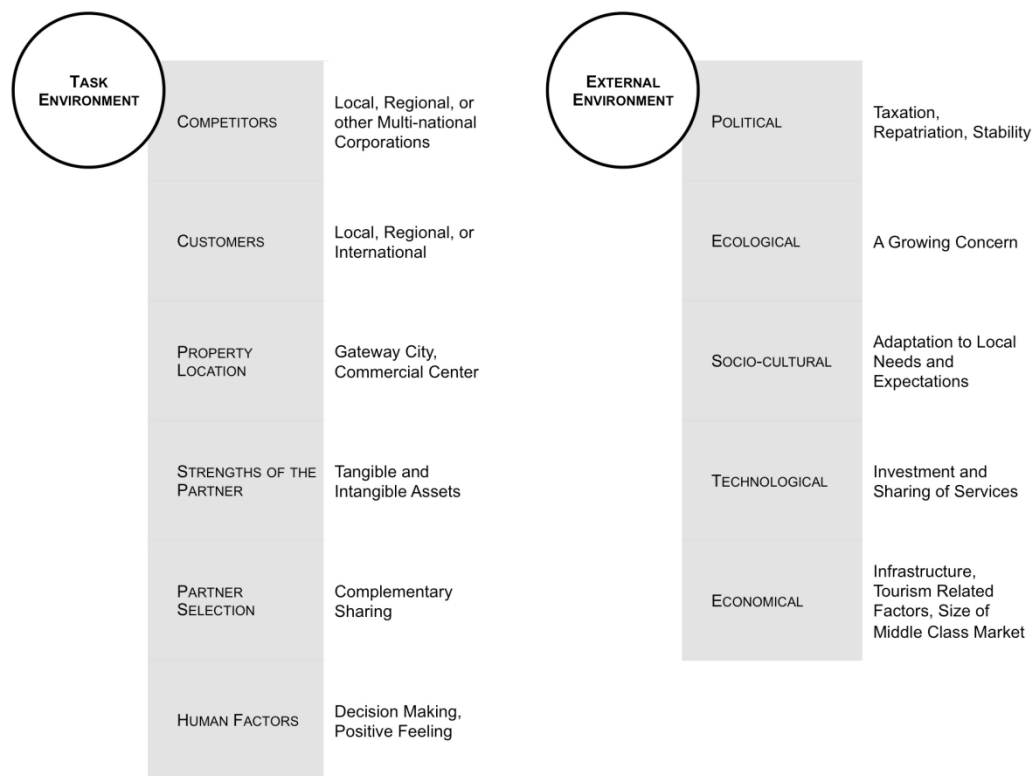


Figure 3-1: Factors Influencing Entry-Mode Choices

From "The Antecedent Factors Influencing Entry Mode Choices of Multinational Lodging Firms," by J. L. Zhao and M. D. Olsen, 1997, *International Journal of Hospitality Management*, 16(1), p. 84.

In the case of China's hotel development, the FDI situation appears to be ambiguous. Even though theory on FDI suggests that foreign-invested capital will lead primarily to market access for multinational enterprises, the motivation for hospitality development in China seems to work both ways. It appears to be a win-win situation, both for the foreign investor and the host country, i.e. China, at the same time. As for multinational hospitality firms, FDI may well be part of an internationalization and growth strategy, but hospitality development in the Chinese market is also rather crucial for China's tourism development. This can particularly be seen from the early 1980s, when China actively sought FDI in hotel properties in order to progress its underdeveloped lodging sector. As such, infrastructure was, and is, a prerequisite, given the inflow of both business and increasing leisure travelers into China. Zhang and Jensen (2007) pointed out that "[...] multinational [...] hotel chains [...] have advantages in terms of reputation, branding and product recognition to attract tourists to the countries where they

invest” (p. 226). This will, on the basis of their hotel FDI, lead to an improvement of tourism infrastructure.

3.1.2 Foundation of Foreign Ventures

In order to be attractive to foreign investors, the facilitating state needs to facilitate a “reasonable legal and institutional infrastructure” (Ito, 2006, p. 304). An overall institutional environment, which grants the economic agent a satisfactory degree of legal protection, as well as credibility and transparency of accounting standards, will also affect financial investment decisions. Ito (2006) studied 87 developing and emerging market countries, of which 15 were Asian nations. He found that over a time span of 20 years, starting in 1980, “higher levels of financial openness contributes to the development of equity markets, but only if a country is equipped with a certain level of legal and institutional development” (p. 305).

In turn, it can be argued that more transparent equity markets will foster the inflow of FDI. Therefore, such a financial market will help channel international funds to where they may find the most dynamic investment prospects.

Different forms of investment are available to foreign investors, described hereafter. Freeman (1994) refers to three traditional forms for “foreign investment enterprises in China” (p. 3). First, equity joint ventures (EJV), and second, contractual joint ventures (CJV). The latter are sometimes also referred to as co-operative joint ventures. A third form of foreign investor is the wholly foreign-owned enterprises (WFOE), which are 100% subsidiaries of foreign companies in China. The selection of an investment type will depend on the specific requirements of the project being considered. The link to the domestic economic system of China is the main reason why most major international corporations seek EJVs or CJVs in China. Table 3-1 compares the three different forms that an FDI may take. Although the table clearly indicates its

conceptual roots in manufacturing, the insight is also of relevance to other industries.

At the core of all regulations that govern market entry of foreign joint venture partners or investors in general, is the Ministry of Commerce (MOFCOM). Formerly it was known as the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), from 1993-2003. MOFCOM's mandate is as follows:

To formulate development strategies, guidelines and policies of domestic and foreign trade and international economic cooperation, draft laws and regulations governing domestic and foreign trade, economic cooperation and foreign investment, devise implementation rules and regulations. To study and put forward proposals on harmonizing domestic legislation on trade and economic affairs as well as bringing Chinese economic and trade laws into conformity with multilateral and bilateral treaties and agreements. (cf. MOFCOM.gov.cn)

Table 3-1: Different Forms of Foreign-invested Enterprises

	EJV	CJV	WFOE
Contract	Required	Required	Not required
Articles of Association	Required	Required	Required
Standards for investment	Advanced technology, scientific management, technical renovation of enterprises, improved economic results, expanded exports, training of technical and managerial personnel	Export oriented and advanced technology encouraged	Must benefit development of Chinese economy, utilize advanced technology and equipment or export all, or most of their products
MOFCOM approval	Required	Required	Required
Project proposal	Required		Required
Feasibility study	Required		Required
SAIC registration	Required	Dependent on creation of legal personality	Required
Capital contribution	Cash, capital goods, industrial property rights, know-how, land use rights	Cash, industrial property rights, land use rights, non-patented technology	Cash, machinery, equipment, industrial property rights, proprietary technology
Board of directors	Required. Membership not necessarily in proportion to investment	Requirement depends on structure of venture	Required
Separate management structure	Required	Requirement depends on structure of venture	Required
Domestic sales	Possible. Export ratio normal	Possible. Export ratio normal	Possible. Exports must be at least 50% of annual output
Accounting	Accounting as separate entity required	Books of account must be established	Accounting as separate entity required
Profit distribution	In proportion to investment. May be repatriated after tax	May be determined by contract. Foreigners may use profits distributed to reduce investment. May be repatriated after tax	To foreign investor. May be repatriated after tax
Tax	Income Tax Law	Income Tax Law	Income Tax Law
Investment term	Maximum normally 30 years, but may be up to 50 years or unlimited in certain cases	As stipulated by contract	To be set in application
Early termination	Permitted	Permitted	Permitted
Governing law	China law	China law	China law

From "The Life and Death of a Joint Venture in China," by D. Freeman (Ed.), 1994, Hong Kong, *Asia Law & Practice*, pp. 25 ff. Notes: The original version of this table stated "MOFTEC" instead of "MOFCOM." In 2003 the Ministry of Foreign Trade and Economic Co-operation (MOFTEC), the State Economic and Trade Commission (SETC), and the State Development Planning Commission (SDPC) combined and incorporated into the Ministry of Commerce (MOFCOM). SAIC: State Administration for Industry and Commerce

3.1.2.1 Equity Joint Venture (EJV)

EJVs are limited liability corporations in which Chinese and foreign partners invest in jointly. They operate a corporation, share the profit, losses and risks according to their share in the venture. Freeman (1994) argues that the EJV is a relatively rigid structure governed by many statutory provisions. Major international companies frequently use it for large manufacturing projects, especially where the investor is seeking access to the domestic market in the long-term (p. 3). Gross (1995) on the other hand, saw many advantages for EJVs (cf. Table 3-2: Equity Joint Ventures – Advantages and Disadvantages). In the past, JVs of ten years or more received an exemption for the first two profit-making years and a 50% reduction for the following three profit making years. Other reductions or preferential tax treatment were offered depending on the location and type of project, but such privileges have now been widely adjusted to the disadvantage of FIE. The exact treatment is difficult to capture as it is subject to constant policy changes. The approval will be made on a case-to-case basis, but outcomes are difficult to predict and will depend on the practice in different jurisdictions. Furthermore, the following advantages and disadvantages (Table 3-2) can be summarized for EJVs from the foreign investor's standpoint, referring to Gross (1995):

Table 3-2: Equity Joint Ventures – Advantages and Disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none">▪ The EJV law and implementing regulations provide a relatively complete structure of rules and procedures for establishing and operating a joint venture in China.▪ EJVs are the preferred investment vehicle of the Chinese government and many incentives are offered.▪ EJVs may provide a separate vehicle for selling to the domestic market.▪ EJVs may be included in the annual plans for raw material allocations and may procure goods at subsidized prices	<ul style="list-style-type: none">▪ Negotiations for an EJV may stretch out for years, generating excessive expenses. However, some negotiations have been concluded in as little as three or four months.▪ Investors are restricted from withdrawing registered capital during the life of the contract.▪ Termination and liquidation of EJVs have not been fully addressed by laws and regulations.

This study will identify whether EJV are the most appropriate form of FDI for lodging related ventures, or whether other contractual arrangement would be preferred.

3.1.2.2 Co-operative / Contractual Joint Venture (CJV)

CJVs involve the foreign partner as providing technology and having capital shares in the invested business. Foreign investors are repaid on a schedule of return, which is negotiated beforehand. The Sino partner usually provides land, materials, the work force, basic buildings, or general services (Grünebaum, 1995, pp. 56 f.; Ma, 2000, p. 180). The CJV is usually a more flexible form of investment. It is bound by fewer statutory provisions compared to EJVs and is often used for simpler projects such as assembly and processing operations. Given the asset involvement in lodging developments CJVs may be found to be an appropriate contractual vehicle for FDI implementation. In the past, the CJV concept was most common in the field of manufacturing.

3.1.2.3 Wholly Foreign-owned Enterprise (WFOE)

The pre-condition for the foundation of a WFOE is that it is clearly beneficial to the development of China's economy, from a political standpoint. Such an enterprise needs to be able to achieve extraordinary economic success (Grünebaum, 1995, p. 58). China's officials have formulated that such WFOEs have to use state-of-the-art technology and equipment that can develop new products or can improve existing products. In addition, the manufacturing WFOEs are obliged to achieve and export quota of 50% or more (Grünebaum, 1995; Freeman, 1994). WFOEs allow a certain degree of independence for foreign investors, but Freeman (1994) stated that "it suffers from the drawback of lacking direct linkage to the domestic economic system provided by Chinese partners in [JVs]" (p. 3).

3.1.3 Finding the Right Partner

Roy and Oliver (2009) emphasized that “partner selection is an important strategic choice for firms entering foreign markets” (p. 779). Portman (cited in Cook, 1989, p. 67) advised foreigner investors to respond to two key issues: (1) negotiate a fair investment return and (2) create a workable structure for the relationship with the Chinese partner. As these recommendations appear to be common sense, the question should be considered as to how the right partner for a Sino-foreign venture can be found, assuming that the vast majority of FDI takes the form of JV.

Finding the right business partners for JVs in China is crucial to their success and probably the first and most important challenge for every foreign investor. The ‘partner’ is one of the 3Ps for successful business development in China, viz.: product, program and partner (Chung cited in Grünebaum, 1995, p. 23). The literature mentioned that companies found their business partners for their FDI by chance. Establishing an FDI in this way was deemed to be less successful as such Sino-foreign ventures are more likely to have weaknesses in their business model. Chung (ibid) recommended undertaking a systematic search for appropriate business partners; this process can also be referred to as *information sourcing* for the purpose of finding a business partner that meets most of the requirements for a successful Sino-foreign venture. For a systematic search, interested business developers should utilize private and public institutions, especially governmental organizations of China. Furthermore, business developers will randomly find sources and network with insiders of their industry that have knowledge of the Chinese market. Having a well established network can be a key success factor for doing business in China. The Chinese refer to this as *guanxi*, which is a common prerequisite for any social interaction in China. It is important for foreigners to bear this concept in mind when doing business in

China. Chung (ibid, p. 24) spoke of this *information sourcing* as an investment in which both a reasonable amount of money, as well as time, should be invested.

Four broad areas are important requirements for any JV partner: (1) general qualification, (2) economic know-how, (4) management skills, and (4) experience in marketing and distribution.

Table 3-3: Expectations of Foreign Investors and Chinese Partners

Foreign Investors	Chinese Partners
▪ Open China's market for its products	▪ Adopt advanced production technology
▪ Overcome trade barriers	▪ Improve R&D capability
▪ Take advantage of low cost labor and materials	▪ Open more information channels
▪ Expand existing techniques from home facility	▪ Looking for allies for international competition
▪ Reduce financial risks	▪ Add new financing source
▪ Protect copyright for intellectual products	▪ Increasing firm reputation from famous brand
▪ Reduce capital input in investment	▪ Utilize current and available resources
▪ Access natural resource	▪ Reduce operational risks

From "Identifying Key Factors for Successful Joint Ventures in China," by J. Yang and H. Lee, 2002, *Industrial Management and Data Systems*, 102(1/2), p. 101.

Being aware of particular expectations when searching for the right JV partner(s) is an essential part of the JV foundation process. The above table outlines general distinctions between Sino and foreign partners. Yang and Lee (2002) suggested asking the following questions when approaching potential business partners in China: (1) 'How does the Chinese partner view the product of the foreign firm?', (2) 'What appears to be the Chinese partners' interest in the JV?', (3) 'What is the legal framework?', (4) 'Is the potential partner authorized to engage in Sino-foreign JV?' and (5) 'is there a reasonable chance that *guanxi* can be developed?' Any potential foreign investor must not omit to ask these essential questions.

3.1.4 China's World Trade Organization Accession

Yang (2003) argued that the most far-reaching opening-up of the Chinese market related to China's WTO accession in 2001 (p. 7). Despite the country's opening-up of 1978, some sectors, such as services, had been widely closed to foreign competition.

Before China's WTO accession, foreign providers of services faced extensive restrictions in licensing, equity participation, geographic location, business scope and operations. Nevertheless, since China's accession to WTO, a wide range of services have been and are being, opened up to foreign competition. These include telecommunications and financial services, as well as travel and tourism. It was argued that China's commitment under the General Agreement on Trade in Services (GATS) represents the most radical reform program negotiated under the regime of WTO (Mattoo, 2002. Also cited in Yang, 2003, p.7). In addition to market access, China made extensive commitments to compliance of WTO rules. It agreed to apply its trade policy in uniform across the country, enforcing only those laws, regulations and other measures that have been published beforehand, also making them available to other WTO members. An official journal has been established to publish all trade policy measures and a central inquiry point has been set up to answer all inquiries promptly. These measures have been negotiated in order to increase the transparency of the trade regime (Yang, 2003, pp. 7 f.). An important step in developing China's tourism market and a crucial part for preparing China for WTO membership took place in 1994. This is when China unified its exchange rates and made China's currency, *renminbi* (RMB), convertible to international trade in tourism. The RMB is not yet free floating and according to common opinion, is significantly undervalued. The currency is appreciating slowly against foreign currencies and first steps for its full convertibility have been initiated. None-the less, China's market-opening commitments do not imply that all FDI is welcome. The ultimate approval will

always lie with the Government. According to McMurphy (2003), “China's approval system continues to allow the government wide discretion to reject projects or investments out of hand, and to pit [foreign investors] against their competitors in courting Chinese government approval” (para 22).

3.2 Foreign Direct Investment

In order to understand the main objectives of this dissertation, a flow of thoughts are to be developed in clarifying the understanding of this concept. Caves (1971) identified two principal economic features of FDI: first, “a net transfer of real capital from one country to another” (p. 1) and second “it represents entry into a national industry by a firm established in a foreign market” (Caves, 1971, p. 1). As Liu, Wang and Wei (2001) found, FDI is a means to overcome trade barriers when intending to enter a particular market (p. 192). Naturally, in the case of lodging properties, FDI can be regarded as the only way to enter a market as the asset possession will be located within a particular market. Wu (1999) divided FDI into two broad areas: (1) domestic market-oriented FDI and (2) international market-oriented or export-oriented FDI (p. 71). The former aims to primarily serve the host country's market while the latter focuses on the international market. Given the inseparability of the hotel real estate as an asset it is understood that FDI in the hospitality sector will naturally be domestic market oriented, i.e. aimed at gaining access to a particular market. However, the discussion may be continued and it can be argued that different hotel properties accommodate different market segments. Some hotel products may be more appropriate in serving China's domestic market, such as the budget and economy segment, while the industry's luxury or five-star market properties were mainly developed to serve the international market.

Huang (1998, p. 87) described three research approaches to FDI: (1), economic theory of the firm, i.e. industrial organization approach, (2), determinants of FDI, i.e. country characteristics and (3), the effects of FDI activities. Liu et al. (2001)

asks whether “FDI and trade [are] substitutes or complements?” (p. 191). It can be argued that in tourism development FDI and trade, and vice versa, are closely related, the latter implying that international exchange of tourism services in hospitality and travel will enhance FDI in destination countries.

Provided that such interdependence does exist, it will lead to what Zhang and Jensen (2007) refer to as “cross-border supply” (p. 227). They found that the “most internationalized commercial activities [...] involve hotels and restaurants, which are categorized as the mode of commercial presence” (pp. 227 f.). In the case of tourism FDI Liu et al. (2001) argued that FDI becomes a substitute for international trade, where overcoming “barriers to trade” (p. 192) is only of limited significance. They found that generally the “linkage between FDI and trade are complex.” From a tourism economic perspective, the linkage is relatively clear due to the interdependence of those involved in the trade (travelers) at the point of service delivery. They mentioned the notion that FDI causes “complementary trade flow from the labor-intensive country”. In the context of FDI within the hospitality industry, one may argue the other way around. China’s increased international trade is the main causality for increasing FDI in hotel properties’ development. China first began to permit FDI in 1979, with the passage of special legislation on joint ventures (JVs). Since then it has been able to attract large volumes of FDI (Yang, 2003, p. 6). At the early stages, FDI inflow was carefully regulated and restricted to four Special Economic Zones (SEZs), to which later additional SEZs were added.



Figure 3-2: China's Five Special Economic Zones

From "China Hand: The Complete Guide to Doing Business in China (Chapter 5)," by E. Cheng (Ed.), 2006, Hong Kong, *The Economist Intelligence Unit*, p. 4.

China began to encourage FDI actively in 1986 with the passage of the Wholly Foreign-Owned Enterprise Law, which allowed entry to FIEs with sole foreign ownership. During this period, other major legal developments included the passage of law on Chinese-foreign co-operative JVs in 1988, and the 1990 amendment to the 1979 JV legislation. These incremental legal, as well as policy modifications, plus general economic liberalization, affected China's FDI regime during the 1990s. Since then, it is said that it compares favorably with the regulatory regimes amongst East Asia and Southeast Asian countries, despite a much shorter history in FDI (Huang, 1998, pp. 10 f.). However, China's FDI regulatory regime still imposes tight restrictions on FIEs. Project approvals are conducted extensively on both positive and negative-list principles. There is aggressive localization, technology transfer and other performance requirements. These requirements could often be particularly burdensome on the activities of

multi-national corporations (MNCs)²². Despite the administrative hurdles in establishing foreign businesses in China, the Chinese firms were strongly motivated to form alliances with foreign firms.

This was in order to qualify for policy benefits associated with the status of FIEs (Huang, 1998, p. 11), due to favorable investment conditions. Evaluation has shown that foreign firms seem to be generally pleased with their Chinese JV partners. According to a survey conducted by the German Chamber of Commerce, from a total of 74 German companies assessed, 70 percent were “very satisfied” or “satisfied” with their business engagement in China, “indicating that their corporations would increase their investment and production capacity in the near future” (Yang & Lee, 2002, p. 100).

²² The term multi-national corporation (MNC) is used instead of trans-national corporation (TNC). This follows the argument put forth by Hirst and Thompson (1999). They argued that most companies are still rooted in one distinct national economy, depending on a strong home market (p. 11); whereas TNCs would be “footloose capital” (Hirst & Thompson, 1999) without specific national identification. This type of capital would be floating through the world’s economies relocated to any place with the most investment security and/or the highest returns, at any time. But what would be the consequences of corporations becoming true TNCs? This type of corporation could no longer be controlled or constrained by the policies of national legislation. These businesses could escape all but international agreements like GATS. The influence that national governments still have today would diminish, being replaced by a regulatory framework developed by the world trade rounds. For the time being MNCs appear to be the common form of internationally active companies. They are rooted in one relatively strong home market. Any activities in foreign markets are to gain market access and win global market share, while headquarters of MNCs remain clearly identifiable. Profits of business activities by MNCs outside their home markets are mainly repatriated. Hirst and Thompson (1999) conceptualized the organizational types of global businesses: (1) multi-national, (2) international, (3) global, and (4) transnational. In the context of this dissertation the term MNC (multi-national company) is used throughout to describe private sector businesses internationally engaged in hotel investments. Hereunder they understand those corporations that are still “based on one predominant national location” (p. 11).

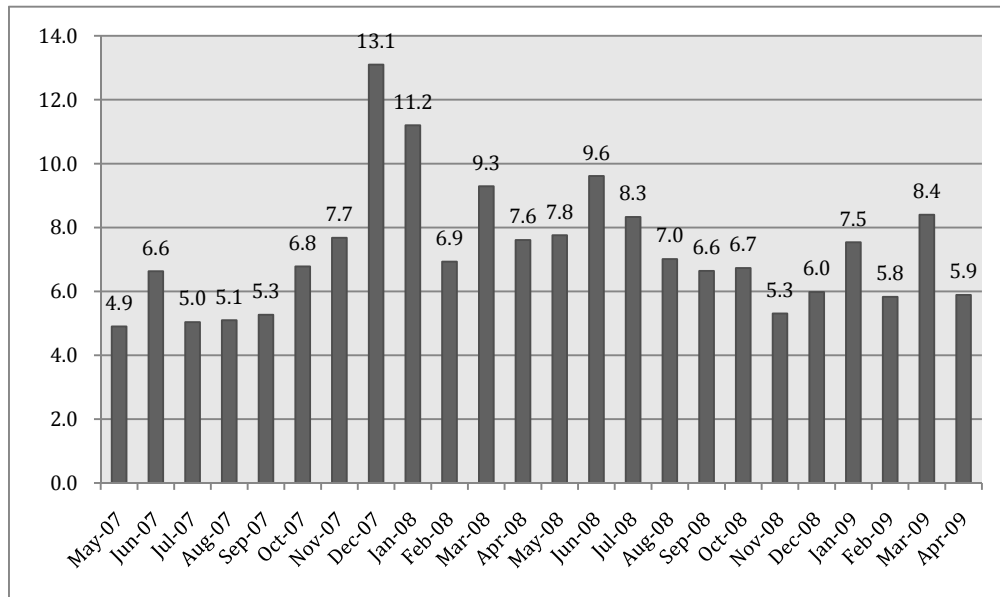


Chart 3-1: Recent Development of FDI in China in US\$ Billion

From "Foreign Direct Investment Plunges 22pc to US\$5.89b" by D. Tsang, 2009, May 16, *South China Morning Post*.

Most recently, FDI into China has significantly decreased. It is reported that FDI decreased by 33 percent in January 2009, following "four successive monthly drops since October 2008" (Law, 2009, para 4). The latest available figures on FDI indicate that the global recession has led to a decrease in FDI in China. April 2009 featured a year-on-year decrease of 23 percent in FDI. It must be mentioned that the latest figures were slightly distorted "by the high level of investment in April [2008], when such commitments jumped nearly 53 percent from [2007]." (Associated Press, 2009)

For the first few months of 2009, January-April, FDI decreased by 21 percent as investment decisions were delayed. This is the first time that FDI has decreased over several subsequent quarters since the Asian financial crisis in the late 1990s (Tsang, 2009). The drop in FDI was steeper than the 9.5 percent decline in March, according to figures from the MOFCOM. In the first four months of this year, FDI fell by 21 percent to US\$27.67 billion.

Some economists said the credit crisis and economic downturn had forced multinationals to pare down or even scrap investments, a trend

that could continue to haunt foreign direct investments in coming months. But they also pointed out that the foreign investment comparison with last year was distorted by an unusually high base 12 months ago, when many investors were speculating on Yuan appreciation. (Tsang, 2009)

Foreign direct investment accounts for about 4 percent of China's total investments. Tsang (2009, May 16) quoted Sun Mingchun of Nomura International, an economist, who remarked that China's investments in property and factories jumped by 30.5 percent in the first four months of 2009, driven largely by China's spending programs. This spending is said to focus on infrastructure, the environment, urbanization of rural areas, education and property. Further urbanization, the focus on property development accompanied by general infrastructure growth, offers obvious opportunities for hotel development. The following table shows the current leading source markets of FDI.

Table 3-4: Top 10 Origins of Non-Financial FDI

Origin	2007	2008	Δ (in %)
Hong Kong	27.7	41.0	48.1
British Virgin Islands	16.6	16.0	(3.6)
Singapore	3.2	4.4	39.3
Japan	3.6	3.7	1.8
Cayman Islands	2.6	3.2	22.3
South Korea	3.7	3.1	(14.8)
United States	2.6	2.9	12.5
Western Samoa	2.2	2.6	17.5
Taiwan	1.8	1.9	7.0
Mauritius	1.3	1.5	12.1

From Ministry of Commerce, Beijing.

With the British Virgin Islands, Cayman Islands, Western Samoa, and Mauritius being among the top 10, this confirms evidence as presented in Chapter 4. FDI without an off-shore financial vehicle in place is generally "a non-starter" (as remarked by Interviewee G, cf. Chapter 5).

3.2.1 Definitions of Foreign Direct Investment

Various organizations and governments provide definitions for what may be regarded as FDI. The most common definition is provided by both the UN and U.S. which describes FDI as long term direct investments in another country other than which the foreign direct investor is based. Any FDI, according to these definitions, should result in an ownership of at least 10% (cf. International Monetary Fund [IMF], 2004, p. 2) of ordinary shares, respectively equity or voting power. This is then regarded as the foreign direct investor being given some degree of control over its foreign affiliation. The arguably most comprehensive guideline on definitions of FDI and related terms stems from the OECD (Organization for Economic Co-operation and Development) Group of Financial Statisticians (1996). FDI is defined as follows:

[FDI] reflects the objective of obtaining a lasting interest by a resident entity in one economy ('direct investor') in an entity resident in an economy other than that of the investor ('direct investment enterprise'). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated (pp. 7-8).

The same authors define foreign direct investors as cited hereafter:

A foreign direct investor is an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which has a direct investment enterprise – that is, a subsidiary, associate or branch – operating in a country other

than the country or countries of residence of the foreign direct investor or investors (p. 8).

The availability and reliability of FDI data makes an investigation of this subject particularly complex. Huang (2003) noticed the problem of round-trip FDI. That is, capital first exported by domestic companies to a market outside China such as Hong Kong, then the capital is re-imported for the purpose of investment into China (Zhang, 2001, p. 688). While Hong Kong is, together with Taiwan and Macau, what Huang called an ethnically Chinese economy (ECEs), he estimated that in the time period from 1978 until 1999, FDI from ECEs accounted for 59.3 percent. The implication of this finding is that such FDI has no effect on China's capital inflows. Huang (2003, pp. 37 ff.; 1998, pp. 56 ff.), remarks that the actual amount of round-trip FDI is not truly known and that it is "extremely difficult to calculate" (p. 38). The reasons for capital to be exported and then re-imported shall be further discussed in Section 3.2.2.1. Apart from the decision on FDI definition, a particular obstacle in evaluating tourism FDI is caused by the wide range of services related to tourism. Some such services could be transportation, restaurant, tour operating, intermediary services, as well as accommodation. The composition of these services in FDI statistics (Endo, 2006, p. 600) makes an evaluation of FDI for the hotel sector particularly difficult.

While informal in its use, it is common to refer to *the* investors. But, it is important to understand that, what is colloquially referred to as a homogeneous group of financial investors, is in fact a diverse set of stakeholders. Apart from typical real estate developers, this may include mutual funds, pension funds, endowments, trusts or insurance companies and real estate investment trusts (REIT). Go et al (1990), found that hospitality related real estate investments "require a high degree of specialized service business management expertise to succeed" (p.

297). Hence, stakeholders involved ranged from developers²³, owners²⁴, franchisees and referral consortia to management companies.

3.2.2 China's Attitude Towards Foreign Trade and Investment

3.2.2.1 General Environment for FDI

Much has been said about the importance of the year 1978 for China's economic development. It is noteworthy, however, to understand the fundamentals on which China's trade politics rest. Heuser (1978) conducted interviews with two high-ranking government officials from the China Council for the Promotion, in 1977. Their remarks on China's three attitudes towards foreign trade (Heuser, 1978, p. 162) are still valid today: (1) policy of independence and initiative, (2) policy of equality and mutual benefit and (3) taking into consideration of international practice. The first point implied that any politics on foreign trade should be in line with China's socialist ideals.

The second point concerned the making and implementation of policies and that the socialist ideals "will be applied in the [...] execution of the law" (Heuser, 1978, p. 162). With the third point, China commits herself to "pay due regard to international practice" (Heuser, 1978, p. 162) and to "make only laws which are reasonable, i.e. [international practice]" (Heuser, 1978, p. 162). A most recent account on the internal struggles regarding attitude towards FDI provides the recently published memories of former Prime Minister Zhao Ziyang (Ziyang, 2009).

After China's accession to the WTO on December 11, 2001, its attitude towards FDI appears to have changed, but the country is sending mixed signals towards foreign investors.

²³ Real estate developers commonly have control over the land that they propose for use.

²⁴ The group of hotel owners consists of those stakeholders who put up the required equity for a real estate project.

In summer 2006 German media reported that China was about to limit FDI, fearing an overheating of the real estate market, especially in the main cities ("China Wimmelt," 2006). The same source quotes Zhang Yang, of the Institute for Banking and Finance of the Chinese Academy for Social Sciences, as saying that the market entry of foreign investors will lead to a bubble. As a case in point, one example is that of a German private equity fund which negotiated the purchase of a Siemens property on the Beijing outskirts. The project failed at the last minute. According to Andreas Ermann, managing director of GSN Property Services in Shanghai ("China Wimmelt," 2006) there is anecdotal evidence that it became increasingly difficult for foreign investors to obtain credit financing. Those examples illustrate that foreign investors depend significantly on the greater political climate in China. Furthermore, the question of RMB-appreciation is yet unanswered. A lot of capital has entered China's real estate market in expectation of the Chinese currency appreciation. What might happen to the Chinese economy once those funds are extracted?

Does this mean that China, in a tourism context, has become more attractive for FDI, as Yang (2003) suggested (p. 13)? These questions shall be further discussed as part of this research.

China's FDI has continuously risen every year since 2001 when China joined the WTO. In the first half of 2006 FDI to China saw a decline for the first time (Huang, 2006), but it is a fact that annual FDI to China kept rising until 2008 and now seems stable. FDI in China, the world's fastest growing major economy, rose by 13.9 percent in January 2007 compared to the previous year, according to MOFCOM (Huang, 2007). However, with more and more FDI pouring into the Chinese economy, economists called on the government to actively slow down the inflow of capital. Some Chinese economists questioned whether China might have attracted too much FDI, indicating that it would pose a threat to economic security with foreign MNCs taking over some of the largest SOEs (Huang, 2006).

In addition, domestic businesses have openly questioned the favorable tax conditions for foreign-invested companies. As a matter of fact, the Central Government decided to merge the corporate income tax for all domestic and foreign businesses, and it has now leveled at 25 percent (Zhu, 2006). Apart from this political decision, *The World Investment Prospect 2010*, published by the Economist Intelligence Unit and Columbia University, state that FDI levels will decline from an estimated US\$86.5 billion in 2006, to about US\$80 billion in 2010 (Huang, 2006). The most immediate impact on the development of FDI is likely to come from a decision that took effect on September 8, 2006, which states that FDI in Chinese companies will have to be approved by MOFCOM (So, 2006, September 7). In this regard Frank Lu, a partner in a Chinese software firm, has noted that this decree will “definitely slow the deal flow” (So, 2006, September 7). However, as will be shown in chapters 5 and 6, there are exceptions to this ruling and FDI approval remains a decision that is made on a case-by-case basis in China.

The decision and the local investment environment will rely on local authorities leading to what Huang (1998) calls the “negotiated nature” (p. 31) of FDI transaction to China.

Blomström, Kokko and Zejan (2000) stated that “in order to compete successfully in a foreign market, a firm must possess some ownership-specific assets” (p. 31). Such ownership is valuable since it helps to circumvent entry barriers to a foreign market (Bain, 1956). While the previous formulation raises an important point, it typifies a main issue in FDI and foreign market entry debate, not least when it comes to China. What can repeatedly be found in literature on foreign investment is that its majority is based on experiences from the manufacturing sector (cf. Walder, 1995b; Meldrum, 2000). This is because it has a longer tradition within this field as opposed to investments in the service industry or real estate for example, particularly in the case of China. After starting her reform

process, China was in need of capital to implement her infrastructure projects. These included property investments in hotels which were implemented as early as the 1980s, in expanding this underdeveloped sector. Hence, the Chinese authorities provided a positive investment environment for foreign investors. Referring to Blomström et al. (2000) it is understood that in real estate investment it is pivotal to possess some form of ownership within an asset. However, the equity participation in investment projects within developed countries tends to be higher than within those ventures taking place in developing countries (Go et al., 1990, p. 298). As has been mentioned in 3.2.1, large amounts of FDI into China are what Huang (2003, pp. 37 ff.; 1998, pp. 56 ff.) calls round-trip FDI. This adds complexity to the study as it attempts to analyze the risks for foreign hotel real estate investment. Some investment is not *truly* foreign, but is in fact, ethnical Chinese capital re-imported into China. At this point, the question adverts as to why round-trip FDI emerged in the first place? This is primarily explained by what was previously referred to as the “negotiated” (Huang, 1998, p. 31) structure of FDI ventures and the preferences that are connected to them.

Recent policy changes illustrate such administrative flexibility: after FDI had dropped for several months up to early 2009 (cf. above), MOFCOM has given “local branches more power to approve foreign-funded projects” (“Round-trip Investment,” 2009).

For foreign investors the Chinese market is currently gaining in importance as “domestic purchasing power is playing a bigger role in attracting foreign investment [...], as China remains a very attractive destination [...]” (Huang, 2007). Hotel companies can use FDI to pursue market entry. The options are basically twofold: either a hotel corporation will build a new hotel property, or it has the opportunity to buy existing property. However, due to the capital intensity of hotel developments many hotel corporations have opted, in the past, not to own the realty of which they are operating. Nevertheless, by the building of a

new property, it can be seen to provide the entering hotel corporation with the opportunity to gain complete control over the asset, even before the hotel is opened. This may be considered an attractive option for hotel companies in meeting idiosyncratic quality standards. Obviously, obtaining ownership in an asset will expose the investing company to an increased financial, political, and economic risk. This risk may be balanced by the improved profit expectations, as the hotel corporation will not have to share its profits.

3.2.2.2 Confucianism

It is the author's belief that those planning business with Chinese partners should have a certain sense of familiarization with Confucianism. This opinion is supported by such scholars as Jacobs, Guopei and Herbig (1995), whose text is the primary basis of this brief discussion on Confucianism. This section does though briefly, it adds to the reader's understanding of which distinct cultural values affect the investment environment in China. During the Cold War the world was divided into the First, Second and Third Worlds. This division is no longer valid. It is far more meaningful now to group countries, not in terms of their political or economic systems, or in terms of their level of economic development, but rather in terms of their culture and civilization.

Confucianism has been identified as one of the major civilizations. The most prominent promoter of this concept is Huntington (1997), who in his book *The Clash of Civilization*, pushed the following concept forward. Beside the Sinic (equivalent to Confucian), Huntington identified African, Hindu, Islamic, Japanese, Latin American, Orthodox (i.e. Slavic), and Western civilizations.

Huntington's point is that civilizations' identity will be increasingly important in the future, and the world will be shaped, to a large extent, by the interaction between these cultures. This concept is not mentioned here to hypothesize economic or cultural conflicts between these cultures either now or in the near future. It is to point out which major cultural differences exist that need to be taken into

consideration when doing business across cultural borders. Westerners need to be aware that Western ideas of individualism, liberalism, constitutionalism, human rights, equality, liberty, the rule of law, democracy, free markets, or the separation of church and state, often have little resonance or other meanings in different cultural realms. The very notion that there could be a *universal civilization* is a Western idea. This is directly at odds with the peculiarity of most Asian societies and their emphasis on what distinguishes one 'people' from another. The following table lists the main aspects of Confucianism:

Table 3-5: Aspects of Confucianism

- Rank and hierarchy are very important.
 - Laws and external structure are not as important as relationships for problem solving (*rule by man* rather than *rule by law*).
 - Family (and the extended family) is important in this culture.
 - Business and business people are distrusted.
 - The authority and decisions of superiors should not be questioned.
 - Modernization is desired.
 - There is co-operation between government and business.
 - Emphasis is placed on education.
 - Business people dislike formal contracts.
 - Successful people avoid extremes.
 - Face must be maintained.
-

From "Confucian Roots in China: A Force for Today's Business," by L. Jacobs, G. Guopei, and P. Herbig, 1995, *Management Decision*, 33(10), p. 33

Jacobs et al. (1995) argue that Confucianism is so ingrained after 2000 years that it cannot be ignored (p. 29), even in today's business world. It still forms the basis of most business practices in China and its influence can still be felt in many ways in Chinese life. It continues to be strong and is still the foundation of China's relative continuous history – the extremes of the last 100 years in Chinese history aside. Jacobs et al. (1995) recommend that the "precondition[s] should interest all who wish to do business with China" (p. 34). Foremost, in business negotiations Confucianism builds the foundation for trust (Kuhn et al., 2001, p. 91). Once this trust has been established, all business matters can be dealt with relatively easier. A useful notion to keep in mind is the assertion that

China is a society that is in a process of modernization, but this does not mean that it is necessarily a society on a course to Westernization. The author's personal opinion is that this is an important dictum to remember, particularly when doing business, for Westerners (or *Guilao* 鬼佬), with a very different cultural realm.

3.2.3 Investment Risks

"You want a valve that doesn't leak and you try everything possible to develop one. But the real world provides you with a leaky valve. You have to determine how much leaking you can tolerate."²⁵ With this citation one can grasp the very nature of risk – and its management. It is certain that specific incidents will occur, but how likely are they? If it does not happen right now (short-term), what are the odds that it will happen in the future (long-term)? Risk is a matter of life, indeed, or as this author uncouthly likes to put it: "Life is risky!" The acceptance of risk is a very subjective issue. Some people tend to be risk-averse, while others are risk takers. In a similar line of argument, the level of return expected will differ with the level of risk necessary, in accepting an economic venture.

It is troublesome trying to answer the question as to whether globalization, as it is understood today, is a completely new concept, or just a continuation of the process of a more and more internationalized world. This process, it can be argued, does not only apply to recent decades, but to centuries.

When speaking of investment risk, it is actually being referred to as financial risk. Holt (2006, p. 609) clarified, that for the purpose of risk quantification financial risk is evaluated in monetary terms. Understanding that uncertainties in regard to "financial performance of an entity" (Holt, 2006, p. 609) are quantified by using

²⁵ Citation from the scientist who developed the Saturn 5 rocket that launched the first Apollo mission to the moon, Arthur Rudolph. (In Bernstein, 1996, p. 2)

the applicable risk factors. It was eventually Markowitz (1952) who developed the key insight that was central to the whole process of investing. It was, in fact, the assessment of risk.

Investment risks are manifold and differ depending on FDI's destination. When thinking of international hotel developments some risks are readily identifiable. In the case of hospitality businesses these are, for example, exchange rate fluctuations, terrorist activities, political instability or natural disasters. While research in finance may consider investment holistically, given the scope of this research, the focus is clearly on China and the investment risks to hotel properties. This section reviews the implications of investment risks and their assessment. Investment risks can be viewed as 'country risks' (Bouchet, Clark, & Gros Lambert, 2003), where risks for the profitability and cash flow from hotel property FDI vary from host-country to host-country. According to Krayenbuehl (1988) the assessment can broadly be divided into political and economical country risks. Ostroff and Toman (1995) outline the risks to which hotel investments are exposed: (1) business or operating risks, (2) real estate or market risks, (3) legal or governmental risks and (4) financial risks (p. 41). A definition by Meldrum (2000) clearly reflects the implications of country risks in investments:

All business transactions involve some degree of risk. When business transactions occur across international borders, they carry additional risks not present in domestic transactions. These additional risks, called country risks, typically include risks arising from a variety of national differences in economic structures, policies, socio-political institutions, geography and currencies (p. 33).

Meldrum (2000) distinguishes between six categories of country risk, arguing that this is the distinction that industry practitioners such as analysts in this field make. For Meldrum, the six categories are economic risk, transfer risk, exchange rate

risk, location or neighborhood risk, sovereign risk and political risk (p. 34). Furthermore it needs to be understood that any investment risk can “either be idiosyncratic [...] or systemic” (Sobehart & Keenan, 2006, p. 204). Idiosyncratic risks are specific to a particular investment object, whereas systemic risks are those an investor is exposed to in general such as “credit cycles or industry downturns” (Sobehart & Keenan, 2006, p. 204).

3.2.3.1 Defining and Quantifying Risks

As in all analytical approaches it is essential to quantify the object to be observed and even more so to clearly define the object under investigation. At this point it leads to an attempt in defining risk and an endeavor in critically reviewing how risk, such as investment risks, can possibly be quantified. From a practitioner’s point of view, Ostroff and Toman (1995), defined risk “as the probability that anticipated or forecasted events will not occur” (p. 40). A more precise definition of risk appears to be the one provided by Sobehart and Keenan (2006) who define risk as “the uncertainty surrounding the likelihood and severity of loss that leads to loss of capital (i.e. less-than-expected returns)” (p. 204).

In any investments, the investor is always confronted with a trade-off between expected return and investment risk (Berkelaar, Kobor, & Kouwenberg, 2006, p. 89). Hence, both the graphs involved feature a positive slope: the more risk involved, the more return can the investor expect. This assumption “lies at the heart of modern finance” (Shefrin, 2005, p. 263). However, there is evidence in behavioral finance that suggests investors’ expectations regarding investment returns can be quite the opposite, as will be further explained in Section 3.2.3.4. Bouchet et al. (2003) come to a generic notion that generally describes a representative understanding of risk from a microeconomic viewpoint, as an investor will – regardless of specific political implications – perceive it. Thus, risk can be defined as “the likelihood of a negative outcome that reduces the initially expected return” (Bouchet et al., 2003, p. 11).

3.2.3.2 Foreign Investment Risks

In general a wide body of literature exists on the assessment of investment risks. However, the similar body of literature regarding analyzing investment risk in the tourism industry is relatively narrow. Hence, to begin this chapter, the author will make extensive use of one article published by Poirier (1997). The importance of understanding risks in hospitality development is clearly stated by Poirier (1997) who argued that foreign hotel ventures by MNEs “are very vulnerable because of substantial investments in fixed assets” (p. 680). Caves (1971) pointed out that there are “additional risks of investment in a foreign [compared to] a home market” (pp. 13 f.). He suggested that a foreign investor will only accept this additional degree of uncertainty when the cost of settling within a market is comparatively less. Caves identified only two risks explicitly, these being exchange rates and political actions (p. 14). From the viewpoint of hotel investing MNCs, Gee (1994) identified the following political risk categories: (1) transfer risk, (2) operational risk, (3) asset risk, (4) market risk, (5) administrative/statutory risk and (6) ownership risk (pp. 95 f.).

3.2.3.3 Risk Assessment

The linkage between returns on investment, investment risks, as well as the value of an investment can be illustrated in the following equations:

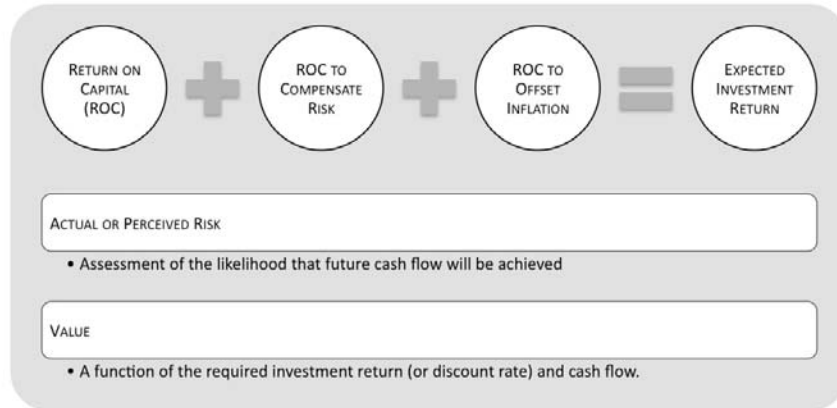


Figure 3-3: The Relationship Between Risk and Return

Adapted from "Hotel Investment and Risk Analysis," by A. J. Ostroff and A. Toman, 1995. In L. E. Raleigh and R. J. Roginsky (Eds.), *Hotel Investment: Issues and Perspective* (pp. 23-54), *East Lansing MI: Educational Institute of the American Hotel & Motel Association*, p. 28.

Holt (2006) remarked that central to risk reporting, of which also impacts on risk assessment, is the integration of "various financial risk[s], particularly market and credit risk" (p. 607). Poirier (1997) pointed out the important impact that a host government's "policy *per se* can have on the investment opportunities of multinational hotel chains" (p. 676). He continued that political risk analysis (PRA) is a "practical tool for [decision making]" (p. 676). That said he added: "boundaries between economic and political risk cannot be determined precisely" (Poirier, 1997, p. 676).

3.2.3.4 Risk Perception

Barlow and Wender (In Caves, 1971) once referred to earnings from (risky) foreign investments as "gambler's earnings" (p. 14). The above quote indicates that this section deals with one of the more cumbersome issues of the foundation topic of this research. It can be argued that the perception of investment risks can be regarded as a significant constraint on FDI flows to a particular economy.

The word perception implies that there is a certain degree of subjectivity involved and this makes its quantification and measurement slightly more problematic. The questions related to this issue are: (1) 'How do people perceive particular investment risks?' (2) 'How do people perceive risk probabilities?', and (3) 'Why do investors pursue investments with apparent risks?'

With risk management, the subject of risk perception is what can be regarded as the psychology in risk management (Shefrin, 2005). Where "in theory, risk management is a scientific enterprise, [but in] practice, risk management is a combination of art and science" (p. 654). Shefrin's approach belongs to the field of behavioral asset pricing. As opposed to traditional asset pricing to behavioral asset pricing he suggests that "psychological phenomena prevents most investors from being fully rational" (2005, pp. 2-3). In behavioral asset pricing theory, investors are "assumed to be imperfectly rational" (Shefrin, 2005, pp. 2-3). However, they are rational in a way that within an investment environment, where the risk is perceived to be higher, the investor will require a higher compensation for their investment, i.e. return on capital. There is a tendency that FDI expects higher rates of return to be short-term in nature, sometimes referred to as being "footloose" (Asian Development Bank Institute [ADBI], p. ii). However, such an attitude to FDI appears to be less likely in capital-intensive ventures such as hotel real estate is.

3.2.4 Real Estate in China

3.2.4.1 Overview

It is widely known that China's economy has shown significant growth over the past three decades (ca. 8 per cent on average); nonetheless, different segments of the market experience setbacks in growth. According to Jones Lang LaSalle, the outlook for property is bright, in the long term (Ng, 2006). Jing Ulrich from JP

Morgan stated that “Chinese property stocks have put their bad days behind them” (Ng, 2006).

This was following a correction in property prices between 2004 and 2005. On the one hand, there are grounds on which to believe that the Chinese government will currently take no additional action to further correct the market. On the other hand, however, in September 2006, China’s Central Government introduced new restrictions on purchasing property in China (Ho, 2006). As a consequence of this policy, one has to be a resident of China for at least one year in order to purchase Chinese real estate. For institutional investors, the practical implication is that foreign enterprises willing to invest in China need to establish a China-registered company for the purpose of purchasing property in the territory. It was reported by the Shanghai Statistics Bureau in July 2006 that in Shanghai, residential property market values decreased by 5.2 percent in the first half of that year.

The real impact of this newly introduced policy can be felt on the capital side of a potential investment. The foreign-invested China-registered company is required to provide 70 percent of the entire investment as capital for ventures up to US\$3 million. For investments ranging from US\$3 million to US\$10 million, the required capital is 50 percent, with a minimum of US\$2.1 million. It appears likely that this policy will decrease foreign investors’ interest in the Chinese market. In the long term, despite these facts, government property policies may lead to a situation in which the market environment for real estate in China becomes more transparent, which would be of benefit to this sector. It appears that one rationale which has constituted FDI in China since 1978 prevails: that is, joint ventures are the preferred mode of market entry for foreign investors to ensure friction free development of real estate.

3.2.4.2 New Property Law: Practical Implications

New rules formulated by the Central Government were designed to control rising property prices, as one source indicates (Sito, Leemaster, & Liu, 2006, September 6). Table 3-6, presents some key implications of the new property law:

Table 3-6: Highlights of the New Property Rules for Overseas Buyers

Implications
<ul style="list-style-type: none">• Foreign ownership of properties in China is restricted. Different rules apply to properties acquired for self-use and non-self-use purposes.• Any foreign entity or individual which intends to purchase property in China for purposes other than its own use must establish a business presence in China, effectively a wholly foreign owned or joint venture mainland company with appropriate real estate licenses.• Minimum capital requirement of a wholly foreign owned or joint venture Chinese company:<ul style="list-style-type: none">○ 50 percent minimum equity (registered capital) with total investment above US\$10m○ Between 50 percent and 70 percent equity with total investment below US\$10m• Stricter borrowing restrictions:<ul style="list-style-type: none">○ Equity is paid up in full○ Receipt of land-use rights certificate○ Capital contribution reaches 35 percent of the total investment of the project• Only onshore branches and representative offices of foreign entities or foreign individuals working or studying in China for one year or above can purchase properties in China for self-use purpose. Limited exception applies to property acquired by citizens of Hong Kong, Macau and Taiwan.

From "New rules damp REIT listings," by P. Sito, T. Leemaster, and Y. Liu, 2006, September 6, *South China Morning Post*, p. PPT1.

Wong and Arkel (2007) argued that the new property law makes it easier to "research, validate and challenge (or defend) property claims in a more predictable way" (para 3). The new property law can be divided into the following sections: (1) registration of real property, (2) movable property, (3) land-use rights, (4) agricultural sector, (5) state-owned assets and (6) security interests. In line with the purpose of this study, the consideration of (2) movable property, and (4) agricultural sector, shall be disregarded. Wong and Arkel (2007) identify major issues to be borne in mind when considering holding property in China.

Generally, Wong and Arkel (2007) believed that "property holders can look forward to a future in which clarity of title and stability of property rights will be

easier to attain” (para 1). Table 3-7 presents some key aspects to hold in mind by potential property holders:

Table 3-7: New Property Rights Selected Further Implications

Article	Section	Sub factors
Article 19	Registration of real property	<ul style="list-style-type: none"> Potential claimants should note that the property law permits property registrants to seek damages if challenges are found to be without merit.
Article 21	Registration of real property	<ul style="list-style-type: none"> If errors by the registration authority are found to cause damages, the authority will be required to bear responsibility for compensation and may seek recourse from the individual who caused the error.
Not specified	Land use rights	<ul style="list-style-type: none"> Land belongs to the state or collectives, i.e. private parties obtain land use rights, pursuant to various statutes and enabling regulations
Article 148	Land use rights	<ul style="list-style-type: none"> Where construction land-use rights are recalled by the state prior to the expiry of the term compensation must be paid for any residences or other real property built on the land, and the transfer fee paid for the use rights must be refunded.

From “China’s new property law,” by H. Wong and A. Arkel, June 2007, *China Law & Practice*.

All this suggests that expropriation of property will remain to be an issue in China. It is a matter of continuous assessment of any potential investor as to how the new rules and practices are going to develop. Wong and Arkel (2007) recommended, in this respect, that potential property holders “must include a careful risk assessment of public development needs in the vicinity of [their prospective] property” (para 20). Looking at China’s property laws today, we find it has come a long way considering remarks such as the following, where Cook (1989) wrote that, “China has no concept of mortgage security” (p. 67). Many things have changed since then.

3.2.4.3 Discussion on Real Estate in China

Obviously, protection of privately owned property is taken for granted in many countries. However, in the case of China, the arrival of the NPL is a milestone in the country’s transition into a “real” (Sui, 2007) market economy. Potential investors will find themselves, still, in an ambiguous socio-economic environment.

There are still voices arguing that of course private property needs protection and re-assurance, whereas others are saying the recently adopted NPL is “betraying socialism” (Sui, 2007), in that it contradicts the Communist Party’s slogan of ‘building socialism’. To further exemplify attitudes against NPL and to illustrate what mentality investors will, at least in parts, still be facing, the following points are to be quoted from an open letter which Gong Xientian from Peking University Law School published before last 2006 National Party Congress. His argument against NPL took the following path: (1) he raised the fact that the law was unconstitutional as the Chinese constitution states that “[...] socialist public property is sacred and inviolable”, (2) that the law protected the assets of a small minority of rich people, while the poor essentially have nothing worth protecting and (3) it would betray the basic principle of socialism (cf. Sui, 2007)²⁶. Such criticism has been widely put aside, but it is worthwhile remembering that although China is on the road to a free market economy, socialist ideas are still rooted in society. That is, the respective leftist political views have been accompanying the CCP ever since market reforms began (cf. Cheng, 1999) and potential investors may never be 100 percent assured of their title. With such criticism, there appears to be a clear indication that the debate regarding property rights is actually going beyond mere economic dimensions.

The CPC’s slogan of “people first” and “harmonious society” clearly demonstrate the political risks implied by China’s wealth gap, which no potential real estate investor should disregard; indicating that there is a chance that the political climate may change at some point.

²⁶ Those (Western) readers who may find this attitude towards (private) property strange should remember the origin of the word ‘private’, both linguistically and chronologically. The word ‘private’ first grew popular in the 17th century. It stems from the Latin verb ‘privare’ which can be translated into English as both ‘to separate’ and ‘to deprive’. This is important as this demonstrates that the concept of private property is of relative novelty in Western societies too.

Ambiguous signals from the business community can be noted (cf. Mak, Li, & Sito, 2007), as researchers have not yet had the opportunity to investigate the effects of China's NPL on hotel development and ownership. Mak et al. (2007) argue that the market for foreign investors was divided over the latest guidelines formulated in the NPL. A real estate investment manager has been quoted as saying, "I do not see any impact on the physical market on our fund investing in China" (Mak et al., 2007). On the other hand, a Hong Kong property lawyer stated that "foreign investors will be clearly discouraged further because of the changes" (Mak et al., 2007). Others, however, remained undecided about the NPL's impact. A fund manager commented that "[...] the new rules are not clear and, until more detail is released, it will be difficult to judge their impact" (Mak et al., 2007).

The very fact that the NPL has finally been passed at all, however, also leads to a macroeconomic environment with clearer regulations. It may further stabilize China's property market, while at the same time raising confidence levels of foreign investors in China, making investment risks more calculable. The NPL is said to correct previous legal shortcomings, particularly in the areas of land-use rights, ownership rights, and mortgage regulations, now leading to a clearer legal framework. Yet, as can also be seen, many of the new rulings seem unclear to real estate developers. While implications of the adjusted legal framework are primarily of interest to practitioners, academics should not disregard the control of impacts on market-entry decisions of potential hotel property owners and developers. There is speculation at this point that land-use renewal cycles will be as short as five years.

This means that, every five years, a project would be subject to governmental re-valuation. For obvious reasons, this may cause difficulties for organizations in making hotel investment decisions within China. Arranging financing for hotel properties is typically based on land-use rights as security. Obtaining financing

under uncertain land-use regulations will bring about problems to hotel investors. It is also unclear as to whether any land-use renewal applications will be processed on the local or regional level.

It also has to be noted that at the same time when the NPL was passed, the Chinese parliament also ended preferential tax treatment to foreign firms (cf. China's Enterprise Income Tax Law). Now, a standard corporate tax of 25% applies. In light of those developments it remains to be seen as to whether multi-national hotel investors, including hotel corporations, will still be an attractive joint venture partner for Sino entrepreneurs. Previously, multi-national (foreign) partners were aspired to by Chinese partners, as their involvement would justify a privileged tax treatment by the Chinese authorities, which typically laid at 15 percent. As reported recently, China's National Development and Reform Commission (NDRC), has published guidelines as to which sectors of the economy foreign investments are preferred. For example, the NDRC encourages developments that protect the environment, cut pollution and foster renewable energy (China alters, 2007); however, those guidelines within other sectors, viz. energy and mining, are more difficult. Obviously, the latter sectors mentioned may be disregarded in light of hotel development, but it should be noted by the former that some investment types are preferred. This appears to also favor developments in hotel and tourism, which can clearly be recognized as sustainable in nature.

3.2.5 Summary of Foreign Direct Investment

Foreign investors set up FDIs in China for a variety of reasons. First, FDIs help foreign companies gain access to China's domestic market while maintaining control over their activities. Second, FDI help many foreign investors take advantage of China's relatively well-educated, low cost labor force to produce their product. Other advantages include: improving access to local resources, favorable treatment, i.e. investment condition, from the Chinese government.

Favorable treatment in this regard may be in respect to tax exemptions, obtaining financing and securing any form of direct or indirect support. On the other hand, there are motives for accepting FDI on the Chinese side. The government's objective for FDI include: obtaining foreign exchange, increasing industrial efficiency, realizing import substitution and the creation of new jobs. The goals of the Chinese company include: obtaining advanced technology, increasing access to foreign markets, using the venture as an instrument to get ahead in the local market and to assist in developing research and development capacity. For obvious reasons, i.e. state-ownership of enterprises, it is not always possible to distinguish between governmental and business objectives. According to Chow (1993) FDI is responsible for China's economic development in three distinct ways: (1) FDI augments domestic investment in capital accumulation, while at the same time it enhances international trade, (2) it opened channels into China for knowledge transfer and (3) it introduced competition to the market for state and collective enterprises enhancing efficiency in China's economy, and gradually introduced price systems which reflect demand and supply market forces (p. 125).

The policies on property ownership in China have taken various turns over the last decades. It appears that its implications are full of ambiguities of which consequences are often difficult to comprehend, especially for foreign parties.

Obviously, with the rise of China's NPL it is not clear yet where the *journey* will take potential investors. As has been discussed above, the opinions on the NPL vary from stakeholder to stakeholder with no clear picture appearing. Now that conditions under which foreign parties may invest in property in China have changed, it remains to be seen as to how far this will alter the role of non-Chinese investors. As suggested in the literature review section, consultancy services, hotel management companies and architects and engineers are typically utilized to facilitate a hotel project. It appears advisable that in a politically complex environment, special project facilitators may be required to assist in obtaining the

necessary entitlements from governmental agencies. It has explicitly been mentioned during the past few months through the media and investment analyst reports, that there appears to be an increased need for overseas investors to cooperate with property developers in China, in order to smooth the process in their quest for finding profitable projects (Ho, 2006, September 6). Alternatively, the newly implemented legislation (cf. tax regime) makes foreign parties significantly less attractive in cooperating with, from a mainland company's point of view.

3.3 Presentation of Conceptual Framework

This section synthesizes the study's literature review by presenting its conceptual framework as it can be deduced from the literature review's findings. In view of the study's research problem and methodological approach its literature review tried to achieve to main goals. First, it was to define the topical scope of the study as outlined in (Chapter 2). Second, following the *Straussian* strand of grounded theory, it was to develop a conceptual framework that would guide the data collection. Strauss and Corbin (1990) generate codes and theoretical relationships between codes and categories from a predetermined organizing schema that they claim help grounded theory researchers construct complex and meaningful theory more reliably (cf. Kendall, 1999, p. 748). Notwithstanding, the author acknowledges that the topics of FDI and real estate in China are constantly evolving, and so is the literature about them.

In research philosophy, all consciously referred to presentations are either *intuitions* or *concepts* (Kant, 1988, p. 96)²⁷. Intuition is a singular presentation (*repraesentatio singularis*), in that the concept is a general (*repraesentatio per notas communes*) or reflected presentation (*repraesentatio discursiva*).

²⁷ This publication is originally based on the original edition of Kant's Logic (1800), and was first published and translated in an earlier edition (1974) published by Bobbs-Merrill Company in Indianapolis and New York.

In its German original, the term concept was described by the noun *Begriff*, which in fact means both *concept* and *conception*, particularly in its sense of the observer's ability to conceive. The term *intuition* is rooted in the German noun *Anschauung*, which can also be referred to in English as a view on a phenomenon. In contrast to *intuition*, a *concept* is a universal representation of phenomena. The expression 'universal representation', is rooted in the German noun *Vorstellung*, which can be referred to as image, but as well as notion or belief. At this point the discussion takes an ontological perspective and needs to be elaborated in this regard. This will be done in one of the following sections attending to ontology, where the core question touches the matter of how we can actually obtain knowledge of the world. In his *Critique of Pure Reason* Kant (1781) found that without having factual content, concepts will be empty and in turn data without concepts are blind, or meaningless. Some agents of a grounded theory approach will claim that in order to develop *new* theory it is most desirable to conduct (grounded) theory development from scratch, i.e. without any conceptual 'ballast'. Alternatively, this research will not follow such a radical approach, but follow the Kantian rationale, where concepts are being used to make *intuitions* intelligible, i.e. to contextualize them using existing theories. This is also to bring forward the fact that this study adopts a descriptive study design.

The *Glaserian* strand of the grounded theory approach suggests to go about theory development in the absence of a pre- conceived theoretical framework. The author did not follow this extreme approach of conducting grounded theory development. However, he adopted the *Straussian* strand of grounded theory, where a general theoretical framework is adopted to guide the investigator through the re- search. (The author contrasts the two strands of the grounded theory approach in more detail in Chapter 4, Methodology.) While Chapter 2 provided literature on the background and scope of this study, Chapter 3 more specifically presents the literature related to the conceptual framework that was

adopted to guide the study, especially in its data collection, presented directly hereafter.

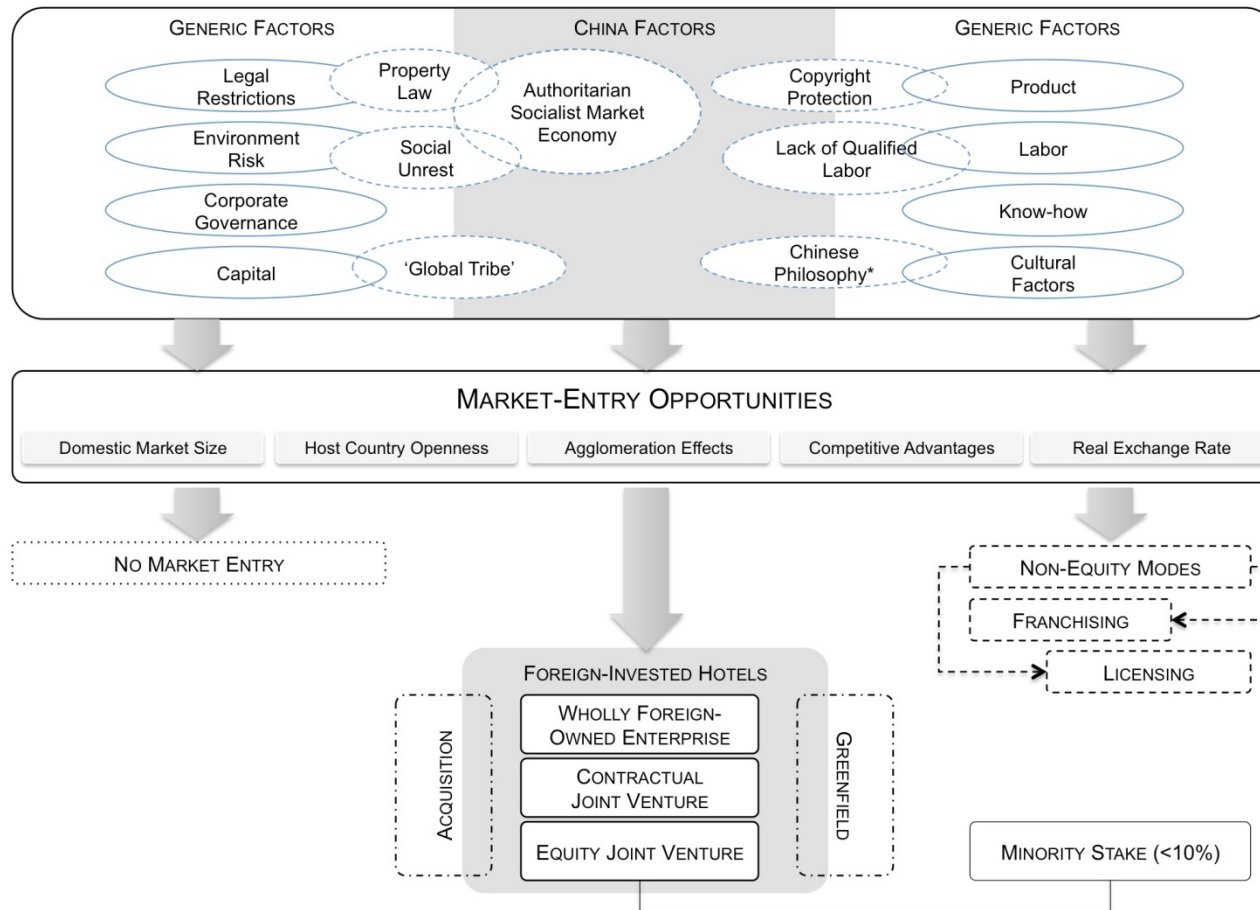


Figure 3-4: Conceptual Framework – Detailed

Own illustration. Note: *) Chinese Philosophy focuses on Confucianism, but can also touch upon the other main schools of thought, i.e. Taoism, Legalism, Buddhism or Mohism.

The theoretical background for this investigation was broadly presented in Figure 1-1. This section presents the conceptual framework of this study and summarizes its theoretical foundation. The framework (cf. Figure 3-4) rests on two main theoretical foundations: (1) market entry theory and (2) FDI theory. Theory of FDI states that it primarily depends on domestic market size, cost advantages in the host country and host country openness, to explicitly mention the explanations on a macro-level. On a micro-level, Hymer (1960) identified ownership advantages, Vernon (1966) found location advantages, and Buckley and Casson (1976) saw internationalization advantages, drawing on general transaction cost theory of Williamson (1975). The basic idea for the latter being, given the different transaction costs involved, it is preferable for an MNC to establish an overseas subsidiary; when through other market mechanisms, i.e. licensing, franchising or sub-contracting, the cost incurred would be greater than carrying out the same activity within the firm's self-owned international branch.

Theory of market entry suggests distinctive choices for the MNC in gaining access to a foreign market: through (1) WFOE, (2) JVs in their different forms (EJV or CJV), (3) licensing, or (4) franchising. Literature on foreign market entry decision identifies several variables which influence the MNC's decision to enter a host market. Such a decision depends on the consideration of environmental risks, corporate governance issues, labor, capital, legal restrictions, cultural factors, the product on hand and know-how. Any firm thinking of market entry considers those factors before entering a given market and may under certain circumstances, come to the conclusion to enter. In order to be part of the subclass of organizations that can be referred to as FDI, i.e. qualify as FDI, they will have to fulfill the criterion of a minimum 10 percent equity stake in a given venture. This will naturally be the case for WFOE entities, and also for EJVs once they suffice the required minimum equity share.

An MNC will not be a sub-class of the phenomenon to be studied when it has opted to gain market access through licensing or franchising, and obviously when it has decided to not enter a host market at all.

In addition, the author proposes so-called 'China factors'. These distinctive China factors are presented in the top-middle part of the conceptual framework (cf. Figure 3-4). He argues that, *ceteris paribus*, the foreign investor's inclination to invest and implement projects in China will be influenced by factors that are specific to the context of China. These 'China-factors' capture and describe determinants of FDI transactions that go beyond existing theory. Chapter 4 (Methodology) will demonstrate how this investigation will contribute to knowledge on this phenomenon, using the lens of post-modernism and by adopting the grounded theory approach.

CHAPTER FOUR

4 METHODOLOGY

This section outlines the general methodological approach as to how the author investigated the phenomenon of foreign-invested hotel properties in China. This chapter outlines the *qualitative* methods used to solve the research problem of this study. Such an approach is clearly defined as “a type of research producing findings not arrived at by statistical procedures or other means of quantification” (Strauss & Corbin, 1990, p. 17). At the core of the empirical investigation was the *Straussian* interpretation of grounded theory.

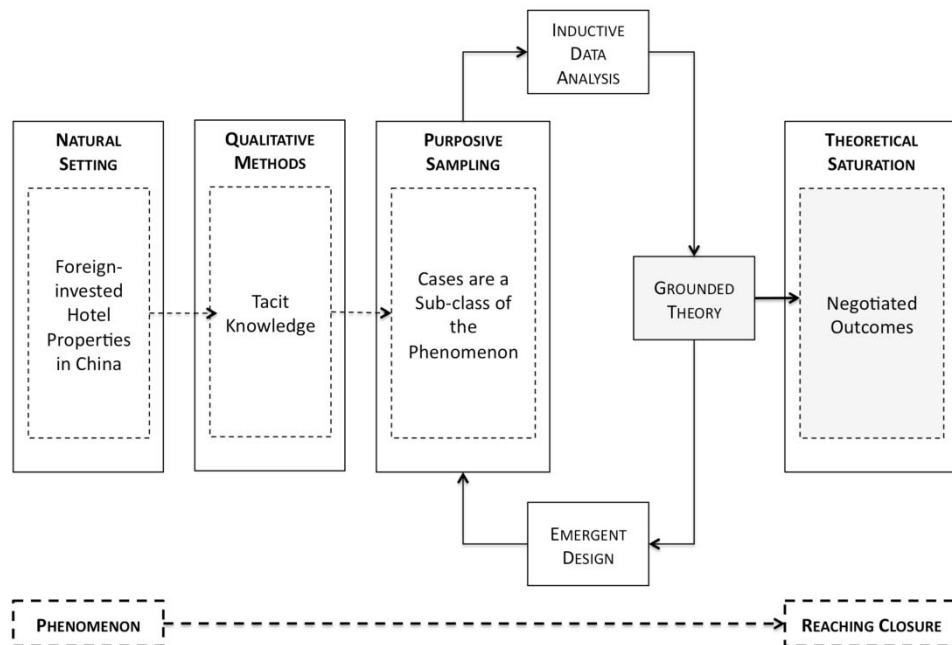


Figure 4-1: Naturalistic Inquiry

Adapted from “Naturalistic Inquiry,” by Y. S. Lincoln and E. G. Guba, 1985, *Newbury Park, CA: Sage Publications*, p. 188.

One of the strengths of qualitative research is the ability to factor in sequences of events outside the scope of the theory provided (King, Keohane, & Verba, 1994, p. 10). Instead of looking into the phenomenon of FDI at an aggregate level of macroeconomic data, it has the ability to enrich the understanding of this subject by drawing from the experience of stakeholders on a project level. It is understood that Glaser and Strauss, the creators (or *formalizers*) of this

methodological approach, disagreed at one point on how to exactly implement the grounded theory approach. This work, while it appreciates the *Glaserian*, as well as the *Straussian* paradigm, is more inclined towards the *Straussian* philosophy of grounded theory.

The strengths of the grounded theory method lies (1) in its ability to not only classify phenomena, but develop *new* theory from qualitative data by explaining processes and *causal* relationships. Furthermore, (2) part of the method is theoretical sampling, which makes the entire process of data collection “purposive” (cf. Figure 4-1: Naturalistic Inquiry). Instead of continuously collecting field data without considering the evidence (facts) currently available, the collection of data and its analysis builds an integrated procedure. The analysis of interview data commences once the first interview has been transcribed. (This is the main reason, as will be shown, as to why the methodological step of ‘pilot testing’ is unknown to the *true* Grounded Theorist.) Memos commenting on the coding process and formulating provisional hypotheses are also an inherent part of this approach. In addition, (3) the grounded theory approach allows for a constant comparison between the cases and the context in which they are situated, a procedure that ultimately enables the theory development (“negotiated outcomes,” cf. Figure 4-1). Hereafter, the author presents a brief summary of the core fields in philosophy.

ONTOLOGY

- The study of beings or their being: what is?

EPISTEMOLOGY

- The study of knowledge: how do we know?

LOGIC

- The study of valid reasoning: how to reason?

ETHICS

- The study of right and wrong: how should we act?

PHENOMENOLOGY

- The study of our experience: how we experience?

Figure 4-2: Fields of Philosophy

From "Phenomenology," by D. W. Smith, 2003, November 16), *Stanford Encyclopedia of Philosophy*, retrieved January 16, 2009, from <http://plato.stanford.edu/entries/phenomenology/>

Traditionally, the above list includes (a) ontology, (b) epistemology, (c) ethics, and (d) logic. Given this investigation's adoption of the post-positivistic research paradigm, it is assumed that phenomenology is a qualified addition to the traditional field of philosophy.

Philosophers have sometimes argued that one of these fields is 'first philosophy,' the most fundamental discipline, on which all philosophy or all knowledge or wisdom rests. Historically (it may be argued), Socrates and Plato put ethics first, then Aristotle put metaphysics or ontology first, then Descartes put epistemology first, then Russell put logic first, and then Husserl (in his later transcendental phase) put phenomenology first.

(Smith, 2003, November 16).

Following the general introduction to Chapter 4, Section 4.1 explains the research design. Section 4.2 provides justification for the qualitative research approach adopted, as intuitively the research problem might call for a positivist-quantitative methodological approach. Thereafter, Section 4.3 provides the paradigmatic rationale as to *why* the methods adopted in this study are appropriate from a research philosophical standpoint. Section 4.4 outlines the multiple case studies

approach. Section 4.5 provides a detailed account of the data collection, paying particular attention to sampling of its primary data (i.e. in-depth interviews, cf. Section 4.5.2). In addition, the preceding Section 4.5.1 presents a brief version of the research instrument used for this inquiry. A detailed overview of the generic interview guide used during the data collection phase can be found at the end of this thesis (cf. Appendix A: Data Collection Guide Generic Sample). Section 4.6 introduces methods employed for research of data collection, and familiarizing the reader with a general analytical strategy of the study. In order to ensure scientific standards of objectivity, –to the positivist known as *reliability* and *validity* – Section 4.7 will delineate the case study *tactics* utilized in order to establish *trustworthiness*. Section 4.8 raises ethical considerations in an attempt to ensure a maximum of academic integrity. Limitations of the study can be found in the final chapter, (Section 6.5).

4.1 Research Design

This investigation is descriptive in that it (1), describes the theory and characteristics of FDI. This is indeed a well researched area, but shows deficiencies on a firm-level basis, especially for transition economies such as China. Thus (2), it explains the distinct investment behavior for the case of China. This is because the author is particularly interested in delineating the significant and unique variables associated with the phenomenon of foreign investors' investment decisions in hotel properties in China. This research identifies China as a unique host of FDI. China has a matchless environment for FDI given its distinct characteristics of being a transition economy with most unique features, as outlined in the literature review.

Table 4-1: Research Design – Summary

TYPE OF INVESTIGATION	Descriptive
STUDY SETTING	Non-contrived
PURPOSE	To examine and understand the determinants that influence foreign hotel investors' decision-making when investing in hotel real estate ventures in China.
UNIT OF ANALYSIS	Individual investor (project level)
CASE SELECTION	Theoretical sampling
SAMPLE SIZE	$n = 10$ (initial estimate: 5-8)
TIME HORIZON	Cross-sectional

Own composition

To confirm the extent of research interference within the study, the events to be investigated are as they would normally occur, i.e. in their natural setting. The researcher's interference is minimized through especially through diligently establishing trustworthiness of the study's findings (cf. Section 4.7). Determining the unit of analysis is crucial. This study is limited to investors' investment at project level. Given the heterogeneity of varying types of investors this investigation will explore various motivations at this level. It will also shed light on reasons surrounding the respective decision-making processes and the socio-economic context in which they take place. Each interviewee will be considered an integrated part of embedded case studies in the research design (cf. Yin, 2003b). It can be argued that the identification of sub-units, or individuals, allow for a more detailed level of inquiry. The use of embedded case studies is said to be appropriate for descriptive studies, in which the focus is to describe the features, context and process of a phenomenon, i.e. FDI. "The case study is preferred in examining contemporary events, when relevant behaviors cannot be manipulated" (Yin, 2003b, p. 7). The embedded case study approach is particularly relevant for examination of an environment where boundaries between the phenomenon of interest and context are not clearly evident. Data collection for the study primarily depends on individuals. The individual provides

information (Yin, 2003b, p. 76) on how hotel foreign investment projects take place in China.

Theory was developed by adopting the grounded theory method of analysis. The goal was to generate theory from the data, while existing theories were adopted and modified. After data analysis, the interpretation leads to an extension of existing theory by identifying additional factors that influence FDI decisions in hotel properties at firm-level in China. There is a clear rationale in adopting a grounded theory approach derived from the literature, of which the author claims is relevant to this research project:

Table 4-2: Rationale for a Grounded Theory Approach

-
- The need to get out into the field, if one wants to understand what is going on
 - The importance of theory, grounded in reality, to the development of a discipline
 - The nature of experience and undergoing as continually evolving
 - The active role of people in shaping the world they live in
 - An emphasis on change and process, and the variability and complexity of life
 - The inter-relationships between conditions, meaning, and action
-

From "Basics of Qualitative Research: Grounded Theory Procedures and Techniques," by A. Strauss and J. Corbin, 1990, *Newbury Park, CA: Sage Publications*, pp. 24 f.

Speaking of existing theory as a researcher in the field of hospitality, it is important to be aware of a common pitfall in hospitality research, identified clearly by Jones (2004):

The traditional perspective is to see hospitality as a special case within each of the management disciplines. [...] There is a great danger in this approach that is sometimes evident in published outputs. New research studies derive from previous studies within the sub-discipline with little [...] reference to the mainstream discipline. (p. 39)

Given the narrowness of the research problem at hand, it was essential to consult literature from a wide disciplinary range of sources. This is to emphasize that literature from major disciplines outside the immediate field of tourism and hospitality, were included. This approach instantly helped to circumvent what

Jones (2004) described as the danger that “due to the small critical mass of hospitality [research, a] [...] stagnation of theory development” (p. 40) is present. The grounded theory approach is the only available option in identifying significant data in understanding FDI motivation toward hotel properties in China on a ‘firm’ level.

4.2 Qualitative Approach: Justification

For obvious reasons, the adoption of a particular research methodology ultimately depended on availability of data. This research project took a major methodological turn before the actual qualitative approach was adopted. Although primary data collection is not entirely foreign to the Chinese hotel sector, the availability of data is rather limited and/or inappropriate for quantitative analysis. One of the most prominent examples of an empirical investigation within the Chinese hotel sector is the China Hotel Industry Studies (2001-2006), which is conducted annually, by Horwath HTL (Hotel Tourism and Leisure) and CTHA (China Tourist Hotels Association), which currently contains a sample of 492 hotels in China. However, the available financial data is limited and the parties responsible for this study have denied disaggregating the data for quantitative analysis at the property basis.

Another potential source was the Centre for China Financial Research (CCFR) of the University of Hong Kong (HKU), which is commercially represented by GTA Information Technology Company Limited. This database holds stock market data for publicly listed companies in China. Data available includes balance sheet data, corporate governance data as well as financial ratios. However, for the purpose of this study, the database was found to be inappropriate. The reason being is that it is limited to Chinese domestic firms and is constrained to publicly listed firms which are limited to nine hotel corporations. Also, the length of time series data available varied from just a couple of years to thirteen.

Feasibility and practicality have been a major consideration on the decision to make this study 'qualitative'. Apart from general data availability it was also found that the phenomenon to be studied is a niche topic with a minority of Chinese hotel properties being foreign-invested. By using a quantitative study approach, there is a chance that an insufficient sample size could have been reached, if at all.

The interactive nature of development of Sino-foreign investment projects leaves room for a qualitative study as it may better capture the tacit knowledge involved in the evolution of Sino-foreign business ventures in China. Moreover, it can be argued that in-depth interviews may be able to capture the complexities of how foreign investors make their decision to pursue an equity stake in Chinese lodging projects – which is in fact an unusual step to take by most foreign partners involved in the Chinese hotel sector. This will lead to the identification of variables that otherwise cannot be captured by quantitative studies (e.g. culture, especially when it may come to regional diversities).

4.3 Paradigm

This section outlines the research paradigm of the study. When using the term 'paradigm', the author refers to it as what might be called 'the lens through which the phenomenon is to be investigated'. Regardless of a particular research approach adopted it is a fact that "the truths of science are neither absolute nor unequivocally objective" (Tarnas, 1991, p. 359). This assertion is based on Popper (1959), who declared that science, under no circumstances, can produce knowledge which is certain. It can only develop theory, which is probable and holds true until falsified, or substituted by theory which is capable of capturing, i.e. better explaining, more phenomena than its academic precursor. Against this background the author conducts a qualitative study aiming to partially extend existing theory, by contextualizing new ideas and thoughts on the phenomenon to be investigated.

This section deals with the ontological and epistemological considerations of the study. These fields of philosophy have a history of over two millennia. That is, the questions of ‘What is?’ and ‘How do we know?’ have been asked in different cultures and at different points in time. In the formalized western research traditions the main development stages were: (1) ancient (Hellenistic), (2) medieval, modern (ranging from Descartes, Spinoza & Leibniz, Locke & Berkeley, and Hume to Spinoza [cf. Craig, 2005, p. 227]), and (3) twentieth-century (post-modern) philosophy. Against this background it is impossible for the author to comprehensively cover the research philosophical setting underlying scholarly work at this time. He can only outline key considerations related to the specific methodological framework adopted for the purpose of this study.

4.3.1 Paradigm Shift: Research in the 21st Century

In his *Tractus Logico-Philosophicus*, Wittgenstein (1921) argues that “the whole modern conception of the world is founded on the illusion that the so-called laws of nature are the explanations of natural phenomena”²⁸. This study is post-modern, as it does *not* accept ‘absolute knowledge’ or ‘truth’. In Eastern philosophy, one quotation which comes close to the Western philosophical argument mentioned above can be found in Laotse’s *Tao Te King*, which reads in its English translation: “The Tao that can be told is not the eternal Tao. The name that can be named is not the eternal name”.

The Tao of Physics by Capra (1991) first identified the relationship between (Eastern) mysticism and Western science. In his ‘seminal’ work he identifies a paradigm shift and argues for a ‘new paradigm in science’. He argued that following the rise of quantum physics, relativity theory, field theory and

²⁸ German original: "Der ganzen modernen Weltanschauung liegt die Täuschung zugrunde, daß die sogenannten Naturgesetze die Erklärungen der Naturerscheinungen seien" (Wittgenstein, 1921, *Tractus Logico-Philosophicus*, para 6.371).

particularly Chew's bootstrap hypothesis, knowledge and theoretical constructs can no longer be seen as *absolute*. In fact, the bootstrap hypothesis denies the existence of fundamental constituents of matter. It does not accept fundamental laws, equations or principles. In this it abandons a fundamental idea which prevailed over hundreds of years under the Cartesian-Newtonian paradigm. The mechanistic worldview, the Cartesian-Newtonian paradigm, while still widely accepted might as well be seen as a paradigm of the past.

[In modern physics], one has now divided the world not into different groups of objects but into different groups of connections. [...] What can be distinguished is the kind of connection which is primarily important in a certain phenomenon. [...] The world thus appears as a complicated tissue of events, in which connections of different kinds alternate or overlap or combine and thereby determine the texture of the whole. (Heisenberg, 1963, Physics and Philosophy, p. 96).

It may seem far-fetched to quote one of the world's leading physicists of the past one hundred years in order to justify a qualitative research approach and paradigm. However, the linkage between modern social sciences, viz. economics, and the rise of physics is more obvious than one might readily think. The emergence of modern economics coincided with the scientific revolution during the times of enlightenment. It was during this period that rationalism (Descartes) and empiricism (Bacon) emerged. Thus, social sciences accepted the Cartesian-Newtonian paradigm and the mechanist worldview, which builds the foundation of scientific methods in (western) modernity. That being the case, should one not just accept the relevance of the relativistic theoretical insights of physics in the 20th century for the social sciences? Under these circumstances, a context-based investigation of a phenomenon such as 'hotel FDI in China' can be viewed as use of the 'S-matrix for social sciences', which specifies the momentum (i.e. space and time) of the *phenomenon*. In quantum (field) theory

the use of the S-matrix has shifted “the emphasis from objects to events” (Capra, 1991, p. 290). This debate is noteworthy as it puts the widely led discussion on post-modern research of social sciences into perspective. It provides an indication that paradigm shifts in post-modern research are not merely a nuance adjustment of methodological techniques, but that in fact the fundamental paradigm of scientific conduct has changed during the course of the 20th century. In further stressing the importance of the bootstrap hypothesis and its impact on the ‘new world view’ Capra (p. 316) noted that:

In the new worldview, the universe is seen as a dynamic web of inter-related events. None of the properties of any part of this web is fundamental; they all follow from the properties of the other parts, and the overall consistency of their mutual inter-relations determines the structure of the entire web.

The philosopher’s viewpoint in qualitative research as stated by Lincoln and Guba (1985, pp. 82 f.) can be seen as a consequence of this ‘new paradigm in scientific research’ as mentioned above. They argued that “researchers in a variety of disciplines within the social sciences have been, and still are, grappling with social constructivist approaches, wherein the contribution of each individual in the context to the creation of a reality is recognized” (pp. 82 f.). Recently, Kirchmair et al. (2009) experimentally proved a state-independent conflict with non-contextually in quantum theory.

Without engaging in a discussion at this point as to whether hospitality is a discipline in its own right, the author’s ontological position is that he views foreign-invested hotel properties in China as one of “multiple realities” (Lincoln and Guba, 1985, p. 84) which can be seen as a case to deepen and extend the understanding within market entry and foreign direct investment (FDI) theory. As Popper (1959) famously put it: “Theories are nets cast to catch what we call ‘the world’: to rationalize, to explain, and to master it we endeavor to make the mesh

ever finer and finer” (pp. 37 f.). This research may not claim to develop a ‘universal theory’ (apart from the seemingly impossibility to arrive at absolute knowledge, as above-mentioned when referring to the ‘new scientific paradigm’). But strictly and scientifically speaking, the author will develop a theoretical framework to a specific economic problem, explaining the ‘causes’ in question. This will be for the ‘effect’ of FDI in hotel property investment in China in particular, and conceptualize his proposition to the level of service-firm FDI on a more general level.

4.3.2 Ontology

Ontological considerations imply the belief system on how knowledge of the world can be obtained, i.e. the relationship between the conceptions (concepts) of reality, of nature and its phenomena. Kincheloe and McLaren (2005) argued that “in social research, the relationship between individuals and their contexts is a central dynamic to be investigated” (p. 320). According to Dawn and Spencer (2003), within social research the key ontological questions are as follows.

The key ontological questions identified are:

1. Does social reality exist independently of human conceptions and interpretations?
2. Is there a common, shared, social reality or just multiple context-specific realities?
3. Is social behavior governed by ‘laws’ that can be seen as immutable or generalized?

Apart from the more specific questions just formulated the debate can be broadened as to whether a captive social reality exists and how it should be constructed. Tradition of qualitative research regarding how knowledge can be obtained about phenomena is summarized as follows:

Table 4-3: Tradition of Qualitative Research

RESEARCH TRADITION	DISCIPLINARY ORIGINS	AIMS
Ethnography	Anthropology	Understanding the social world of people being studied through immersion into their community to produce detailed descriptions of people, their culture and beliefs.
Phenomenology/ Ethnomethodology	Philosophy/ Sociology	Understanding the 'constructs' people use in everyday life to make sense of their world. Uncovering meanings contained within conversation or text.
Conversation Analysis (leading to)	Sociology/ Linguistics	Analyzing the way different conversations are structured and the meanings they contain.
Discourse Analysis	Sociology	Examining the way knowledge is produced within different discourses and the performances, linguistic styles and rhetorical devices used in particular accounts.
Protocol Analysis	Psychology	Examining and drawing inference about the cognitive processes that underlie the performance of tasks.
Symbolic Interactionism	Sociology/ Social Psychology	Exploring behavior and social roles to understand how people interpret and react to their environment.
Grounded Theory	Sociology	Developing 'emergent' theories of social action through the identification of analytical categories and the relationships between them.
Ethogenics	Social Psychology	Exploring the underlying structure of behavioral acts by investigating the meaning people attach to them.
Constructivism	Sociology	Displaying 'multiple constructed realities' through the shared investigation (by researchers and participants) of meanings and explanations.
Critical Theory [Frankfurt School]	Sociology	Identifying ways in which material conditions (economic, political, gender, ethnic) influence beliefs, behavior and experiences.

From "The foundations of qualitative research," by S. Dawn and L. Spencer, 2003. In J. Ritchie and J. Lewis (Eds.), *Qualitative research practice: A guide for social science students and researchers* (pp. 1-23). London: Sage, p. 12. [Bold formatting added.]

The ontological paradigm adopted for this research is *constructivism* in the tradition of the grounded theory approach. With this assumption, knowledge is contextual, relativistic. Any theory to be constructed will depend on its context, that is space and time (Guba & Lincoln, 2005, p. 193). The author's ontological standpoint is that of *critical realism*. The aim is to extend knowledge by developing a more informed extension of already existing theory. Critical realism holds that there is more to 'what is' than 'what is known' – in parts it even rejects

the widespread view that explanation is always neutral, as to explain can be to criticize. (The latter is not to say that the qualitative researcher should not try to be objective in her/his analysis).

4.3.3 Epistemology

Resulting from the above ontological considerations, the epistemological beliefs are transactional or subjectivist. Following the common distinction between empirical and non-empirical knowledge, as results from Kant's *Critique of Pure Reason*, this work will arrive at knowledge a posteriori. Knowledge or justification depends on evidence from sensory experience (Craig, 2005, p. 1). In this respect, concepts are experience-based²⁹, *a posteriori*, and cannot be understood independently of reference to sensory perceptions.

Craig (2005, p. 227) outlines several central questions regarding epistemology considerations: (1) what is knowledge – what is the correct analysis or definition of the concept of knowledge, (2) what is the extent of our knowledge – about what types of things is knowledge actually held, (3) what are the sources of knowledge – how is knowledge acquired, (4) is there any genuine knowledge, (5) what is a justified belief – under which conditions is a belief justified? Together, these questions holistically surround the nature, extent, source and legitimacy of knowledge.

The grounded theory approach is rooted in the naturalistic tradition. Knowledge is to be explored in a wide range of natural phenomena, which leads to a similarly

²⁹ In contrast non-empirical knowledge is referred to as a priori, with logic or mathematics being prominent examples for concepts that can be understood independently of empirical experience or evidence. This definition is a standard philosophical textbook definition. The author is aware of arguments between some philosophers/mathematicians who state that mathematics cannot pre-exist independent of reality, but to be able to make mathematical abstractions one needs to have some reference to the real world, which would make mathematics an a posteriori concept. The author likes to retreat to the more common textbook definition of this terminology, instead of leading this discussion in more detail.

wide range of subjects. Explanations become knowledge, once they have a *trustworthy* (reliable) causal history. In this tradition, the researcher, as a naturalist, regards testimony from reliable sources, for example industry experts, as evidence for gaining knowledge to extend theory by explaining a phenomenon in more detail. This research moved into the realm of ‘naturalized epistemology’ (Quine, 1969; Craig, 2005, p. 721). Feldman (2001) argued that the claims of naturalized epistemology “can best be appreciated by seeing [it] as a reaction to the methods and views that have been prominent in much of the twentieth century” (para 1). In other words, in view of constructivism, (*even*) the naturalist relies on the techniques and assumptions of natural science. Consequently a naturalistic enquiry *can* result in a scientific-like explanation, and beliefs are credible to be viewed as knowledge. The author takes the postmodernist stance where clear-cut hierarchies are missing. Guba and Lincoln (2005) posit that in the future it may be found that this might have been “the era of emancipation: [...] from what Hanna Arendt calls ‘the coerciveness of Truth’, [...] from hearing only the voices of Western Europe, [...] from generations of silence, and [...] from seeing the world in one color” (p. 212).

4.4 Multiple Case Studies Approach – Case Selection

Case studies are common in conducting qualitative research (Stake, 2005, p. 443). According to Stake (2005) it is not a methodological choice, but a decision of what is to be studied. It is a means to optimize comprehension by pursuing scholarly research questions. Before actually describing the multiple-case study approach, five common misunderstandings (or misperceptions, oversimplifications) about case study research are to be discussed (cf. Flyvberg, 2004, p. 421). Firstly (M1), it is commonly believed that knowledge is more valuable if it is gained context-independent than concrete (i.e. context-dependent), practical knowledge. Secondly (M2), it is not possible to generalize from case studies and therefore this approach is incapable of contributing to scientific

development. Thirdly (M3), case studies are suitable in the first stage of a research process, but other methods are more appropriate for hypothesis-testing and theory-building. Fourth (M4), case studies contain bias towards confirming the researcher's pre-conceived notions. Fifth (M5), it is difficult to summarize and develop propositions and theories on the grounds of rather specific cases. The following paragraphs are dedicated to reply to the above mentioned arguments by critics of case-study research.

M1 can be debilitated when considering that social sciences are occupied with studying human affairs, not appropriate for making predictive, universal theories on related phenomenon. Hence, Flyvberg (2004) argued that context-dependent knowledge, as generated through case studies, is also valuable (p. 423)³⁰. M2 is probably the most prominent criticism qualitative researchers are facing. Maybe the best argument to rectify this misunderstanding is to ask the critic to take a historical perspective. In the development of our planet and our human society a multitude of phenomena occurred that were singular events.

In those instances, e.g. World War II, Cuban Missile Crisis, or the Great Leap Forward, a case study is the only appropriate means of investigation – and generalizations can in fact be made and significant explanations provided (cf. Allison, 1971. In Yin, 2003b, p. 4). Regarding M3, a case study can very well serve hypothesis testing as a single case can serve to falsify an existing theory. Furthermore, it is indeed possible to develop theory from case studies, as they do stand up to the same rigor of theory testing as theory developed from quantitative research. Flyvberg (2004) argued that “social sciences have not succeeded in

³⁰ In fact, Flyvberg (2004) argues strongly in saying exactly that “concrete, context-dependent knowledge is [...] more valuable than the vain search for predictive theories and universals” (p. 423). While the author believes in the important part that induction plays in all knowledge creation, he does not want to engage in a broader discussion on the supremacy of one research approach over another. At this point the objective is to stay focused as this section is to argue for the methodological approach adopted.

producing general, context-independent theory and has thus in the final instance nothing else to offer than concrete, context-dependent knowledge” (p. 422). While the author does not fully agree with Flyvberg’s rather absolute statement, as, for instance, economics have proven to be capable of developing context-independent knowledge; he agrees that case studies are a means in developing context-dependent knowledge.

After all, man is, in his ordinary way, a very competent knower, but qualitative common-sense knowing is not replaced by quantitative knowing [...]. This is not to say that such common-sense naturalistic observation is objective, dependable, or unbiased. But it is all that we have. It is the only route to knowledge – noisy, fallible, and biased though it be. (Campbell, 1975. In Flyvberg, 2004, p. 422).

The above citation is not to say that such ‘noise’ or ‘biases are inevitable factors. Section 4.7, addressing *trustworthiness* in qualitative research, will present the proper methodological means of how such subjectivity may best be avoided in developing knowledge from qualitative studies. Regarding M4, it is to be said that by adopting a post-positivist research paradigm the possibility of verifying a case study is not inherently smaller than in using other methods of inquiry. Indeed, positivism assumes an objective, tangible, and single reality (Decrop, 1999, p. 157).

Taken the post-positivist stance (Popper, 1959) *any* theory will hold as long as proven false. Regarding M5, it can be argued that case studies are very well capable of contributing to the cumulative development of knowledge. In Decrop’s (1999) words: “If we accept the principle that science is not a question of numbers but of reasoning, a qualitative study can be as sound as a quantitative one” (p. 160). In addition to this, Popper (1959) reminded us that “there is no such thing as a logical method of having new ideas [...] discovery contains ‘an irrational element,’ or ‘a creative intuition’ [...]” (p. 8). In Einstein’s words “there

is no logical path leading to [...] [universal] laws. They can only be reached by intuition, based upon something like an intellectual love³¹ [...] of the objects of experience” (cited in Popper, 1959, pp. 8 f.).

Case selection serves as a filter improving the information retrievable from any source (cf. Lincoln and Guba, 1985, p. 128). Lincoln and Guba argued that if we find the right parts of the whole, the investigator will be able to retrieve substantive information about a phenomenon and the insight needed to clarify will be found in the data (pp. 127 f.), or text. Yin (2003b, p. 57) pointed out the complexity of multiple case studies. He argued that in order to produce case studies of high quality to obtain the necessary skills to conduct a case study is paramount. The key criterion for case-selection is that all cases *must* reflect a sub-class of the phenomenon. Deviant cases can be included as negative case studies to be contrasted with positive cases (cf. Lincoln & Guba, 1985, p. 309). Positive cases are cases in which hotel investors have actually pursued FDI in hotel real estate. Negative cases include firms that have opted not to enter the Chinese market at all, or have decided to adopt a non-equity strategy, i.e. licensing or franchising. It is argued that such negative cases are particularly helpful in revising the investigation, in a grounded theory approach referred to as emergent design.

Stake (2005) provided us with a ‘rule’ for case selection: “the researcher examines various interests in the phenomenon, selecting a case of some typicality but leaning toward those cases that seem to offer *opportunity to learn*” (p. 451).

The researcher is not entirely free in the decision to select cases. FDI in hotel properties within China is not a prevalent phenomenon but is rather marginal in

³¹ The German original is *Einführung*. This author argues that *theoretical sensitivity* might be a more appropriate translation of the German original.

China's hotel sector. Therefore, cases for this study will be selected according to availability and accessibility, under the directive of convenience and purposive sampling. Each case, as long as it is a subclass of the phenomenon, will have an opportunity for study. According to Stake (2005) "on representational ground, the epistemological opportunity seems small, but [it can be learnt] some important things from almost any case can be found" (p. 451). He also recommends that if possible we should lean toward cases "that seem to offer [the] *opportunity to learn*" (Stake, 2005, p. 451). Following his line of argument the author agrees that he should, whenever choice allows, opt for the case that seems to offer the opportunity to learn the most. The potential to learn, Stake (2005) continued, may (occasionally) even be regarded more important than a case's representativeness. However, by choosing the broadest possible cross-section of cases, 'quasi representativeness' will be achieved. Overall, accessibility and availability, i.e. the interviewees' personal schedule or contextual (background) information provided by an organization, will have strong influence on the actual case selection.

4.5 Data Collection

Primary data were collected from decision makers and experts on hotel foreign investment in China. In order to collect the relevant data the individual foreign investor, as well as executive managers of corporations investing in China, will be interviewed. Following the advice by Decrop (1999) that the "relationship between knowledge (phenomenon) and the knower (person or thing possessing the knowledge) must direct the choice of appropriate research design and methods" (p. 158)³². This study used multiple-case sampling as this lead to an increase of confidence in the research findings (Miles & Huberman, 1994, p. 29).

³² For a more detailed discussion on ontological considerations within this study, please cf. to the respective section based on the (research) paradigm.

The main data source was primary, viz. in-depth interviews. However, data to be used was not limited to those, but also included secondary data from (1) trade press articles in newspapers and magazines, (2) administrative documents, (3) country and industry reports, and (4) government statistics. Once the interview questions were developed they were pre-tested. For pre-testing, the author approached both academics and practitioners. Academics included people whose research relates to FDI or China's hotel industry, with practitioners likely to include consultants in the field of China's hotel sector. The data collection in general followed Silverman's (2001) suggestions, which state that "not only should we pay attention to how people 'see things', but we should also direct our attention to how people 'do things'" (p. 349). Individuals interviewed were congenial (represented a sub-class of the phenomenon) and accessible (Yin, 2003b, p. 79). It has been recommended (Maxwell, 1996, pp. 44 f.; Yin, 2003a, pp. 7 f.; Yin, 2003b, pp. 78 ff.) to conduct a pre-testing phase in the data collection process, respectively the adoption of a 'pilot case study.' Yin (2003) argues that such a pilot test would be "formative" (p. 79), helping to clarify the conceptual design of the research as well as particular research questions which have been formulated to conduct the semi-structured interviews.

In addition, the 'pilot' would furthermore aid the researcher (1) to improve interview instruments, (2) to develop a more precise way to target interviewees, (3) to further assist and clarify the issue of how to categorize data and (4) to provide the author with additional insight into the research topic. However, in this respect the author will not follow the advice of Yin or other authors. Instead, he acknowledges the evolutionary nature of the research instrument (interview guide), given the integrated character of data collection and analysis in grounded theory studies. Stake (2005) reminded us: "in many [qualitative] studies, there are no clear stages: Issue development continues to the end of the study, and write-up begins with preliminary observations" (p. 453). The process of theoretical sampling further supports this understanding. Theoretical sampling is

inherent to the grounded theory approach. Therein, “the analyst jointly collects, codes, and analyses her/his data and decides what data to collect next and where to find them” (Glaser & Strauss, 1967, p. 45). The ‘caseworker’ needs “to recognize and develop late-emerging issues” (Stake, 2005, p. 453). The author argues that in such an environment it is needless to conduct a pilot study.

4.5.1 Research Instrument: Interview Guide

In-depth interviews allow for both structure and flexibility. The suggested interview guide is an obvious attempt to structure the data collection process. However, the researcher must not allow this process to become too static. At any point during the interview the interviewee should be given the chance to express her/his thoughts on a given matter and share feelings or personal experiences about a phenomenon. Although the just said ‘sharing feelings or personal experiences’ is not to be taken too literally, there is always the risk that interviewees tend to convey too much of their personal stories, away from the phenomenon under study, for example sharing family life stories, including their children’s development etc. In those instances it is the responsibility of the interviewer to re-focus the interview, returning to the path of relevant data collection. Each interview can be divided into different stages.

Legard, Keegan, and Ward (2003) identified six interview stages: (1) arrival, (2) introducing the research, (3) beginning of interview, (4) during the interview, (5) ending the interview, and (6) after the interview (pp. 145-6). The researcher needs to prepare open-ended questions, being neutral and unbiased. Interview questions are divided into two categories, these being primary questions which can be conversational to a certain extent, and probing questions. The primary questions may prompt the interviewee to produce elaborate, informative answers. But, at some point even open-ended questions may only prompt dichotomous answers, leading the respondent to reply with a simple ‘No’ or ‘Yes’. In such instances it is important to be prepared and follow up with a probing question,

which may lead the interviewee to respond more elaborately. The probing questions serve as a safeguard in keeping the interview going. At any stage of the interview, the researcher's responsibility is to *facilitate* the discussion and secure its form and content. The interview topics need to be flexible to encourage the interviewee to discuss her/his thoughts, feelings and experiences about FDI in hotel properties in China. At the end of each interview, the respondents are asked to complete a brief biographical sketch containing information such as gender, age group and work experience (cf. Appendix A: Data Collection Guide Generic Sample). Table 4-4 presents the interview guide:

Table 4-4: In-depth Interview Guide

	TOPIC	QUESTIONS/CONVERSATIONAL TOPICS	PROBING QUESTIONS
1	Introduction	<ul style="list-style-type: none"> • Background information about the Study • Confidentiality and recording procedures • 'Smalltalk': weather, news, etc. • Work experience 	<ul style="list-style-type: none"> • Cf. afore-mentioned remarks on 'General introduction.'
2	Business Environment	<ul style="list-style-type: none"> • Considering investment decisions in China, what issues deserve your attention? 	<ul style="list-style-type: none"> • Which economic factors in China do you regard as relevant from your firm's perspective?
3	Firm's Strategy	<ul style="list-style-type: none"> • What is your firm's internationalization strategy and which role does the Chinese market play in it? • Assuming that you are entering various markets across Asia, could you please elaborate on your market-entry strategies across those markets? • What attributes do you need to consider when entering China? 	<ul style="list-style-type: none"> • Would you share with me what in your opinion are the strengths of your organization in its internationalization approach? • Which Asian market has the greatest potential for development, considering not only growth, but profitability? • What do you consider factors, which are influential when entering the Chinese market as a hospitality firm in general, or hotel investor in particular?
4	Market-entry Consideration	<ul style="list-style-type: none"> • Which economic factors (would) affect your decision to enter the Chinese market? • If you entered the Chinese market, then what particular factors influenced this decision? 	<ul style="list-style-type: none"> • Considering China's recent economic development, which events deserve a market-entrant's attention? • Which factors would be relevant for entities seeking FDI in hotels? • If you have opted not to enter the Chinese market, which factors drove this decision?
5	China-specific Conditions	<ul style="list-style-type: none"> • What are the factors that make the FDI environment? • How fare do you perceive the Chinese market as specific, compared to other transition economies? • When working with Chinese what particularities do you notice? 	<ul style="list-style-type: none"> • What are your greatest concerns when considering FDI in this market? • Do you have experience or knowledge about other transitional economies? • What has happened in other transition economies regarding the entry of foreign companies? • What are your views on work ethics, cultural specifics, and China's political system?
6	Others/ Closing Remarks	<ul style="list-style-type: none"> • If one of your offspring would tell you tonight that they wanted to invest in China's hotel property market, what would be your advice? 	<ul style="list-style-type: none"> • What would be your three most important matters of advice to a friend who considers setting up a hotel project in China? • Any follow-up questions, if appropriate.

Own composition

Where possible, the interviews were to be conducted in a quiet and comfortable place. In some cases that was not possible. All interviews were recorded after seeking permission from the interviewee. Typically, each interview lasted from 45 to 75 minutes and appreciation was expressed to the interviewee for their willingness to support the research. Each interview began with the researcher explaining the general purpose (*not* specific objectives) of the study. It is important to realize that the interviewer is a listener rather than the conveyer of any information, but most importantly to receive information, rather than come to any conclusions on the interviewee's behalf. It is important to stay composed and professionally poised throughout the interview and to avoid using body language or providing verbal cues (e.g. surprised reaction, frown), which may lead the interviewee. The interviews were subsequently transcribed along with Memoranda to support the transcriptions which will assist in the final data analysis. These are a useful means in reminding the investigator of distinct observations, comments made and preliminary reflections or conclusions which were encountered during the research process.

4.5.2 Primary Data: Sampling

A lack of primary data made it necessary to collect as such through in-depth interviews. This section is comparatively elaborate, inherently acknowledging the importance of sampling in qualitative research (Flick, 2006, p. 133). Each sample item constitutes a case for analysis. Glaser and Strauss (1967) advise how data should ideally be collected when using the grounded theory approach:

Theoretical sampling is the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges. (Glaser & Strauss, 1967, p. 45).

Theoretical sampling is “guided by emerging theory” (Draucker, Martsof, Ross, & Rusk, 2007, p. 1137). The key-criterion for selection of interview partners is *accessibility*. Availability of industry expert interviewees for this study were made up of existing industry contacts personally known to the author or those of other colleagues at the university or within the tourism industry. In this respect, using the logic of generic research design, the approach taken complies with what is usually referred to as *convenience sampling*; i.e. collecting data from members of the population who are conveniently available to provide it (Sekaran, 2003, p. 276), or in the words of Yin (2003b), as above-mentioned, individuals who are ‘congenial’ and ‘accessible’ (p. 79). Not only is the interview as such “a conversation with a purpose” (Berg, 2001, p. 66), but that the crucial element of sample selection is purposive. Hence, the sampling process proceeded “according to the relevance of cases instead of their representativeness” (Flick, 2006, p. 128). A total of 10 industry stakeholders have been interviewed for this purpose. This translates into 11 in-depth interview sessions, as unfortunately one interviewee, due to time constraints, had to arrange a secondary alternative follow up interview. Individuals were interviewed on their understanding of FDI decisions on the single project level. Given the sensitivity of decisions surrounding the subject, the means described herein are considered the most appropriate to obtain the required information. Overall, the data accessible in this way is regarded the most relevant, valid, and reliable to explain the research problem. It is understood that economic studies usually look at investment-decision behavior on an aggregate level, but this study goes beyond that by having individuals describe the processes that underlie such decisions.

Even more so, by sharing their personal views, the respondents share their rich personal experience, their subjective understanding, thoughts, feelings and perceptions which inform the inductive reasoning applied in this study. In short, this provides the rich body of knowledge that qualitative research approaches set out to unfold, commonly referred to as “tacit knowledge” (Lincoln & Guba, 1985, p.

198). While aggregate data on this phenomenon is partially available, information on the processes and their implementation is not well documented due to the sensitive nature of the topic. Nevertheless, the understanding of such investment-decision behavior does depend on the interpretation of the experiences of those who are directly involved in the realization of such undertakings. Therefore the research benefited from the experiences of industry experts who shared their knowledge during the in-depths interviews. There was great effort placed on achieving maximum expertise and diversity when selecting the interviewees, of which the author believes each one of them made a relevant contribution to this study. Table 4-5 presents profiles of the experts interviewed during the data collection.

Table 4-5: Profile of Interviewees

REFERENCE	INDUSTRY SECTOR*	POSITION*
Interviewee A	Research & Education	Full Professor
Interviewee B	Regional Hotel Industry Association	Senior Representative
Interviewee C	Urban Development	Senior Economist
Interviewee D	Hotel Consultancy	CEO & President
Interviewee E	Hotel Consultancy	Partner
Interviewee F	Equity Investment	VP Development & Planning
Interviewee G**	Hotel Investment Brokerage	Director
Interviewee H	Hotel Management	President
Interviewee I	Hotel Management & Consultancy	Managing Director
Interviewee J	Hotel Development & Investment	CEO & President

Notes: *) Further details on the interviewees are not provided to maintain confidentiality. **) Two interviews were conducted with this respondent, due to time constraints, together the interview time adds up to ca. 90 minutes, 75 minutes transcribed, ca. 15 minutes off record due to strict confidentiality of the subjects discussed.

Table 4-5 illustrates that data collection comprised of stakeholders from different parts and stages of the hotel investment process. It is noteworthy that all respondents are high-ranking, very senior individuals within their respective organizations. All but one person interviewed held the position of director or

more and also included a full professor in the case of the academic expert. Data was obtained through semi-structured, in-depth interviews of which the previous section presented through the interview guide information. The questions and probing questions must be viewed as a negotiated outcome between questions' "specificity and range versus depth" (Flick, 2006, p. 153). To what extent the *a priori* designed questions and probing questions are really met during a dialogue always depends on the actual interview situation and how the interlocution between interviewer and interviewee evolves. This also highlights the importance of the interviewer as being a decision maker in setting appropriate priorities *ad hoc* during the meeting with an interviewee. With this awareness, the interviewer was able to prepare thoroughly for each individual case which included obtaining interviewees' biographies, studying company materials in particular, and becoming familiarized with the interlocutors' background in general. This also translated into the preparation of a distinct set of probing questions for each interview that substantially incorporated the background information of each particular case.

The data collection addressed the following issues as laid out in the study's proposal: (1) the business environment, (2) strategy of firms, (3) market-entry considerations, and (4) China-specific conditions, when investing in China. The interview guide led the researcher through the data collection. All areas addressed in the interview guide had the purpose of retrieving relevant data. That is, finding evidence relating to the objectives of the study (Section 1.3) and helps to answer the research questions (cf. Section 1.4).

Due to data confidentiality the interview transcripts are not provided within this thesis, but upon request, they would be considered being made available on a case-by-case basis, depending on the approval of the interviewee concerned.

The majority of interviews were conducted during the summer and autumn of 2008. Only one additional interview was conducted in spring 2009. The

explanation for this outlier in terms of time has its reason in the concept of theoretical sampling inherent to the grounded theory approach. While at the end of 2008, given the materials already collected, the author believed himself to have already achieved a satisfactory level of data adequacy. However, at a later stage, i.e. early 2009, the author was introduced to an additional potential interview contact. In due course the author was convinced that this supplementary interview, given the interviewee's profile, would significantly add to the theory that was emerging. In other words, the additional data to be collected was considered likely to add further original and useful data to the study. In hindsight, this assumption has very much proven true.

Information on qualitative inquiries occasionally suggest that if using interviews there needs to be practice beforehand, but in fact, the author had very limited prior experience within this topic. However, before commencing data collection for this project, the author had conducted a smaller series of interviews in a postgraduate-level course on qualitative research which allowed him to at least practice the technicalities of administering interviews. This helped to obtain the basic competencies required for coordinating this distinct method of data collection. It has been mentioned above that the last interview conducted appears to have produced the *richest* data. This could, to a good extent, be explained because of the expertise held by the respective interviewee, a veteran hotel investor in China and high-ranking politician. None-the-less, one also has to consider the possibility that the capabilities of the interviewer have significantly improved over the course of this study. This self-reflective understanding will be addressed in more detail within the section 'limitation' at the end of this thesis in Chapter 6.

4.5.3 Theoretical Saturation

“There is no way of knowing beforehand the size of the sample for a grounded theory study, but professors, ethical review boards and funding agencies want an estimate before approving the research” (Stern, 2007, p. 117). The statistical techniques available for quantitative investigations are not suitable for qualitative research. Thus, qualitative researchers require a notion that assists them in justifying the “type, relative depth and extent of their data collection and analysis” (Charmaz, 2005, p. 527). Glaser and Strauss (1967) introduced the concept of theoretical saturation. But what does saturation mean? Adler and Adler (1994) described this state as when “the generic features of [...] findings consistently replicate an earlier one” (p. 87). Morse (1995), who initiated the critique of saturation, accepts defining it as “data adequacy” and adds that it is “operationalized as collecting data until no new information is obtained” (p. 147). This still leaves the researcher with the question of at which point the data collection can be terminated? Charmaz (2005) wrote:

Claims of saturation often reflect rationalization more than reason, and these claims raise questions. What stands as a category? Is it conceptual? Is it useful? Developed? By whose criteria? All these questions add up to the big question: What stands as adequate research? (p. 528)

Charmaz (2005) suggests four main criteria, which lead the investigator to judge “interpretive sufficiency” (Christians, 2005, p. 151): (1) credibility, (2) originality, (3) resonance, and (4) usefulness. Table 4-6 presents these criteria and the considerations that should be performed respectively:

Table 4-6: Evaluation Criteria for Grounded Theory Studies

CRITERION	CONSIDERATIONS
Credibility	<ul style="list-style-type: none"> • Has intimate familiarity with setting and topic been achieved? • Is the data sufficient to merit the claim of the research (considering the range, number and depth of observations contained in the data)? • Have systematic comparisons been made between observations and categories? • Are there strong logical links between the gathered data and the researcher's argument and analysis? • Has enough evidence been provided for claims to allow the reader to form an independent assessment – and <i>agree</i> with the claims of the research?
Originality	<ul style="list-style-type: none"> • Are the categories fresh and do they offer new insights? • Does the analysis provide a new conceptual rendering of the data? • What is the social and theoretical significance of the work? • How does the work challenge, extend, or refine current ideas, concepts and practices?
Resonance	<ul style="list-style-type: none"> • Do the categories portray the fullness of the studied experience? • Has the research revealed marginal (minimal) and taken-for-granted meanings? • Has the research drawn links between larger collectivities and [specific phenomena], when the data so indicates?³³ • Do the analytic interpretations make sense [...], and offer deeper insights about the phenomenon investigated?³⁴
Usefulness	<ul style="list-style-type: none"> • Does the analysis offer interpretations that people can use in their everyday worlds? • Do the analytic categories speak to generic processes? • Have these generic processes been examined for hidden [...] implications? • Can the analysis spark further research in other substantive areas? • How does the work contribute to making better [informed investment decisions in foreign-invested hotel properties in China]?³⁵

From "Grounded Theory in the 21st Century," by K. Charmaz, 2005. In N. K. Denzin and Y. S. Lincoln (Eds.), *The Sage handbook of qualitative research* (pp. 507-535). Thousand Oaks, CA:

³³ The original wording of this consideration clearly related to studies on social justice (cf. Charmaz, 2005, p. 528), however the author opted to adapt the original formulation to better reflect its generic relevance.

³⁴ *ibidem*

³⁵ *ibidem*

Sage Publications, p. 528. (Certain formulations have been partially adapted/shortened, without changing meanings.)

The criteria presented above provides useful guidance to assess an empirical qualitative study, the development of theory and “the subsequent value of the contribution” (Charmaz, 2005, p. 528). Figure 4-1 shows that the naturalistic inquiry is an iterative process, before theoretical saturation can be reached. Miller and Crabtree (2005, p. 621) referred to this process as self-reflection, personal feelings and intuition to inform the gathering, analyzing, and interpreting data. Charmaz (2005) similarly stated that “a strong combination of originality and credibility increases resonance, usefulness, and the subsequent value of the contribution” (p. 528). Lincoln and Guba (1985) suggested that data must be *fitting*, before data collection can come to an end. It can be argued that determining theoretical saturation includes some cognitive element on the side of the investigator to be able to terminate the data collection. Holton (2007) provided a more traceable means to achieve theoretical saturation. She recommended determining ‘saturation’ through “constant comparison of incidents [...] in the data” (p. 265). She continued and stated:

This constant comparing of incidents continues until the process yields the interchangeability of indicators, meaning that no new properties or dimension are emerging from continued coding and comparison. At this point, the concepts have achieved theoretical saturation and the theorist shifts attention to exploring the emergent fit of potential theoretical codes that enable the conceptual integration of the core and related concepts [...]. (p. 265)

That is, the constant comparison of data produced the necessary conceptual density “to lift the theory above description and enable its integration through theoretical propositions [...] as abstract conceptual theory” (Holton, 2007, p. 281).

Charmaz (2005) criticized that “claims of saturation often reflect rationalization” (p. 528), as previously quoted. Strauss and Corbin (1998) did not object when they wrote:

In reality [...] one would always find additional properties or dimensions. There is always that potential for the ‘new’ to emerge. Saturation is more a matter of reaching the point in the research where collecting additional data seems counterproductive; the ‘new’ that is uncovered does not add that much more to the explanation at this time. Or, as is sometimes the situation, the researcher runs out of time, money, or both. (p. 136)

To conclude the discussion in this section the author believes that the declaration of theoretical saturation is a compromise between ideal methodological procedures (cf. Charmaz, 2005) and a certain degree of rationalization, as characterized by Strauss and Corbin (1998). There is no clear-cut solution to the problem of theoretical saturation. “The problem of ‘when to stop’ is an example of how grounded theory addresses the obvious (but awkward) questions that confront the researcher” (One of the advantages of grounded theory is that it offers practical advice).

4.6 Data Analysis

Silverman (2001) raised a relevant question about interview data analysis: “does [the] analysis go beyond a mere list?” (p. 339). Which in turn raises the question to the investigator as to how to structure and organize data analysis of a qualitative investigation in order to link, or contextualize information, making the study’s findings “lively and original” (Silverman, 2001, p. 339). Foremost, the analysis will depend on the purpose and objectives of the study. The process of data analysis broadly involves three steps: (1) to reduce complexity by identifying categories, themes and concepts, (2) to display data, i.e. organizing the respective data according to specific themes and categories (‘ideograph’), and (3)

to draw conclusions from data by persistently comparing collected data against other data and within cases. The second step is to be described in a bit more detail.

This step involves graphically representing ideas or concepts within an interview transcription according to typologies, taxonomies, matrices or models. The conceptual framework guides the researcher during this process. The unit of analysis is the individual stakeholder within the corporation engaged in making decisions on foreign-invested hotel properties in China. However, the aim is not to learn about the individual, but about the entity the individual is associated with, that is how the respective organization works (Yin, 2003b, p. 76). The data analysis techniques are discussed in more detail, hereafter.

4.6.1 General Analytical Strategy and Procedures

The data to be retrieved in qualitative research is typically detailed and rich, not to say voluminous. Silverman (2001) stated that “qualitative research is based on some analytically defined perspective” (p. 349), Yin (2003, pp. 109 ff.) supported him in positing that qualitative research needs a general analytical strategy. For this research, those techniques are: coding, categorizing, and synthesizing. According to Mason (1996), the general analytical strategy will depend on: (1) the study’s explanations to be expected, (2) the kind of data collected, and (3), the intended use of the data. The aim of this study is to understand the experiences in hotel FDI in China at the project level of the individual. Factual knowledge was retrieved from the interviewees and contextual information from secondary sources. Yin (2003b) suggested three general strategies to analyze case-study evidence: (1) relying on theoretical propositions, (2) thinking about rival explanations, and (3) developing case descriptions. This study was primarily concerned with Yin’s second suggestion. However, formally it also depends on propositions, which are reflected in the conceptual framework of this study. Silverman (2001) offered advice on how to conduct conversational analysis,

which is presented hereafter. He suggested that in conversation analysis the investigator should always try to identify sequences of 'related talk'. Also, the researcher should try to examine how interviewees take on roles or identities through their talk. Finally, Silverman (ibid) suggested that the researcher should look for particular outcomes in the talk, for example, an interviewee's request for clarification or laughter. In such instances, the analysis should work backward to trace the trajectory of which a particular outcome has produced. In addition, Silverman warned of common errors in conversation analysis, particularly about trying to make sense of a single line of transcript or utterance in isolation of the surrounding talk.

As Miles and Huberman (1994) pointed out, data management is an important part of qualitative research (p. 45). The management of data is directly related to its analysis. The following basic ideas on data management can be drawn to optimize storage and retrievability of qualitative data: (1) formatting, (2) cross-referral, (3) indexing, (4) abstracting, and (5) pagination (Levine, 1985. Denzin and Lincoln, 1994, p. 430; Miles and Huberman, 1994, p. 45). In this, data formatting relates to how the field notes are written up. It is recommended to use a standard format, clearly indicating the name of the researcher, person(s) involved, date and time, as well as paragraphs and lines numbered sequentially. Cross-referral of information will indicate where similar information in other files can be found. Indexing is a generic term used for coding and primarily includes the definition of clear categories, i.e. codes³⁶. These categories are to be summarized in a codebook, or thesaurus. The analytical aspect of indexing takes place when the actual data is coded using categories previously developed.

³⁶ Within-case analysis: detail description of each case (Ritchie & Lewis, 2003), careful examination of the flow of events and effects, techniques (chronology, coding, clustering), purposes (in-depth understanding of each case for further cross-case analysis, identification of variable/factors, categorization), interview report reviewing by interviewees.

Abstracting was used to make the content of transcribed interviews easily accessible. It is foremost applied to summarize the longer materials, such as field notes and make them available in a more compressed format. Pagination is assigning a unique combination of letters and/or numbers to particular datasets, e.g. field notes. A concise pagination in combination with abstracting will make the dataset more manageable throughout its analytical process. Decision on cross-case analysis, i.e. case groupings or pattern matching will be made later in the research process.

4.6.2 Computer-assisted Data Analysis

There is a debate about the use of computer-assisted qualitative data analysis software (CAQDAS) during the data analytical process. The following quote views the use of CAQDAS rather critically:

Coding data for use with computer programs and the retrieval of coded segments of text is not, in our view, analysis. At root, it is a way of organising data in order to search them [...] qualitative research is not enhanced if researchers decide they will take their data and 'put it through the computer', as if that substituted for the intellectual work of analysis. (Coffey and Atkinson, 1996, p. 172).

Coffey and Atkinson (1996) further stressed their argument and stated that none of the computer programs will perform automatic data analysis (p. 187). They all depend on researchers defining for themselves what analytic issues are to be explored, what ideas are important and what modes of representation are most appropriate. The author has opted for the middle course in this respect. *ATLAS.ti 6.0*³⁷ was used for open coding of the data. Furthermore, the capability

³⁷ The software was initially developed at the Freie Universität Berlin as a collaborative project between the psychology department and Thomas Muhr, a computer scientist, as

of the software was also used to create memos and comments, which could then be conveniently linked to certain 'units of meaning,' which had been previously coded. Once those procedures were completed, the author opted for leaving the path of CAQDAS. The rationale for this being that the literature on qualitative research calls for the process of data analysis to be an intuitive process, which is fostered by creativity (cf. Charmaz, 2005; Spencer, Ritchie and O'Connor, 2003; Stake, 2005), sometimes referred to as a 'creative leap.' It offers the opportunity to introduce new ideas (cf. grounded theory approach regarding emergence of theory).

Spencer, Ritchie and O'Connor (2003) have argued that data analysis software has a tendency to "fragment data to the point that the overall narrative is lost and linkages between different aspects of an individual case [...] are difficult or impossible to re-create" (p. 211). Hence, once the actual data coding was completed the author took the outputs from *ATLAS.ti 6.0* (quotations, codes, memos, and comments) and used those as the basis to conceptualize and write the findings and discussions from this inquiry. Hence, software was used as "analytical support" (Spencer et al., 2003, p. 217), particularly utilizing the strength of *ATLAS.ti 6.0* to code and write at the same time and to link information at different places within the *hermeneutic unit*.

4.7 Trustworthiness

This section discusses the issues of validity and reliability. This will not only be descriptive, but also suggests particular instruments which will meet concerns in this regard. The four points offered for testing the robustness of research design are (1) external validity, (2) construct validity, (3) internal validity, and (4)

an exercise to support Grounded Theory. In due course, the project turned out to be very successful and Thomas Muhr set up an independent company, which continues to develop the software.

reliability (Yin, 2003b, pp. 33 ff.). Yin (2003b) presents these four tests in what he claims to be an innovative way, as he identifies “several tactics for dealing with these” (Yin, 2003b, pp. 33 ff.) research design concerns. However, the wording of Table 4-7, which presents Yin’s ideas, deviates from his original. The reason for this is that he uses positivistic terminology in his original text, whereas the terminology used in Table 4-7 reflects the post-positivistic research tradition as proposed by Lincoln and Guba (1985). The corresponding positivistic terms are: (1) Construct Validity, (2) Internal Validity, (3) External Validity, and (4) Reliability.

Table 4-7: Case Study Design

TEST	CASE STUDY TACTICS	RESEARCH PHASE
Confirmability ⁽¹⁾	Source Triangulations	Data Collection
	Interviewees’ Transcript Review	Data Composition
Credibility ⁽²⁾	Content Analysis	Data Analysis
	Indexing (Manifest/Latent Content Analysis)	Data Analysis
	Coding and Fracture	Data Analysis
	Within-case Analysis	Data Analysis
	Cross-referral of Cases	Data Analysis
Transferability ⁽³⁾	Replication Logic	Research Design
Dependability ⁽⁴⁾	Uses of Case Study Protocol	Data Collection
	Development of Case Study Database	Data Collection

Adapted from “Case Study Research: Design and Methods,” by R. K. Yin, 2003b, *Thousand Oaks, CA: Sage Publications*, p. 34. Note: Yin (2003b) uses positivistic terminology in the original text, whereas this table’s terminology follows the post-positivistic research tradition as proposed by Lincoln and Guba (1985). The corresponding positivistic terms are: (1) Construct Validity, (2) Internal Validity, (3) External Validity, and (4) Reliability.

With reference to Denzin (1978), Janesick (1994) identified four basic types of triangulation: (1) data triangulation, (2) investigator triangulation, (3) theory triangulation, and (4) methodological triangulation (pp. 214 f.). According to Stake, triangulation is the thorough way to achieve credibility of description and interpretation “continuously throughout the period of study” (pp. 443 f.). Data triangulation is the approach in which to look “at the same phenomenon, or

research question, from more than one source of data” (Decrop, 1999, p. 158). Following Richardson (1998) from a post-modernistic standpoint it might be advisable to crystallize, instead of triangulate (p. 358). Richardson argues in this regard that triangulation is being carried out in the “*same domain* assumptions” (1998, p. 358), relating to the same “‘fixed point’ or ‘object’” (1998, p. 358). This line of post-modernistic thinking realizes that there are more than three sides from which a research object may be viewed.

However, the author finds that crystallization is a too “relativistic” (Hörisch, 2005, p. 220) methodological approach in solving a research problem, and conventional triangulation will be chosen over the post-modernistic crystallization approach.

Finally, establishing trust is not only of methodological importance, but should also be looked at from an ethical standpoint. Trust needs to be established in both directions. This runs towards the research community by using proper methodological means on the one end, and on the other end, towards the interviewees. While establishing trust is foremost important in ethnography studies (Ryen, 2004, p. 234), it can also be regarded as important in conducting in-depth interviews. The relationship between the researcher and the participant needs to be trustful, and the ethical issues to be adhered to are that data is collected in consent and that confidentiality is assured, as far as required by the interviewee. The following section discusses the ethical reflections of this research in more detail, while even marginally, those ethical matters can also affect the trustworthiness of this study. As the issue of trustworthiness is more a technical matter in qualitative research, the author has decided to dedicate a separate section to the ethical considerations of this work.

4.8 Ethical Issues

Ethical questions are primarily concerned with a discussion of what is the right thing to do. Ethics can only exist in the context of a moral system within which an

individual can identify. Morality depends on a distinct set of principles. Taking the discussion of what is right or wrong to a broader level would exceed the scope of this section. The reason for writing this section is clearly based on moral principle whereby the author feels obliged to reflect on the ethical dilemmas he encountered during the study process. In this respect, the section can be looked at in an Aristotelian way as applied ethics. Aristotle believed that it is worthwhile to occupy with ethics when it has an immediate benefit as to how one acts in life.

This will then lead to an application of ethical issues, such as: confidentiality, honesty or the identification of conflicts of interest. Different strata of the society have different codes (or moral consensus) to provide ethical guidance to their members. Certainly, the very fact that scholars are extensively dealing with research methodology can be regarded as a direct consequence of this moral-ethic quest. "Doing fieldwork means confronting idealism with practice [...] in situations that need immediate action or choices" (Ryen, 2004, p. 237). Interviewees offered their time and expertise free of charge. Even though it can be argued that an exchange of a small gift or souvenir is acceptable to show the interviewee that her/his effort is appreciated, the investigator opted to not influence the respondents by providing material gratifications.

In terms of leading this discussion on ethical matters holistically, the author should also expound the problem of the relation between academia and industry. Naturally, the two are not mutually exclusive, as one depends on the other. It is common practice that academia and its institutions of tertiary education cater for industry needs as the industry takes responsibility in sponsoring education and research. This study partially depends on industry contacts from the tertiary institution this author is affiliated to, in establishing contact with industry stakeholders and approaching them for in-depth interviews. The potential interviewee's willingness to participate in the study may depend on whether s/he

is benevolent towards the school the researcher is affiliated to. It is argued that this is an acceptable approach which is necessary to get access to primary data. Does this interfere with the interviewer's objectivity? This may be the case. However, this can be regarded as insignificant. Will this social relationship lead to the researcher asking less critical questions? Frankly speaking, the author argues that this is not the case. Each in-depth interview is structured in the same manner with certain probing questions prepared. With the flexibility inherent to qualitative interviews, follow-up questions have to be selected as the case arises, depending on how the interview develops.

The author argues that his inclination to being critical and rational will not depend on the social connection with the interviewee. Rather, the interviewer will consistently communicate all questions in a similar friendly and respectful manner, leaving it at the discretion of the interviewee to answer each question at her/his convenience. While, eventually, the previous discussion on social relationships between the interviewer and interviewee is argued to be marginal and insignificant in affecting the research objectives, the author might find himself in a more practical dilemma at some point. Corruption is a problem in all societies. China as a transitional economy is also facing this societal imperfection. Given its relevance for property development it is an issue to be addressed at some point during in-depth interviews, however, whether this question is likely to be put forth will depend on the rapport of the interviewer and the interviewee. It might not be appropriate in every case to ask an interviewee this rather blunt question, which in fact might be perceived as an offensive one by some parties. Hence, it will be left to the researcher's judgment as the case arises, whether this question will in fact be asked. In this case, the author will be left with another practical dilemma, i.e. what to do with information obtained where corruption cases may have involvement from the interviewee? At this point the author asks his readers to allow for a simplistic solution to this ethically complex problem, without having to engage in a broader philosophical discussion. This author views himself as an

observer and *contextualiser*, who is to investigate and explain phenomena. As a researcher it is natural to investigate but the author does not see himself as an *investigator* in a criminalist sense. Hence, this author sees it as his responsibility to keep the confidentiality of interviewees. His role is to observe and to explain, but not to investigate and judge phenomena from a legal perspective.

CHAPTER FIVE

5 DATA ANALYSIS, FINDINGS, AND DISCUSSION

Given the natural closeness of data analysis and its interpretation within grounded theory development, information on the interview data analysis, i.e. the actual findings and their discussion, are presented conjointly in this chapter. Hereafter, the reader is presented with factual information obtained in this study (i.e. findings), while the discussion of these findings is integrated. Thus, the author has included all comments, opinions and insight into the findings based on observations, analysis, and interpretation of the facts. Flick (2006) pointed out that qualitative materials collected are divergent with regard to *time*, *place*, and *person*, studying phenomena at different dates and places, and from different people (p. 389). This chapter integrates different materials depending on the context. By taking into consideration the generic definition of data triangulation that has just been provided, relevance of the interviews conducted becomes apparent, as the process of theoretical sampling inherently fulfills those criteria. However, it is understood that other materials have also been part of this *theoretical sampling*. They include: previous literature, legal documents and articles from the international press. Consequently, the discussion element includes: (1) comparing interview data with previous literature, (2) examining interview findings in light of relevant legislation, legal documents and (3) contrasting findings with how the same phenomena have been described and analyzed in the international (trade) press. This integrated process, which implies *data triangulation*, i.e. synthesizing data from varied sources, significantly strengthens the interpretative element of this chapter.

5.1 Data Analysis

As mentioned above, this chapter integrates data analysis with the presentation of findings and their discussion. In order that the reader comprehends the analytical process that preceded the facts stated herein, this section will first

present the coding frame resulting from the open-coding process. The open coding expresses the interview data and phenomena in the form of concepts. On the following pages the reader will find two complementary tables, cf. Table 5-1: Coding Frame and Table 5-2: Coding Frame (Annotated). Both tables present the concepts used to classify expressions of the interviews into 'units of meaning.' The first column of those tables portrays categories. The categories constitute groups of codes that can be grouped around phenomena discovered in the data, relevant to the research questions. The coding frame of the data analysis is presented in two versions. Table 5-1 introduces only categories and the concepts grouped around them. Table 5-2 exhibits the same categories and concepts, but also presents annotations. The table further elaborates the 'unit of meaning', of which a given concept is used within the data analysis. Additionally, the coding frame outlines the presentation of findings in the next Section, 5.2. The following table presents concepts in columns two and three, which are sorted alphabetically, whereas the order of categories in column one are purposefully adopted. The logic behind the sequence of categories in column one relates both to the theoretical framework and to the grounded theory approach. Table 5-1 and Table 5-2 (cf. pages following) show that a general to specific process is followed to present the categories. Firstly presented are those of hotel business development, followed by theoretical categories developed from empirical evidence.

Presentation begins with the general concepts of (1) FDI: state and strategy, and (2) transformation and governance. It then continues more specifically, that is (3) hotel development. The second half of the table presents the following categories (4) hotels' hedonist appeal, (5) sphere of influence, and (6) poly-politics. The latter three the results of the grounded theory development, which was applied within this study.

Table 5-1: Coding Frame

Category	Concepts (codes)	
<u>FDI: state and strategy (FDI), cf. 5.2.1</u>	Attention to, pay Comparative optimism (emotion) Conditions improving Confidential EJV (equity joint venture) Growth limits Incentives, providing Infrastructure, developing of Information (asymmetry)	Investment strategy Investment vehicle Joint venture (cf. EJV) Market entry Obstacle Restrictions, operating under Risk (idiosyncratic) Risk (systemic) WFOE
<u>Transformation and Governance (TFM), cf. 5.2.2</u>	Administrative units Central planning Demographics Development gap Gov. Performance Indicators (GPI) Idiosyncrasy Incompetent, acting Labor Law Liberalizing politics Magnitude Mismanagement	Omni-Politics Privatizing state-owned assets Property law Protectionism Plutocracy Rule of law Rules and guidelines State ownership Transition economy Urbanization Urban planning
<u>Hotel development (HOD), cf. 5.2.3</u>	Approving projects Developing hotels Finance, ways to Foreign-invested Human resources development Importance Investor (foreign) Knowledge Management agreement Market	Market distortion Market segmentation Market, changes in Mixed-use develop. (cf. HHA) Motivation and purpose Opportunity Product quality, ensuring Profitability Return expectations
<u>Hotels' hedonist appeal (HHA), cf. 5.2.4</u>	Branding properties Lifestyle Mixed-used development (cf. HOD) Status (protection)	
<u>Sphere of influence (SOI), cf. 5.2.5</u>	Bribes, accepting of (bribery) Corruption <i>Guanxi</i> Proxy Relationships, developing and maintaining	
<u>Poly-Politics (POP), cf. 5.2.6</u>	Arbitrary acting Cultural diversity (minorities) First-tier cities Local government level Meso-environment	

Table 5-2: Coding Frame (Annotated)

Category	Concepts (codes)	Comments
<u>FDI: state and strategy (FDI), cf. 5.2.1</u>	Attention to, pay	This code is based on the interviewees' understanding of which criteria, in an investment context, deserve special attention of the investor, respectively, which factors they have to 'pay attention to.' *** Merged with: recommendations (2009-05-05T09:01:28) *** >>-Comment/body for "recommendations": Refers to recommendations made on the phenomenon of FDI in hotel real estate.<<-End of comment/body for "recommendations."
	Comparative optimism (emotion)	A concept from behavioral economics that "suggests that people underestimate their own likelihood of experiencing an unfavorable event as compared to ones of others." (Leiser & Azar, 2008)
	Conditions improving	This code, thus far, refers particularly to infrastructure development that favors the tourism industry. Especially, but not limited to, accessibility. <is associated with> infrastructure, developing of
	Confidential	Non-operational concept that is used to identify those parts within a transcribed interview where the interviewee refers to confidential information. Typically, at such a point within an interview, the recording device was switched off.
	EJV (equity joint venture)	
	Growth limits	Or "limits of economic growth (rates)."
	Incentives, providing	
	Infrastructure, developing of	
	Information (asymmetry)	Degree of information availability, respectively "information asymmetry."
	Investment strategy	*** Merged with: time frame (2009-05-05T09:02:16) *** Time frame refers to the strategic type of investment. Long-, mid-, or short-term. E.g. the time horizon of a closed equity fund or the intended holding period of an asset by a private investor.
	Investment vehicle	The legal construct that facilitates the investment process. The investment

	vehicle of choice remains a question of each investor's objectives and what is permitted under Chinese law.
Joint venture (cf. EJV)	
Market entry	Generally addresses, which form of market-entry an investor has chosen. E.g. EJV or WFOE.
Obstacle	
Restrictions, operating under	'Restrictions' that will prevent potential foreign investors investing into the Chinese market. These 'restrictions' can lie in the past, or be of present significance.
Risk (idiosyncratic)	Risks particularly associated with China, also: country risk (Meldrum, 2000, p. 33).
Risk (systemic)	Captures various risks: economic, sovereign, operational, and socio-political, among others (cf. section 3.2.3).
WFOE (wholly-owned foreign enterprise)	As one market entry strategy.

Transformation and Governance, cf. 5.2.2

Administrative unit	
Central planning	
Demographics	Key trend in the context of transformation.
Development gap	
Governance Performance Indicators (GPI)	A concept designed to capture the factors that drive officials' planning and decision-making behavior.
Idiosyncrasy	Refers to factors specific to doing business in China.
Incompetent, acting	
Labor law	
Liberalizing politics	Any steps taken to liberalize markets. Liberalization is relaxation of previous government restrictions, usually in areas of socio-economic policy, towards a more liberal society, and more market-oriented economic politics.

Magnitude	It appears that many of China's perceived problems are not any more significant than in other markets, but it is the absolute magnitude that lets them appear so much more so than in other countries.
Mismanagement	Where losses are created, or likely to be incurred, due to management's flawed decision-making. Reason may vary. In the context of this investigation, it appears that, in particular, several SOEs have, in the past, invested in hotel properties without those ventures undergoing a proper economic analysis or feasibility study, respectively.
Omni-politics	Everything is political, even events in the business world.
Privatizing state-owned assets	Any process where ownership is transferred from the state to private entities.
Property law	Ability to secure title of private property.
Protectionism	
Plutocracy	
Rule of law	Legal certainty or uncertainty. The latter implies various forms of statutory risks.
Rules and guidelines	
State ownership	
Tax regime	
Transition economy	(Country) codes under the concept of transition economies. *** Merged with: Vietnam (2009-05-05T10:47:59) *** *** Merged with: Taiwan (2009-05-05T10:51:51) *** *** Merged with: Singapore (2009-05-05T10:52:07) *** *** Merged with: Philippines (2009-05-05T10:52:25) *** *** Merged with: Malaysia (2009-05-05T10:52:44) *** *** Merged with: Indonesia (2009-05-05T10:53:39) ***
Urbanization	Key trend in the context of transformation.
Urban planning	Urban planning comprises anything relating to town planning, as influenced by the government or its agencies.

<u>Hotel development and FDI (HOD), cf. 5.2.3</u>		
	Approving projects	Any matters regarding the approval process of development, i.e. official approval granted by the government (regardless of the level) or one of its agencies.
	Developing hotels	Generally captures factors influencing hotel development.
	Finance, ways to	Regards financing in general, equity structuring in particular. Where the funding comes from, e.g. offshore vehicles.
	Foreign-invested	Foreign equity stake of 10 percent, minimum.
	Human resources development	
	Importance	Refers to the importance of FDI in hotel development.
	Investor (foreign)	'Investor' refers to any kind of investor. Private, fund, or institutional.
	Knowledge	Knowledge of hotel development, i.e. available knowledge, or a lack of it.
	Management agreement	
	Market	The code 'market' captures axioms such as supply and demand.
	Market distortion	
	Market segmentation	Applicable when interviewees refer to different segments of a market, i.e. when interviewees indicate that they occupy a 'market niche.' At a later stage it may be considered to adopt the just-mentioned as a separate code.
	Market, changes in	Clearly refers to longitudinal changes (i.e. over time), regarding types of investors, investment conditions, market segmentation, or consolidation.
	Mixed-use development (cf. HHA)	When this code applies, the interviewee made a clear reference that a hotel is part of a wider real estate development, i.e. mixed-use development (MUD). Usually, apart from a hotel, the development will contain offices, a department store, as well as residential units.
	Motivation and purpose	Motivation refers to the actual motives that influence the decision to invest.
	Opportunity	'Opportunity,' i.e. is market opportunity.
	Product quality, ensuring	
	Profitability	Somewhat similar to the code 'return expectations,' but focusing on yields

across different segments of the market. 'Profitability' refers to de facto returns. 'Return expectations' regards expected yields ex ante. (Cf. 'return expectations')

Return expectations

Refers to expected returns ex ante.

Hotels' hedonist appeal (HHA), cf. 5.2.4

Hedonism is a school of philosophy, which argues that pleasure, has an ultimate importance and is the most important pursuit of humanity. The name derives from the Greek word for "delight."

Branding properties

'Branding,' primarily in a sense where it is used to 'brand' a property, especially mixed-use developments. In such cases the profitability of the hotel property appears rather secondary.

Lifestyle

Identifies instances where hotels or the hotel product are described as a lifestyle choice.

Mixed-used development (cf. HOD)

Mainly addressed as part of HOD, but also of importance for this category.

Status (protection)

In sociology or anthropology, social status is the honor or prestige attached to one's position in society (one's social position).

Sphere of influence (SOI), cf. 5.2.5

Bribes, accepting of (bribery)

Corruption

'Corruption' is bi-directional and refers to political corruption. That includes the illegitimate use of powers to an individuals' advantage, as well as the giving end's willingness to grant benefactions to their political opponent. Corruption in this respect includes bribery, graft, patronage, kickbacks, nepotism, and cronyism (cf. Transparency International), as well as plutocracy.

Guanxi

How does *guanxi* materialize? Which new dimensions might *guanxi* take, which previously might not have been addressed?

Proxy

In a sense of agent theory, agency problem, respectively.

Relationships, developing and maintaining

Various relationships of foreign investors/developers which are significant in the process of developing foreign-invested hotels. Relationships can be horizontal and/or vertical. An interviewee has stated (cf. P. Wong) that managing relations with governments, SOEs, or their representatives is absolutely crucial.

Poly-Politics (POP), cf. 5.2.6

Arbitrary acting

Arbitrariness is a term given to choices and actions, which are considered

Poly-Politics refers to the differences in governance across provinces/regions, prefectures, counties, cities, and municipalities. It also captures the arbitrariness of approval processes across different regions, and government levels. This is also to say that politics in China is literally "amorphous", very difficult to grasp, especially for the not so culturally attuned foreign investor. In parts, this concept is also describing the conflicts between different layers of the administration. Multi-directedness: (1) geography, (2) administrative levels, and (3) time → dynamic nature!

Cultural diversity (minorities)

First-tier cities

Local government level

Meso-environment

Second-tier cities

Third-tier cities (n-tier cities)

to be done not by means of any underlying principle or logic (rule of law, respectively), but by whim or some decidedly illogical formula.

Cultural diversity primarily refers to the heterogeneity within the FDI host country, i.e. across China. In selected cases (viz. France), this may also refer to heterogeneity of the investors' country of origin, which may influence the openness of the host toward the foreign investor. This code also includes 'minority rights.'

Beijing, Shanghai, Guangzhou, Shenzhen.

Refers specifically to approval processes on local government level, as opposed to approvals granted by the Central Government in China.

Originally, the part of the economy controlled by large corporations. In the past decade UNICEF, developing the pioneering work of Frances Stewart, has used the term "meso" more broadly to refer to a level of analysis between the aggregated national economy and the level of individuals, firms and households and to draw attention to the critical policy-making process, especially with respect to public finance issues. Meso policies concern the distributional impact of macro policies, determining which income group, sector and gender bears the brunt of reforms (Stewart 1992, p. 37. Stewart's conceptual contribution is summarized in Rodgers and Cooley, p. 1401). Drawing on institutional economics, some gender specialists have also used "meso" to denote the intermediary role of markets in transmitting signals and allocating resources. In this context, markets are seen as embedded in social relations and thus as "bearers" of gender. Elson and Evers have developed a macro-meso-micro framework for gender-aware country economic analysis.

E.g. Chengdu, Chongqing, Wuhan. To be specified in more detail.

Cities of different sizes in China are often referred to as first-tier, second-tier, third-tier, and so on. To make the coding-process comprehensive but also concise, this code has been adopted to capture cities of lesser importance. Generally, cities below second-tier cities.

Categories listed within the second half of the tables (5.2.4 through 5.2.6) present facts in an existing theoretical context, as well as *new* theory, which is *grounded* in the data. Not only are these categories grounded in the data, but they also typify a synthesis and abstraction resulting from the hermeneutical process of overall interview data analysis. Whilst sections 5.2.1 to 5.2.3 are clearly the result of a *critical theory* disposition, sections 5.2.4 to 5.2.6 can be attributed to a *constructivist* positioning. The former categories are relatively well defined in existing literature and the reader will understand the *ratio* behind the constructed categories, as this chapter evolves. Paradigmatically, it appears a contradiction that this work contains elements of *critical theory* and *constructivism*. Unfortunately, the author does not have the capacity nor the intention to reconcile these two paradigms. However, he does not want to conceal the fact that he unintentionally experienced the *Glaserian-Straussian* divide in the grounded theory approach during the data analysis procedure. This can be seen as represented in the last three categories (5.2.4 through 5.2.6), where the *Straussian* approach is represented in the critical theory position and the *Glaserian* in the constructivist disposition.

5.2 Findings

This section is structured according to the categories identified in the coding frame presented in Section 5.1. There was an alternative way in which to structure this section according to the research questions formulated in Chapter 1 (cf. section 1.4), but it is believed that the structure eventually adopted is more suitable given the grounded theory approach of this study (Glaser & Strauss, 1967). If this section had been structured according to the actual research questions and producing related evidence, the opportunity to develop new theory grounded in the interview data would have been lost. Hence, following the open-coding of the interview data, they were grouped around phenomena discovered within the data (Flick, 2006, p. 299). This appeared relevant to the overall

research problem and the research questions inferred thereof, and are now represented in particular categories (cf. Table 5-1: Coding Frame), respectively. This section has been organized accordingly.

As previously confirmed, this section integrates the outcome of the findings and their discussion of this study. This process has been supplemented using comments and memos created during data analysis using *ATLAS.ti 6.0*. Hence, any comments or memos produced in this way could be accurately traced to certain evidence in the interview data. This also shows how certain ideas of the author evolved during the analytical procedure performed. Contrasting with additional data the author's analysis resulted in a coherent argument for the investigator's inferences. The beginning of each following section presents an excerpt from the coding frame to bring readily to mind those concepts (codes) that are related to the respective category.

5.2.1 FDI: State and Strategy

Table 5-3: Concepts Relating to FDI, State and Strategy

Concepts (codes)	
Attention to, pay	Investment strategy
Comparative optimism (emotion)	Investment vehicle
Conditions improving	Joint venture (cf. EJV)
Confidential	Market entry
EJV (equity joint venture)	Obstacle
Growth limits	Restrictions, operating under
Incentives, providing	Risk (idiosyncratic)
Infrastructure, developing of	Risk (systemic)
Information (asymmetry)	WFOE

Own composition, excerpt from Table 5-1: Coding Frame

This section addresses different aspects of FDI in China. First and foremost, it will outline current significance, restrictions and opportunities for FDI in hotel real estate. Secondly, it particularly addresses evidence depicting the socio-economic environment in which foreign investment decisions in China are made. Thirdly, this section outlines substantiation regarding issues of hotel development financing. Interviewee B confirmed what is generally known regarding the importance of hotel FDI in China:

“The China hotel market, in so far as foreign investment, is concerned primarily in the area of management contracts - or leases - or any other form of cooperation. [...] based on my best knowledge, as far as the China hotel industry is concerned, the percentage of direct foreign investment in hotels in China is fairly small.” (Interviewee B)

And this finding is strongly supported by Interviewee D who argues:

“[...] the way I see it, so far, I believe it [FDI], is just a drop in the ocean.” (Interviewee D)

This is in line with the latest official figures by the CNTA (2007) which ascertain that FDI in hotel real estate currently only accounts for 4.6 percent of all star-rated hotels (cf. Table 2-3). However, the same respondent points out the opportunities for hotel FDI in China, as well:

“There could be a whole lot more if the Chinese authorities were really more open to foreign investments. Right now they are just putting on a façade that they welcome it, but at the same time they are not really encouraging it.” (Interviewee D)

Trying to make sense of this paradox, the respondent speculates that this might be a consequence of supply and demand. However, s/he did not exactly specify the ‘supply and demand’. Regardless, the previous statement is then followed by a revealing remark on the nature of hotel development projects in China, also describing the government’s attitude towards FDI at the current time:

“[...] what I am seeing is more protectionism, from the Chinese Government. Because more and more opportunities are coming across my desk from novice developers, Mainland Chinese developers, who are – who have been in the real estate business, but then the government of all tiers – federal and all the way down, to the

smallest municipality, particularly – they are encouraged to re-develop certain chunks of land. [...] So there are a lot of these issues and scenarios in China right now. I think it's a matter of protectionism that they don't encourage foreign investment to the hotel-side."

(Interviewee D)

Apart from interpreting the current FDI situation politically, Interviewee E, from his practice as a hotel consultant, provides a quantification of how foreign - compares to domestic investment in hotel real estate:

"[...] most of our work is for new development, new-builds [sic] across China and in 95 plus percent of the cases, and this is hundreds of projects a year, it's for domestic real estate investors. So very rarely is it foreign investment into actual development of a hotel green field development." (Interviewee E)

Referring to statements made by Interviewee A one can conclude that the marginal role of FDI in hotel real estate is not based on a lack of opportunities, but rather:

"[...] it seems that we have more barriers for the international investors coming into China. That is my general perception."

(Interviewee A)

This assessment is confirmed in spring 2009 when one report (cf. Law, 2009) found, particularly in the period 2006-2007, that with the four circulars issued during that time (i.e. 171, 192, 50, and 130), both foreign investment and borrowing by foreign entities from off-shore, is significantly restricted.

That report states:

From Circular 171, the circulars become stricter and stricter. And when it comes to Circulars 50 and 130 in the summer of 2007, the

government basically stopped all cross-border debt financing by foreign developers [...]. Foreign companies, under the restrictions, are also required to have venture capital that is equivalent to 50% of their total investment. [...] This is a tough requirement for foreign developers, especially as they also need to take the risks of investing in China into account. Furthermore, under the measures, [WFOE] will not be able to borrow any money unless the venture capital has been paid in full, in [Rmb]. (Law, 2009)

At the current time “liquidity is tight” (Interviewee B), and China has been constantly ‘tightening’ and ‘loosening’ her grip on FDI. Foreigners appear to be free to invest in China, but practically, as Interviewee I points out: “it’s not easy.” In spring/summer 2008, due to the Sichuan earthquake, the Central Government introduced policies to encourage investment in that particular region. The Chinese setting presents a unique situation for decision makers. Often, investment decisions will not be based on market requirements. It appears that some decision makers are ignorant to actual market demands, and drive investment based on their personal motivations (“[...] these guys have absolutely no idea what they are doing,” [Interviewee D]). That appears to be true for investment decisions of state-owned enterprises in particular, but also for foreign investment decisions that are based on town planning requirements or recommendations. None-the-less, the authoritative position held by some decision makers, enables them to influence such decisions either way. Even more so:

“The banks in China receive instructions from Central Bank or [MOFCOM], [...] to provide liquidity, [...] they have these reserve ratios which they adjust from time to time, and a lot of that is politically directed. In other words, if government believed that so and so in China should own the JW Marriott and they need so many million of

dollars to do the investment they will direct the Pudong Development Bank lend that money to that institution.” (Interviewee B)

Kivela and Leung (2005) argue that investors would typically start negotiations before realizing regulations and business practices. This assumption cannot be generally confirmed by this study. Several interviewees indicated that investors are either aware of the pitfalls of such negotiations, or they do not perceive significant differences from doing business in China compared to other transition economies. Business practices in China seem to have evolved over the past years:

“I see the change, to be honest with you. Because for the past five years, I really see the big change of the mindset, the way they do things. [...] I mean so many systems, so many democratic behaviors, so many information through all channels, come to mainland China, it has really influenced the whole country.” (Interviewee I)

The interviewee in this scenario was positively surprised that decision makers in local governments s/he dealt with acted quite professionally and seemed to make an honest attempt to create a high degree of transparency. That, according to Interviewee I, would include the cooperation between different project participants, e.g. a company's general manager and government director jointly sharing meetings with foreign investors. This was apparently less likely in the past:

“That's what I have never encountered before. In the past, you know, it's not the way. In the past, it's something like you do it in the club [interviewee giggle], to be honest with you. You do it in a club; you talk about something under the table [...] now it's totally different.” (Interviewee I)

Hence, the investment environment is changing in China. Companies are becoming more concerned about standards of proper corporate governance. Both industry professionals and governmental officials are making attempts to manage new projects more responsibly, as in both cases their careers depend on it.

One common obstacle, however, remains the underestimation "of the influence of the government" (Interviewee J). When government support is secured or available from the beginning, the approval process will be seamless. However, if such support is not granted, obstacles for developing a project can virtually lie behind every corner of the process, with lower government levels causing comparatively greater problems compared to the higher government level. In the words of Interviewee J:

"In China it's not only obeying the law, you have got to maintain good relations with top-, middle-, and lower-ranking bureaus. Sometimes, the lowest-ranking bureau gives you the biggest problem."

According to Interviewee E, most foreign investors enter the Chinese market with the confidence that they have the necessary governmental contacts to succeed in their projects, although in some cases this is not necessarily true. Interviewee J, having decades of experience in doing business in China and also having significant political influence, reported the following piece of anecdotal evidence:

"And the problem is in the development of China in the past 30 years: 90 percent of the joint venture companies failed. Including the hotels. So, we have a lot of unhappy hotel owners." (Interviewee J)

Exact data in this respect is difficult to obtain. However, it seems reasonable to believe that the number of JV failures in China over past decades has been significant. None-the-less, many foreign parties opted to enter the Chinese market. This is a phenomenon, which in parts is addressed and explained by the

field of behavioral economics, captured in the concept of 'comparative optimism' (Leiser & Azar, 2008). This concept has not yet been addressed in the realm of tourism development projects. Given the optimistic growth expectations of tourism stakeholders in developing markets such as China, it is a notion that deserves closer attention. The notion suggests, "that people underestimate their own likelihood of experiencing an unfavorable event as compared to ones of others" (p. 615). Hui (1998) wrote:

Capitalism is penetrating every corner of social and political life and the process of modernization is plunging all of us into a multiple social crisis such as the population explosion, environmental degradation, and imbalances in the social-distribution system, corruption and the associated political conditions that are inseparable from these issues. Yet the incredible fact is that the Chinese intellectual world avoids discussions of any of them. (p. 12)

Ten years on, while the symptoms described above still exist, Hui's final implication needs at least a revision and a certain alteration from resulting evidence found during this investigation. Overall, all interviewees were well aware of the challenges that China is currently facing. One interviewee provided her/his distinct inference of how China will eventually master her challenges. For the foreign investor this requires a maximum of cultural sensitivity:

"They shouldn't only, [...] copy their past experience into China. I think they have to be very innovative, not to follow the traditional Chinese way - it's kind of to create a totally new system or the way of practice doing business, which means: combine the West and East culture and everything together. [...] if they are imaginative enough [...] they will find a third way of doing business in the future. And we do not [...] the exact components about the third way, but definitely

not the purely Chinese way, definitely not the traditional, their international way. So it's a unique market, but it's a kind of 'glocalized' market."

For a company to succeed it will have to perform better, i.e. become more effective and efficient than a relevant set of competitors. In the past century, internationally active companies were usually successful because of their ability to apply a uniform, global standard across different markets (Hexter & Woetzel, 2007, p. 42) including China. Given the rise of China's economy, multi-nationals face a unique challenge in entering this particular market. It is important that they cannot forego the opportunity for market entry. Having said this, China offers enough socio-economic idiosyncrasies to foreign investors that they are hardly able to apply their international standards to this unique market. There is likelihood that 'global standards' will be developed in China in the future. As China is likely to provide the most significant nation-market, companies that will succeed in China are likely to succeed in other markets too. This would mirror the situation many companies found themselves in during past decades. That is, where companies that had a strong foothold in the world's largest markets, the US, were usually in the position to be successful on a global level too. Providing the process of modernization continues that China is currently undergoing, there is a good chance for such a scenario. The following section presents further evidence on how transition processes that are taking place at present, may influence and potentially favor such a development.

5.2.2 Transformation and Governance

Table 5-4: Concepts Relating to Transformation and Governance

Concepts (codes)	
Demographics	Privatizing state-owned assets
Development gap	Rule of law
Idiosyncrasy	Rules and guidelines
Incompetent, acting	State ownership
Liberalizing politics	Transition economy
Magnitude	Urbanization
Mismanagement	Urban planning

Own composition, excerpt from Table 5-1: Coding Frame

Since 1978 China has adopted a policy of an incremental opening to FDI, the process dubbed *gradual economic reforms*. In general, transformation has been mainly “limited to the economic sphere” (Bertelsmann Stiftung, 2008, p. 2). But this economic transition is subject to constant change, which, not the least, is represented in a perpetual adaptation of investment guidelines issued by MOFCOM. During the data collection, all interviewees were confronted with the following question: Did they think that the issuance of investment guidelines by Chinese government agencies would change investors’ inclination to undertake foreign investments in China?

Interviewee D states that the investment guidelines published by MOFCOM practically have no effect on actual investment activities. Several other interviewees support this remark. The question arises in how far the economic development in China is influenced by the Central Government directives, if at all? Are they only lip service after all, or does economic development on a regional/local level follow different motivations? Certainly, conditions for investment are continuously changing:

China's Ministry of Commerce (MOFCOM) has continued delegating its approval powers to lower government levels, further streamlining the investment pathways for foreign companies by issuing the Circular on Delegating Matters Concerning the Changes to, and Examination and Approval of, Foreign-invested Companies Limited

by Shares and Enterprises (Circular 50) and on Delegating Matters Concerning the Examination and Approval of Foreign-invested Commercial Enterprises (Circular 51).

China's policies toward FDI tend to be rather ambiguous. This is an example in which authorities try to improve and streamline investment conditions. Previously, FIEs were viewed by the Central Government as too important to the national economy to be handled by lower level authorities, with MOFCOM preferring to retain its approval authority over these entities. It is noteworthy that responsibilities for planning and approval of the FDI process are continuously shifting from higher to lower level authorities, and vice versa. That is to say, that these responsibilities are continuously shifting between federal, provincial and prefectural authorities. However, the study data suggests that any actual rules and regulations on FDI hardly affect the reality of most foreign investors. When Interviewee E, a project consultant and investment advisor, was asked whether the recent policy changes on FDI had affected his practice, s/he replied:

"[...] I haven't even looked to see - we certainly haven't noticed any impact on that in terms of our projects. I think people take a long-term view. Some of the groups - you know and I don't look into the legalities and all – how this all works. (Interviewee E)

Asked particularly about China's more recently (2007) released property law s/he continued:

"As I said: it hasn't impacted what we are seeing as the developing pipeline and people's appetite to develop." (Interviewee E)

The previous statement, made in July 2008, should be viewed with caution. But this is confirmed in similar statements by several other respondents when asked about recent policy changes (Interviewee D; Interviewee K). Of course, this is

only a preliminary (cross-sectional) analysis and certain policies may only affect the investment environment with a time lag. From an economic standpoint one has to distinguish the effects of such policies in the short-term, compared to how they might influence investors in the long-term. Nevertheless, the experience of several interviewees suggests that policies and directives issued by Central Government only marginally affect the actual policy implementation (or interpretation) at lower administrative levels. Those ambiguities appeared to be well understood by all interviewees. They would view China as a culturally and administratively heterogeneous market. Therefore, it can ultimately be assumed that:

“Any investment will be welcome on the local level.” (Interviewee J)

The most important transformative trend, particularly in China, is allegedly ‘urbanization.’ Urbanization implies a host of impacts: economic growth, labor and skills, building construction, urban infrastructure, intercity transport, arable land, urban energy demand, urban water and pollution, among others (McKinsey Global Institute, 2009). Hotel investment and development, for the most part, needs to be viewed in this context.

“Understanding the biggest development trends in China, for example, the biggest trend is urbanization. So every year you have so many millions of people moving into urban areas. And then also the increasing wealth of the individuals and families - so they have higher spending powers. And then also they are considering like infrastructure development. And then car ownership. All these different trends, how that bring to impact the future land uses and what will be the appropriate uses for this land.” (Interviewee C)

The overall trend of urbanization leads to new urban area developments. According to Interviewee C these developments are typically “mixed-use” or

“comprehensive” (Interviewee B) projects. As noted previously, such a site will usually feature residential, office, shopping and a hotel component. It is interesting to note how the trend of urbanization affects the type of real estate being developed, given this holistic approach to ‘new town development.’ The trend of urbanization and the requirement of urban development, often from scratch (i.e. greenfield), favor mixed-use developments. Existing urban areas are geographically constrained. Greenfield developments are more difficult to implement in such areas. On the other hand, constant city expansion, respectively the development of entirely new cities, advocates greenfield development. This will provide various development opportunities for hotels. The trend of urbanization is likely to continue. It is also an indication of where development opportunities will lie in the future, as this trend will predominantly be beyond the existing first-tier cities, creating more market opportunities in the mid-market segment of hotels, viz. 3- and 4-star properties. Apart from immediate economic opportunities, the author believes that in China’s fast-forward urbanization process, it will create greater opportunities. Once the major energy, pollution and water problems are solved, urban areas will excel at being most resource-efficient and able to accommodate large numbers of citizens in the world’s most populous country.

If China was only able to transform her cities into viable places for her citizens to live and work within! It is argued that the Chinese sense of collectivism has an inherent advantage. The author believes that it is more future-oriented being sustainable, as opposed to the individualistic ways of life in western societies. The suburban reality of many Westerners is not sustainable. However, urbanization, even though it currently appears as an environmental threat, is the future for modern societies. Having said this, it is assumed that people have an interest in improving, or at least sustaining, their current quality of life. This will only be possible in large urban areas that are collectively organized.

Another not so obvious trend that exemplifies the transition process China is currently experiencing is impressively described by one investor interviewed for this study:

“Amazing, [...] many of [the Chinese decision makers], they are so young, so talented; they really want to do something for the industry, do something for their company. They want to set up a role model. They want to live, try to create a record, you know, a history record for themselves or in their generation. That is something, I mean, only for the – in the past about, [...] I have encountered all these people. [During three different projects.] And in different provinces, in different cities. I encountered those people [...]. They are doing it in a very transparent way. Professional way. They try to be professional, anyway. So influenced by the rest of the world. Because so many people jump into that China market, already. They learn a lot from everybody.” (Interviewee I)

Whether an increase in transparency in transaction processes in China is the consequence of a conscious decision by stakeholders is difficult to determine from this vantage point. However, working towards transparency at lower level administrative units will help cities fund their growth.

It can be argued that more transparent governmental processes will take some of the funding pressure away from Chinese cities. Only in such a more transparent environment will investors be able to clearly assess the risks and returns of their potential capital investments. From case to case a significant “lack of transparency” (Bertelsmann Stiftung, 2008) can still be detected. However, in

present day China the phenomenon of the “investigative netizen³⁸” (Ng, 2009) is gaining ground. It will probably be a combination of political will and greater media freedom that includes ‘netizenship’, that the political and economic transparency in China will improve. China will incrementally become a much more transparent host country for FDI, with the concept of ‘netizenship’ playing its role in this. Recent debates regarding investigative netizenship have raised questions. For example, how far a netizen without legal powers can go to investigate a case and whether a court can admit evidence s/he has collected. Netizenship might bring about a more open media environment. The notion is an example for generational change in China whereby demographic evolution is one of the key drivers of change. There is also data evidence that foreign stakeholders perceive this exactly: socio-economic changes in China caused by the changeover from one generation to another. For example, Chinese political leaders and managers are increasingly educated outside of China (“many of them studied abroad,” [Interviewee I]). The following quote describes the situation exemplarily:

“They want to be really the number one in the world, they want to be professional. They want to be [...] respected, not because they are China, [but] because they have the world-class quality. [...] Amazing, [...] many of them are so young, so talented; they really want to do something for the industry, so something for their company. [...] those 30-something people, they are [already] in [...] high ranking [government positions].” (Interviewee I)

³⁸ The term ‘netizenship’ is derived from the word ‘netizen,’ from ‘internet citizens.’ Qua Wikipedia ‘netizens’ are defined as: “[individuals who] can use the internet to engage in activities of extended social groups” (Source: <http://en.wikipedia.org/wiki/Netizenship>). Making the individual part of a wider transformative process using the means and resources of the World Wide Web. Even though not formally recognized the concept is of particular importance in view of China’s transformation. The term informally expresses the self-image of Chinese ‘bloggers.’

Interviewee I then continued to state, though in other words³⁹, that the new generation of Chinese leaders wants to act as ‘role models,’ that they really want to make a difference in the development of their country. Those (future) leaders adopt a pragmatic approach in their practice, not necessarily centered on traditional Chinese values and practices. An assumption that is clearly confirmed by another interviewee:

“There’s clearly a difference between the generations, the ones that are like the Cultural Revolution generation and the younger generation of people. With that older generation the level of understanding of representing financial analysis and reasons, I often think is not understood at all. Well our work is done: what’s the point of giving them the report because they don’t understand it anyway. While it’s completely different with that younger generation, and they are becoming more and more prevalent and higher up in the in the organizations so that’s good. I mean, they are starting to really look into and analyze projects and investments properly.” (Interviewee E)

It is the latter individuals that foreign investors will increasingly have to deal with, which is a change that everyone should be aware of. Even though it takes time for this change, it will have triggered into all regions of the country and it is taking place right now.

But overall, there is an ever-growing group of people who have their roots in China, but “also know the Western culture” (Interviewee A). To make this point even stronger, another quote makes this transformative concept of generational change even more significant:

³⁹ The interviewee’s exact words were: “They want to setup a role model. They want to live, try to create a record, you know, a history record for themselves or in their generation.” (Interviewee I)

“The number of overseas-educated talented people [...] who one day will go back is huge, is huge. [...] Where are these people? One day the Premier of the People’s Republic of China will be someone who speaks fluent English and has two degrees from Europe a Ph.D. and a super-Ph.D., okay. The guy who is the minister for health, who attended [...] the World Health Organization, was interviewed on television and he spoke perfect English with a London accent. This is, this kind of minister for health that will come. And I really believe that the Premier of China one day will be a Harvard, or Stanford, or University of Paris graduate, you know.” (Interviewee B)

Even if the majority of citizens in China will still be authentically *Chinese*, the country’s leadership has already started to be polyglot and cosmopolitan which is a trend that is there to stay. This will influence the way foreigners do business in China, and with the Chinese. China’s business environment, as already suggested above, will increasingly become more transparent and professional. Even so, for the time being, investors have to cope with various factors affecting their decision-making relating to the wider area of China’s modernization in general, and in particular the current affairs of governance. It has been mentioned in Section 5.2.1 that investors tend to underestimate the likelihood of the failure of an FDI-venture. More often than not, success of a project will depend on clear legal security, i.e. “terms [that are] very clear” (Interviewee J). When asked about the approval process behind a resort investment by South-Korea’s Lotte Group in Shandong province worth approximately one billion US dollars, the interviewee replied:

“The signature of that agreement will probably be the Prime Minister or the President of the People’s Republic of China.” (Interviewee B)

On a very similar token, referring to FDI originating from Hong Kong, the same interviewee stated:

“[...] All these big developers from Hong Kong will have ended up with the major development, property ownership in China, by some kind of assurance from the Central Government.” (Interviewee B)

Apparently, this cannot literally be the case. Notwithstanding, but proverbially, the remark provides a deeper understanding of what appears to be required in the eyes of foreign stakeholders in order to create a legally secure investment environment in China. And that is why understanding the current state of ‘rule of law’ in China is paramount. One of the more unveiling statements on the conditions regarding ‘rule of law’ in China stems from Interviewee D, which highlights a democratic deficiency with regard to the ‘separation of powers,’ having a negative impact on legal certainty in China:

“The biggest challenge dealing with governments in China is that if you asked them if they had a set of rules which you can follow, they will come back and say: ‘no, I’ll set up rules. You submit what you plan and we will approve.’ At the end of the day they will probably admit that they have rules that originated in Europe, States, Canada – all around the world. That they just have to decide which set to apply to you. And through that process they create a lot more fees that they can collect, a lot more hurdles.” (Interviewee D)

The above statement is radiant proof that more than thirty years into China’s economic reform process the Leninist principle of concentration of state powers in the hands of the CPC still prevails, with Chinese leadership claiming that it is

following Lenin's new economic policies⁴⁰. Such conduct illustrates vividly how the CPC, under the Leninist paradigm, is yet superior to the constitution and all other state organs. NPC and the local People's Congress are all subject to directives and control from the CPC.

Considering this study's scope, a key area when addressing legal certainty, is property rights. Typically, foreigners that operate multinational ventures would adhere to the following paradigm: "Western prosperity [is] derived from secure property rights and relatively docile special interests. People outside of the West have the physical means of developing, yet they fail to overcome institutional obstacles to emulate Western development" (MacKenzie, 2008, p. 687). This is an assumption confirmed by Interviewee A who remarked that factors related to political stability, which affect decision-making procedures, are of "critical importance" (Interviewee A). Indeed, the introduction of a property law in China, taking effect in October 2007, was widely welcomed by the foreign investment community (cf. 3.2.4.2). However, for a balanced discussion of this particular topic it needs to be mentioned that this is apparently a view much influenced by Western concepts of law. It is intellectuals such as Wāng Huī (汪晖), who argues:

Our historical context is Chinese, not Western, and it is doubtful whether a category imported so explicitly from the West could be helpful in today's China. (Wang, 2003, p. 62) [...] Political democracy will not come from a legally impartial market, secured by constitutional amendments, but from the strength of social movements against the existing order. (Wang, 2003, p. 64)

⁴⁰ An economic policy proposed by Vladimir Lenin to prevent the Russian economy from collapsing. Promulgated in on March 21, 1921, it allowed some private ventures, such as small businesses/shops to reopen for private profit while the state continued to control banks, foreign trade, and large industries. (Source: http://en.wikipedia.org/wiki/New_Economic_Policy)

Of course, legal certainty is always desirable, not just from a Western point of view. Legal certainty is a way that guarantees (1) separation of power, (2) independent judiciary, (3) prosecution of office abuse and (4) civil rights. Based on this, the foreign market participant must not expect to find a reflection of Western values and a legal framework respectively available. Given the current crisis of the 'capitalist' globalization process (Blume, 2009, June 10); it appears advisable to not view the debate in ideological pairs such as 'West v. China' or 'Capitalism v. Socialism' as antagonisms. Even though this dissertation breathes Western philosophy, morals and values, this author (though of Western origin), does not believe that the single answer to China's problems during the course of transformation lies in the seamless adoption of a Western-like socio-economic framework. Ideally, one can argue, China's distinct way into modernity will lead into something unique, supposedly a *mélange* of Chinese values and standards from other cultural realms. Despite a genuine interest in China, some foreigners may still have an unjustified pre-conception of the country. China is a complex country and often a foreigner's knowledge may not be deep enough. For example, inside and outside of China, many dub thinkers such as Wāng Huī as 'New Left'. The author senses how this notation incorporates underlying political ideologies. At this point he opts to abdicate from leading a debate on whether or not this denotation is or is not appropriate. However, Wāng Huī and his intellectual associates refer to themselves rather as 'Chinese alternatives.' None-the-less, "their concerns are increasingly amplified by the central leadership" (Mishra, 2006, October 16)⁴¹. Even though China has, as recently as 2007,

⁴¹ "Many people also learned that the reason the Chinese economy did not collapse like the Asian tiger economies in 1997 was that the national state was able to protect it. Now, of course, China with its export-dominated economy is more dependent on the Western world order, especially the American economy, than India." (Wāng Huī. Cited in Mishra, 2006, October 15) the previous quotations resemble a view on Keynesian role of the state that is increasingly acknowledged in capitalist Western countries of 2009, facing inclemency of the current financial crisis.

introduced a property law; one must not forget that the foundation of the Chinese socialist state remains the collective ownership of property.

Hence, the introduction of a property law is rather a radical idea in the Chinese context, which for the most part explains why its introduction was preceded by a decades-long debate.

5.2.3 Hotel Development

Table 5-5: Concepts Related to Hotel Development

Concepts (codes)	
Approving projects	Market distortion
Developing hotels	Market segmentation
Finance, ways to	Market, changes in
Foreign-invested	Mixed-use development (cf. 5.2.4)
Human resources development	Motivation and purpose
Importance	Opportunity
Investor (foreign)	Product quality, ensuring
Knowledge	Profitability
Management agreement	Return expectations
Market	

Own composition, excerpt from Table 5-1: Coding Frame

The preceding Sections shed light on the state of FDI and China’s transition in a more holistic manner. Instead of solely focusing on the special case of hotel investment, those sections presented evidence on the generic conditions of FDI into China. Hereafter, the tone of the discussion will slightly change and the subject of hotel development is addressed explicitly. To start the discussion the following quotation will set the tone regarding the current significance of and investors’ sentiment about hotel development in China, as formulated by an investment advisor:

“Every man and his dog is trying to get into China with a sizeable footprint because market share is important [...]” (Interviewee G)

“[...] my last reading was 80% of the international hotel chains are in China at the moment.” (Interviewee J)

It is obvious that the primary reason for this behavior is the sheer size of China as a market for hotel services.

Apart from market size, several other significant factors can be identified that influence investors decisions to invest in hotels in China, as depicted in the following figure (Figure 5-1).



Figure 5-1: Factors Influencing Hotel Development in China

Own illustration

Factors such as (1) market size, (2) the cultural links of foreign investors (cf. overseas Chinese or ‘global tribe’), (3) ego/status, (4) the appeal of hotels as an asset class, and (5) governance issues, will all influence the investors choice to invest in China. These components of choice seem to be obvious but if those factors are investigated with respect to China’s heterogeneity considering her diverse culture and geography, the picture becomes more complex. Chronologically, one of the first findings from the data collection stems from Interviewee A. Asked about foreign investors’ motivation to provide capital for hotel real estate s/he responded:

“[...] Return on investment and if they go to Chinese market whether they can get their return on investment – so financial purposes is very

important [...]. And for this issue, I think, not all hotels can generate enough return on investment at the moment.”

Given this response, explanation of the phenomenon of hotel FDI appears to be clear cut, but as further discussed, they will be seen to be much more complex than this! An example of this is to consider the effects of investments undertaken by overseas Chinese in the overall market for hotel development. While there may be a host of economic factors affecting the motivation to invest in a transition economy such as China, there is one very unique feature affecting hotel property development in this country. Given the sheer size of the Chinese market, international investors have to be wary of one crucial feature:

“Foreign owners, mainly overseas Chinese, just want to build something in their home town. Not necessary for market reasons”.

(Interviewee J)

In this respect one interviewee had a particular noteworthy anecdote to share, being quite telling when it comes to overseas Chinese hotel investment:

“I just met this Chinese guy, educated in New York, who bought a site in a second-tier city in China; he didn’t even go and see it. Incredible. [...] it’s distressed we can get it for this, and he goes: ‘well, if you can arrange a mortgage then we’ll go and buy it.’ So his friend arranged the mortgage and then he went and bought it. He hasn’t even visited the site, it’s incredible. Paid lots of money and hadn’t visited the site.”

(Interviewee G)

If that is the case, a certain market may not have caught the attention of foreign investors before:

"[...] But the fact that they [the overseas Chinese investor] are there could affect the real investing, hotel, professional industry."

(Interviewee J)

Therefore, the influence of investors with cultural links can actually distort the development of a market.

Also, foreign investors might not necessarily have the local market knowledge to correctly assess the viability of a given market due to information asymmetry. Hence, a foreign investor will want to thoroughly comprehend the background of past and present market developments within a certain area. Otherwise, s/he might be following wrong economic fundamentals for a specific investment project.

The issue of governance is to be revisited at this point, more specifically toward hotel development. Even with rules for the FDI process clearly laid out: the ultimate control lies with the local authorities giving room for arbitrary decision-making, arguably. Interviewee A stated, how in a joint venture situation, the local partner could influence the decision on who might get project approval:

" [...] If it's a state-owned company, because the decision was not really made by the company, but actually made by government and then possibilities will arouse – will arise in this area, because they can give this project to whoever is suitable because in the market not only one company will meet their criteria."

But once a foreign investor is awarded a particular project, it can in fact develop very fast:

"It's the approval process that [...] [can be] very unpredictable."

(Interviewee C)

A serious problem for professional international hotel developers is the somewhat local government's opaque motivation to develop hotel properties and their alleged lack of expertise in this distinct asset class:

"[...] These guys have absolutely no idea what they are doing. And yet they have to do it because the government sees it as an opportunity to re-develop an area, seize it as an opportunity to create a lot of excitement for that area, seize an opportunity to have employment – future employment – and new tax base for them. And yet the local developers don't really care about the economics of that hotel at this point. They just care that they get this huge chunk of land and they make the money from housing development."

(Interviewee D)

Typically, they will require the non-local hotel developer to develop a luxury hotel regardless of actual market demand. This circumstance will be further discussed in Section 5.2.4, addressing the implications of hotels' 'hedonist appeal,' to government officials. When it comes to location choice, the interviewees do not agree. While one interviewee would recommend to only closing deals in first-tier cities (Interviewee B), another interviewee advocates the following:

"[...] If you go to second-tier cities [...] [the local governments] are more willing to accommodate your request. And they may be willing to help you to go through the process – because right now you talk about real estate investment is a restricted category for [FDI] in China. Mainly, if you go to Shanghai or if you go to invest in Beijing you may not be looked [at] very favorably by the Central Government, but if you are investing in more second-tier cities, which require new investments, your process could be smoother [...]. So that could be a very important factor for foreign investors when they go in. And then,

I don't think that all second-tier cities are good, but if you look at those bigger ones they still are sizable cities, with a sizeable economy and still have a lot of opportunities for people – for example most of the urbanization process is likely to take place in those second-tier cities and they offer opportunities, as well.” (Interviewee C)

As useful as the advice of Interviewee C is, it leaves the foreign investor with one challenge, i.e. how to distinguish certain types of cities to make a location choice in China.

Singling out first-tier cities is straightforward, but discriminating other types such as second-tier cities, or to distinguish third- or even fourth-tier cities in China seems to exceed the economic-geographical abilities of most non-ethnic-Chinese foreign investors. As will be suggested towards the end of this study; the author is convinced that more systematic research is required to inform industry participants, viz. hotel investors, about the socio-political and economic geography of China. So the notion of different-tier cities, although superficially clear for some, remains a concept abstract to most – apart from the clear-cut denotation of Chinese first-tier cities.

Even more so, foreign investors need to be aware of constant exertion of influence by the Chinese government. Chapter 2 outlined the recent slumps in direct foreign investments (cf. 3.2). MOFCOM has most recently issued a series of circulars shifting more authorities for approval of foreign-funded projects in Circular 8, effective March 6, 2009:

Competent commercial departments of provinces, autonomous regions, municipalities directly under the Central Government, cities with independent development plans, Harbin, Changchun, Shenyang, Jinan, Nanjing, Hangzhou, Guangzhou, Wuhan, Chengdu, Xi'an and the Xinjiang Production and Construction Corp (Provincial-level

Competent Commerce Departments), and state-level economic and technology development zones shall be responsible in accordance with the law for the examination and administration of the establishment of and changes to foreign-invested venture capital investment enterprises and foreign-invested venture capital investment management enterprises with total capital of US\$100 million or less. ("Circular on Matters Concerning," 2009)

This is good news for developers as MOFCOM has transferred the approval processes for projects worth up to US\$100m to the local government level. Under such a regime "preparing the land, put[ting] down the infrastructure, can happen really fast" (Interviewee C). The above is exemplary for continuous changes of the political environment for FDI in China.

In fact, the hotel development sector has experienced "profound changes" (Interviewee J) over the past three decades. The following quotation provides an eloquent account of this by a true Chinese hotel investment expert with decades of relevant professional experience:

"We built some of the first hotels in China in the 80s, in Dongguan. And at that time, in the 80s, hotels built basically a guest house to serve the needs of the foreign guest visiting China. And then, when it comes to the 90s, the hotels, from the foreigners – there are relatively few in the early 90s. A lot of people study, but really putting their chips down, there is quite a few Hong Kong people. The international chains, I think, hadn't moved in until the late 90s, the year 2000. Now, the first batch of the Hong Kong operators, like the New World, Sun Hung Kai – although they have had their experience in the first one...the China Hotel in Guangzhou. The problem that confronts the hotel development in the 90s as people realize is, a lot of the SOE – state-owned enterprises – with strong incomes, like the power

stations, the gas stations, they built hotels, irrespective of whether there is a market. So everyone wants to build five-star hotels. So in the early 90s there is the glut of hotels by the state-owned enterprises, which basically has [distorted] the market. [...] aside from the few big chains, a lot of the small chains, or hoteliers, I think, they all come across problems. Not only the market-side, but the management-side also had big problems, because in the 90s hotel owners [were not allowed WFOE] [...]. [...] And the problem is in the development of China in the past 30 years: 90 percent of the joint venture companies failed. Including the hotels. So, we have a lot of unhappy hotel owners. But now, in the past few years, [...] as China's laws regarding foreign investment have been more advanced, more established, people start to have a clearer idea of how China operates [...]. We are seeing more and more foreign owners and operators moving into China. [...] The State Council has issued very strong statements: no government bureaus should step out of their own destined functions. That means, if the power stations, the oil companies, the ... [pauses] food bureau [...], actually, they own the largest chain, the Gloria Plaza belongs to this Ministry of Food Supply. So, despite there is a clear instruction from the State Council [...]. But the bigger boys are still running that kind of operation. I think that poses a threat. But of course, having said that, those are only I would say – the present situation. But, I think, given time, this will change – as [...] the rules as we see it from the – especially the law-making body, the National's People's Congress, which I am a member of: they are really putting the stick on some of these boys now. So I think, if people have holding power – they will see the light at the end of the tunnel. That is, why overall I address – there's great

opportunity, but there's a lot of risk, you've got to have a strong stamina to stay through this kind." (Interviewee J)

The above is an extensive statement by just one interviewee. But it is worth huge consideration as this expert provides a comprehensive analysis of China's historic hotel development over the past three decades, and of its current affairs. The interviewee's remarks on recent political developments are particularly noteworthy. This expert indicates that distortion of the Chinese hotel market by SOEs has been clearly ordered to come to an end by the Central Government. This will partially decrease supply in some markets, but at the same time it will offer acquisition opportunities for foreign investors, when state-owned properties will be privatized. Whether such acquisitions are desirable requires a diligent case-by-case analysis. The issue of SOE hotel ownership and the privatization of those assets have been discussed for a "long time" (Interviewee H). After the hotel building boom of the 1990s, the Central Government has specifically looked into disposing of state-owned hotel assets.

"China Post portfolio and things like that. There's been a lot of interest everyone's for years wanted to look at that. Those kinds of portfolios. A lot though in those portfolios is often very poor quality hotels. The fundamental structure of the buildings can be flawed. They have often major fire, life and safety problems. So many cases where we looked at those the potential to renovate and get some upside performance has been limited." (Interviewee E)

It becomes obvious that difficulty in the privatization scenario for foreign investors is:

"That many of those hotels were designed and built at a time when the sophistication of construction techniques and design techniques in China were not that well advanced. You have hotel designs which

for the most part will not have longevity relative to the new product that's coming into the market place. Probably not that suitable for retro-fitting. I would say that the interest in hotels that are in excess of ten years old, in China, that may be state-owned will be minimal [short pause, then is quick to add] – for foreign investors, domestic investors may be different story.” (Interviewee H)

Hence most foreign investors might prefer a greenfield development, instead of acquiring existing, (formerly) state-owned properties.

5.2.4 Hotels’ Hedonist Appeal

Table 5-6: Concepts Related to Hotels’ Hedonist Appeal

Concepts (codes)
Branding properties
Lifestyle
Mixed-use development (cf. Hotel Development, 5.2.3)
Status (protection)

Own composition, excerpt from Table 5-1: Coding Frame

Previous sections addressed the environment in which hotel investment decisions are made. While some scenarios offer a clear and reasonable rationale for hotel investments, in other cases the decision-making for hotel investment is rather opaque. It has been shown how the market for hotels overheated, e.g. in the late 1990s, and how the government initiated policies to curb the hotel supply (cf. Table 2-3: Hotel Ownership in China by Type). Furthermore, evidence presented in Section 5.2.1 suggests that government policies, respectively directives, have only a marginal effect on the actual policy implementation. Thus, the following statement provides further evidence on the occasional arbitrariness with respect to hotel investment decisions:

“Any investment will be welcome on the local level. Especially, [...] if you talk about a hotel, a luxury hotel, you will be welcomed by most of the local officials [laughs], no doubt about it.” (Interviewee J)

Hence, the question springs up: why are local government officials so prone to have a luxury hotel established within their jurisdiction? While the 'ego factor' in hotel investment is well known on the side of the owners, the evidence found in this research calls for an extension of this notion. There is in fact, multiple parties that benefit from the *status* and *glamour* (Rushmore, 2001) of a hotel property that need to be explained. The theory of 'hotels' hedonist appeal' (HHA) is designed for that purpose. Hedonism is a school of philosophy which argues that pleasure has ultimate importance and is the most important pursuit of humanity. The name derives from the Greek word *hēdonē* for 'pleasure' or 'delight.' In the context of hotel development, the notion assumes that decision-making for hotel real estate investment is to some degree influenced by reasons that are not perfectly rational by economic standards. But instead it may involve some kind of personal, hedonistic motive in at least one stakeholder in a given project. This hedonist motive may lie with any of the stakeholders involved.

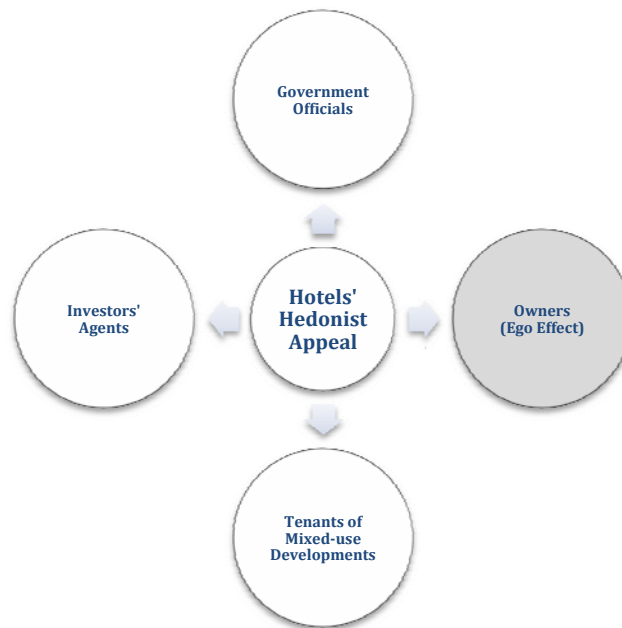


Figure 5-2: Hotels' Hedonist Appeal

Own illustration

The evidence in this study suggests three distinct groups that benefit from hotel investment in more ways than immediate returns from a given project: (1) decision makers for business development in hotel companies or property developers and (2) local government officials and (3) tenants of mixed-use (comprehensive) real estate developments. The effect on the fourth group, 'owners', is well documented and commonly referred to as 'ego effect' of hotel assets. This section will address each of the three groups in the sequence they were introduced.

"Developments [vice presidents] [...] their bonuses are based on the number of contracts they sign [...] it's a big game right now."

(Interviewee D)

And another interviewee confirms this assumption by suggesting that:

"[...] There seem[s] to be a trend today that the developer, the vice-president development will always get a promotion, in some hierarchy,

you know, board job, you know, if he does well in developing the network [...].” (Interviewee B)

This kind of behavior is partially protected by the way hotel feasibility studies are generated. When a hotel investor makes a decision to invest in a given market, current demand is secondary. Demand will be projected for 3-5 years in the future. In turn the current vice-president’s decision for market entry will be *protected* by the factor time. There is a possibility that a particular person in charge has already been promoted based on present business development decisions, by the time the economic viability of a given project can really be assessed. This particular phenomenon to seek personal advantage, i.e. promotions or bonuses, is also addressed in *agency theory*. There is evidence that the incentive system for people who act as agents for hotel investors is in parts ineffective. Even though the scenario described in the following interview-citation originates from a hotel company, which typically does not invest in the properties they are to manage, *this* particular organization actually tends to seek capital investments. The example further illustrates the discussion above:

“Now they are just putting their bets – and they believe that. I was at a board meeting [...] of a major hotel company in Asia, and I asked them: why do you put a hotel in Kuala Lumpur, [...] – there is a hotel clod in Kuala Lumpur. And they said: ‘look at that, this is our network of hotels in Asia, there’s a hole there – because if we don’t have one in Kuala Lumpur. So we [got to] fill that hole because if we don’t, our network looks incomplete.’ What kind of a logic is that? It’s not based on market evaluation, feasibility and all that. The decision that was made is to fill that hole first, and everything else is done to justify it.” (Interviewee B)

The above describes the situation from the standpoint of the investor. What is specific about the Chinese scenario, given its authoritarian government system, is the role that government officials tend to play in hotel development.

All economic considerations aside, for some government officials a foreign-invested hotel in any case is merely “a place for them to have fun in” (Interviewee D). This finding adds a whole new angle to the understanding of why the asset class of hotels is being developed.

“Whatever theme you can put on the hotels [...] it helps to brand the whole thing. And we see that, you know, on wallpaper, lifestyle magazine, even FT [Financial Times] mention your hotel. That’s quite good publicity. Rather than you know – because that makes people go there, and it helps to spread the word-of-mouth.” (Interviewee F)

The interesting angle of the citation above is the fact that this investor is not speaking from the standpoint of the hotel investor, but s/he is a director with a property developer. The citation illustrates the distinct role that hotels play in mixed-use property developments. Thus the third group, which tends to be influenced by hedonist motives of hotels, are tenants of mixed-use (comprehensive) real estate developments. Their hedonistic added value lies in the ability of the hotel part of the development to brand mixed-use real estate and create a certain ambience, or lifestyle.

5.2.5 Sphere of Influence

Table 5-7: Concepts Related to Sphere of Influence

Concepts (codes)
Bribes, accepting of (bribery)
Corruption
<i>Guanxi</i>
Proxy
Relationships, developing and maintaining

Own composition, excerpt from Table 5-1: Coding Frame

Economists acknowledge that a reliable legal system is at the heart of economic development. It is crucial that transition economies feature institutions that promote market transparency. This will counter the phenomenon of asymmetrical information between seller and buyer (Akerlof, 1970). There is data evidence that such information asymmetry is quite common for FDI in hotel real estate development as Interviewee E remarked:

“It’s like these things often are, probably not a very well run bidding process. The timeframe for bidding is normally way, way too short [...]” (Interviewee E)

It may be partially due to this short-datedness that many developers have little time to run proper feasibility studies to scrutinize the economic viability of their ventures. It is known that, on occasions, developers have bought the land before they talk to project consultants. Hence, the following quote from a project consultant who said in despair:

“They’ve always bought the land and often at a way too high price, you know, and ideally they would come to us and do the analysis before buying the land. That should just be part of the land-purchase decision.” (Interviewee E)

As a consequence, in such or similar situations, outside investors may find themselves in a situation where “insiders [might] manipulate markets” (Sorman, 2008). Apparently, in more developed economies there will be more private information intermediaries, to help market the participants plan and arrange transactions. The evolution of information and intermediaries available in China becomes very obvious if one observes the market for foreign-invested hotel developments in China. Transaction and valuation data for the Chinese market is scarce compared, for example, to what Smith Travel Research can offer for various markets in North America.

However, the professionalization of the Chinese market in this respect appears to be in full swing, as outlined when describing the generational change within China's leadership in Section 5.2.2. Interviewee A remarks, however, that despite what has been said on the professionalization of governance standards in China:

"In Chinese [society] people consider relationship, face, harmony, and gathering. All of these values, more important." (Interviewee A)

In turn, when lacking relationships, any project approval process can be:

"[...] Very, very frustrating – so it's still down to relationship".
(Interviewee D)

And for an 'outsider', such relationships are difficult to establish:

"I think the Chinese market is obviously dominated by local developers and they have access to land, simply because of guanxi".
(Interviewee G)

So any foreign investor will have to try to create connections through her/his own network (Interviewee I). On the one hand, maintaining 'good relations' is an ongoing process that can be "very tiring" (Interviewee J). On the other hand, securing those relations might be crucial to the economic success of a project. A hotel's return is based on expectations that stretch over a period of ten to twelve years:

"But ten and twelve years, the government may have changed three times. That means they may have to deal with three sets of people. Each one coming with a new agenda. So you have got to learn and be patient with all these people. And this, like I said, any government official could give you a lot of problems. You thought it's minor?"

Don't take it for granted! It happens to, to one of our flagships, for the ten years we have changed several sets of governments, and when they come in with different demands, ultra various, be it as it may, we just work around it. Don't confront it [giggle].” (Interviewee J)

It is not clear which role corruption plays in creating a favorable investment environment. Interviewee A acknowledges that “there are possibilities for corruption”. To what extent this is being practiced is difficult to quantify and Interviewees tend not to openly speak about it. When speaking of corruption, this typically refers to ‘political corruption’. That includes the illegitimate use of powers to an individuals' advantage, as well as the others willingness to grant benefactions to their political opponent. Corruption in this respect includes bribery, graft, patronage, kickbacks, nepotism, and cronyism (cf. Transparency International), as well as plutocracy. The author argues that sometimes different terms are used to describe what is strictly speaking per definition, ‘political corruption’. Occasionally, different terms in fact *romanticize* what in some instances is outright corruption. The following quote shows how related payments are dealt with from the standpoint of a corporation:

“So they use a lot, they call ‘publication expenses’ to establish relationships with the locals. So they might invite them to visit other countries, visit their own countries or some cash may also become part of the deal as well.” (Interviewee A)

It is not necessarily the case that in developing an SOI will entirely depend on the transaction of material benefits. The example of a large French corporation doing business in China shows how the effort of individuals also plays a significant role:

“One French manager [...] [spent] the first half of the year [trying] to make friends with the local officials and the first thing he learned was how to drink Chinese alcohol.” (Interviewee A)

While the almost legendary aptitude of Chinese officials to drink might actually be on the retreat, Interviewee C reported that when doing business in China “you don’t drink too much now, when dining with officials – [they] now want to look after their health, too”. Whether this observation is credible in general could be further investigated. Corruption will primarily depend on the type of Chinese partner, private or state-owned. On the condition of complete anonymity, one interviewee shared:

“If it is a private company, it’s not really corrupt – no corruption at all. But, if it is a state-owned company, because the decision was not really made by the company, but actually made by government, then possibilities will arise.” (Anonymous)

The problem with state-owned organizations seems to be that they can give a certain project to whoever they find suitable, with not only one company meeting their criteria. Or perhaps government officials design selection criteria for project tenders in such a way that they will fit an already pre-determined investor. Large future potential – with the majority of Chinese hotels yet state-owned – lies in the privatization of state-owned properties. Nevertheless, investors are mistaken if they believe that official stakeholders are solely interested in material benefits. As a matter of fact, several interviewees presented a picture that Interviewee F described perfectly:

“[...] We are now working with a good partner. [...] it’s a different dimension in China now. The officials, they have a four year, five year term in the city. It’s not the money they want, it’s the result they need to get, to get the promotion [...]. They need results, to deliver, because it’s a good thing: it’s open, it’s competition among cities, amongst provinces. [...] So the officials really need to deliver, new milestones, new projects that are sustainable – brings in business.

This is not government action, this is really business actions [...] they have to deliver a project [...].”

Consequently, instead of obtaining direct material benefits, a government official might actually seek an investor as a partner, who helps the official to develop certain industry sectors and enterprises to deliver their plans. In such an instance, the government official is not pursuing her/his “personal interest” (Interviewee F), but is acting more as an entrepreneur in competition with other jurisdictions. Supposedly, corruption takes place in a much more subtle way than can be seen on the surface. Referring to the Sichuan earthquake in May 2008, Interviewee B was describing the donation process that followed. S/he described how the majority of donors in Hong Kong transferred their funds to the Liaison Office of China’s Central Government in Hong Kong. The organization of the interviewee, however, opted to transfer her funds to a non-government organization. Why was that? The interviewee made the following claim:

“It means that in a country where the law is less than perfect, where relationships are fluid, [...] when you want to secure your rights, under a very unstable legal system – you [...] want to get personal insurances from the highest level, [...] that is important. In other words, all the people giving money are giving money to be in the good books, of the people in high position. And this is how it works.”

(Interviewee B)

Many people will not consider this as corruption. Whether it qualifies as such is the subject of a deeper philosophical discussion. However, it is a case in point to illustrate that it is important for a market entrant to have an established SOI and to maintain it. Interviewee E pointed out that some hotel investors only responded to the Central Government’s call to increase room supply in Beijing for the 2008 Olympics because they wanted “to gain favor with the government [...]

even though [the hotels] don't financially make sense from a long-term point of view" (Interviewee E).

Other evidence suggests that administration is not the problem, but the key to corruption lies in China's legal system and legal security: "[...] the adherence to law. The law abiding of [the] operating environment" (Interviewee J). The primary cities of Beijing and Shanghai are not the problem, as there, "laws seem to be all in place" (Interviewee J). Virtually all interviewees confirmed this finding.

As long as a project runs trouble-free the foreign investor is unlikely to encounter drawbacks. It is when it comes to litigation that complications arise:

"Number one, there is still tremendous amounts of corruptions in the judiciary and that is something, w operating in China, has got to be aware of. It's not that China doesn't want to cure its judiciary corruption problem. The country is developing so fast, despite it may have a good team; it's the quantity, the sheer numbers. [...] They just put in now, in some of the remote places, put in high school graduates to be judge [chuckles in disbelief]. You know that is how the – because the nation is developing too fast. So, that statement means that to get the chances of fair judgment on, if there is conflict with labor, with suppliers, with other contractors, stay with the big cities. And then, of course, my advice earlier is that to moderate your relations to lower-, middle- and higher, you've got to cover every area." (Interviewee J)

If an investor can, it should, by all means, avoid litigation. In support of this statement Interviewee B graphically put it:

"Chinese law [...] works on the principle of compromises. If both of you are suing each other for debt, the judge will say: well, the two of

you, you can go out there and come back in a week and tell us what you have agreed upon.” (Interviewee B)

It is obvious that such a system is open to a certain degree of arbitrariness. The more it is important that relations are well maintained from the start, to avoid any legal dispute. If the relationships of municipal government officials are positive they will actively help an investor “get various approvals from the fire services, planning departments – to work around all that, to make it real” (Interviewee C). Chapter 6 presents how the theory of SOI was visualized (see Section 6.3). As the presentation of this theoretical development is one of the key results of the study, it is presented in the final Chapter.

5.2.6 Poly-Politics

Table 5-8: Concepts Related to Poly-Politics

Concepts (codes)

Arbitrary acting
Cultural diversity (minorities)
First-tier, and lower-tier cities
Local government level
Meso-environment

Own composition, excerpt from Table 5-1: Coding Frame

With the following response from Interviewee J, this section will address the notion of ‘poly-politics’:

“In theory, no more restrictions on foreign ownership exists, following China's WTO accession, however, any WFOE will depend on the authorities' approval.” (Interviewee J)

Poly-Politics refers to the differences in governance across provinces/regions, prefectures, counties, cities, and municipalities (Locus). It also captures the arbitrariness of approval processes across different administrative levels (‘Admin Level’). This is also to say that politics in China is literally “amorphous,” very difficult to grasp, especially for the not so culturally attuned foreign investor. In parts, this concept also describes the conflicts between different layers of the

administration. Multi-directedness: (1) geography, (2) administrative levels and (3) time, which ultimately causes the dynamic politic-economic environment of which investment decisions are made in.

“One country, two systems – but we have our own system.”

(Anonymous)

One interviewee provided an applied example:

“If the government believes that so and so in China should own the JW Marriott and they need so many million of dollars to do the investment they will direct the Pudong Development Bank to lend that money to the [investor].” (Interviewee B)

"Ethnic minorities are vested with certain, albeit limited, autonomy rights by the constitution" (Bertelsmann Stiftung, 2007, China Country Report, p. 5). Interviewee A confirmed and stated that "China is a much diversified market". Cultural aspects are to be taken "into consideration" (Interviewee A) before an investor tries to simply copy his past experience for the market entry into China.

Table 5-9: Ethnic Minorities in China

MINORITY	POPULATION	MINORITY	POPULATION	MINORITY	POPULATION
Achang	33,936	Jino	20,899	Qiang	306,072
Bai	1,900,000	Kazak	1,200,000	Russian	15,609
Blang	91,882	Kirgiz	160,823	Salar	104,503
Bonan	16,505	Korean	1,900,000	She	709,592
Bouyei	3,000,000	Lahu	453,705	Shui	406,902
Dai	1,200,000	Lhoba	2,965	Tajik	41,028
Daur	132,394	Li	1,200,000	Tatar	4,890
Deang	17,935	Lisu	634,912	Tibetan	5,400,000
Dong	3,000,000	Manchu	10,700,000	Tu	241,198
Dongxiang	513,805	Maonan	107,166	Tujia	8,000,000
Drung	7,426	Miao	8,900,000	Uighur	8,400,000
Ewenki	30,505	Moinba	8,923	Va	396,610
Gaoshan	4,461	Mongolian	5,800,000	Xibe	188,824
Gelao	579,357	Mulam	207,352	Yao	2,600,000
Hani	1,400,000	Naxi	308,839	Yi	7,800,000
Hezhen	4,640	Nu	28,759	Yugur	13,719
Hui	9,800,000	Oroqen	8,196	Zhuang	16,200,000
Jing	22,517	Ozobek	12,370		
Jingpo	132,143	Pumi	33,600		

From "China Hand: The Complete Guide of Doing Business in China (Chapter 1: Politics, Economy, and Basic Data)," by E. Cheng (Ed.), 2009, January, *Hong Kong: The Economist Intelligence Unit*, p. 73.

The ethnic minorities presented in Table 5-9 can literally be found all across China's geography. Interviewee K states something that might not be obvious to the international investor that "minorities in China have a lot of rights. Far more than what you in the West would expect". These rights can have implications for the development process where the rights of a local minority are given privilege over the interest of the investor.

It has already been noted that 'rule of law' is not always granted depending on the setting of a particular project. This section is particularly designed to develop theory from the data that describes the amorphous character foreign investors are confronted with at different administrative levels, at different times during a development process, and at different locations. An example of this is the Chinese property law, effective in October 2007. Interviewee C perceives the introduction of the law as follows:

"I think there is a series of new regulations that come off to all tightening real estate market, but still, what we learn is different

provinces or cities treat new regulations differently. So if you talk about Shanghai or Shenzhen or Guangzhou or Beijing – the real estate market has already been overheated. New investments will not be looked in as favorable as cities in other provinces that really need new investment. So it all depends on which city you go into [...] you don't receive the same treatment in each city, so each city has a different, different interest in accepting foreign investors". (Interviewee C)

Interviewee D was confronted with a statement from a previous interview with Interviewee B who had stated that "only the crooks are left in the wilderness". Referring to policy-making outside China's first-tier cities, s/he hereupon replied:

"[...] to me there is a definite difference in the development in the main cities like Beijing or Shanghai. These cities are very well developed already. [...] Someone in the government will have to do that stick-handling, and maneuvering and get the approvals. While all of this is much more complicated and more sophisticated in the big cities like Shanghai and Beijing, in the smaller cities – like you said – it's really like the 'wild wild West.' If you know the city planner or whatever, every developer can do literally what they want." (Interviewee D)

However, leaving the first-tier cities can have another advantage. When doing business in lower-tier cities:

"[The investors] are the few and the better ones and then [the government] are more willing to accommodate [their] request. And they may be willing to help you to go through the process. [...] if you go to Shanghai or [...] Beijing you may not be looked [at] very favorably by the Central Government." (Interviewee C).

For now, the development reality in lower-tier cities is still random:

“If you know the city planner [...] every developer can do literally what they want. I was just involved in a project [...] I have never seen a car park that would enter and exit right outside the hotel door. And the reason for that is: the hotel was never there in the first place. All of a sudden the local developer said: ‘oh, I got some free space here, so I may be able to create another building’. Which he did. So he got the blessing of the local government. So that will never fly in Beijing or Shanghai.”

While the above makes for an amusing story, the implications of official arbitrariness can be burdensome. For example, when “local governments are dictating what the hotel development should be – sizing and quality level” (Interviewee E).

To summarize, there are development opportunities in lower-tier cities – “those million-people cities that are all out there, constantly popping up as new development sites” (Interviewee E). However, if an investor wants to make use of these opportunities s/he has to be prepared to deal with a challenging socio-economic and diverse cultural environment. Chapter 6 presents the visualization of the theory of ‘Poly-Politics’ (see Section 6.3). As the presentation of this theoretical development is one of the key results of the study, it is presented in the final Chapter.

CHAPTER SIX

6 CONCLUSION

6.1 Introduction

This dissertation investigated the phenomenon of foreign-invested hotel properties in China. It examined foreign hotel investment at the project level, instead of studying it at the level of macroeconomic aggregates. This study contributes to the academe and industry by enhancing the understanding of different types of hotel investors and it sheds light on the different kinds of motivations, which drives their behavior, i.e. decision-making. Conducting interviews with experts in this area this study furthermore contributes by explaining factors that drive international entities, particularly hotel firms to seek equity involvement in hotel real estate ventures in China. Adopting the grounded theory approach (Glaser & Strauss, 1967) this author was able to develop theory that extends researchers' and professionals' understanding of the socio-economic processes surrounding, and influencing hotel investment projects in China.

Over the previous chapters this study has evolved from formulating and justifying this investigation's research problem (Chapter 1), to an extensive review of the relevant literature (Chapter 2), to the description of *how* the author solved the research problem, and *why* those methods are considered to be appropriate (Chapter 3), particularly elaborating the relevant research philosophy and the respective research paradigm. Chapter 2 was instrumental in clearly locating the research phenomenon in its theoretical context. Likewise, Chapter 3 provided a clear rationale for the research methods that were considered appropriate. Once that was achieved the author was in a position to collect this project's primary data, conducting a series of in-depth interviews, mainly in summer and fall 2008. As common for an investigation of this kind the process of data collection and the data's analysis formed an integrated procedure. The findings of this analysis are

presented in Chapter 4. In a similar fashion to the integrated process of data collection and analysis, Chapter 4 forms a consolidated part of this dissertation, where the presentation of findings and their discussion amalgamate. Eventually, this chapter unveils this work's conclusions. Following this introduction section (6.1) Chapter 6 continues, to present a summary of this investigation's key findings and discussion outcomes (6.2), and subsequently goes on to outline implications of this study for different stakeholders, viz. academics and industry professionals (0). The chapter then proceeds to express limitations and self-reflexive thoughts of the author (6.5), explicitly acknowledging the special role the investigator has in an qualitative exploration of this kind. The ultimate section (6.7) provides the capstone for this research project by making suggestions for future research.

6.2 Research Questions: Evident Answers

It is evident that one of the strengths of qualitative research, particularly the grounded theory approach, lies in the ability to add knowledge to the discussion about a given phenomenon, viz. foreign-invested hotel properties in China, which goes beyond the theoretical understanding that existed, *ex ante*. Clearly, to guide this study, five research questions were preconceived. This section will particularly present evidence found in data collected for this investigation. It is inherent to the process of qualitative data collection and analysis that more evidence can be conveyed other than directly related to the preconceived research questions. For this reason, following the explanation of each research question presented in this section, the subsequent Section 6.3 will present a summary of findings and discussion presenting the insight obtained through this work at a significantly more abstract level.

6.2.1 Unique Challenges

What are the unique challenges that decision makers will face when they consider entering China as hotel investors?

Since 2004, foreign hotel investors have not faced any legal obstacles when intending to enter the Chinese market. But it is a fact, that in “reality some [...] obstacles still [exist]” (Interviewee A). While it is really a case to case decision, there are certain markets where foreign investors may still face severe difficulties when it comes to having investment projects approved. Potentially, the greatest challenge for hotel developers is to find the right people, the right individuals to work with (Interviewee B) on different levels both in the planning, as well as the operating phase. During the planning phase this implies identifying the right contacts that provide market knowledge, as well as getting help with access to officials in the relevant, project-approving governmental bodies. The ideal is for the foreign investor to get in between the local developer and the relevant government body. Obviously, the “Chinese market is dominated by local developers” (Interviewee G) and they are the ones who naturally have access to land, “simply because of *guanxi*.” In addition to this, every hotel investor will also be concerned with the operation of the property, as the income will partially depend on it. Thus, the problem of trained staff availability comes into play. Finding sufficient numbers of educated personnel for new hotel properties turns out to be a key challenge; consequently, training staff becomes a critical issue that hotel developers need to be aware of. Apart from those operating challenges the interviewees tended to come back to the most crucial issue and that is, though to varying extents, working “with the government is really the big problem” (Interviewee J).

6.2.2 Policy Changes

How do recent changes in China's corporate tax policy or property laws, for example, impact on foreign investors' return expectations?

As mentioned at various points of this dissertation, foreign investors are exposed to constant policy changes – not least in that this was a key rationale for why continuous research on the phenomenon is pertinent. This 'constant change' is paradigmatic for the socio-economic dynamics particularly addressed in Chapter 4. The one piece of evidence from the data which was almost continuously consistent across different interviews, regards whether current policy changes would have affected investors' decision to invest in hotel real estate in China. Unanimously, the Interviewees response has been that recent policy changes had hardly, or not at all, affected investors' aptitude to invest. Typically, the Interviewees were asked the general question as to whether 'the investment guidelines, as they are issued by MOFCOM, would practically change market-entry opportunities for investors?' In unison, the response has been: "no."

"Not really. I mean, [...] I haven't even looked to see – we certainly haven't noticed any impact on that in terms of our projects. I think people take a long-term view." (Interviewee E)

Still, overall there has been "more protectionism" (Interviewee D) towards foreign investment induced by the Chinese government. China has a rich body of laws:

"Laws seem to be all in place. Yes, the Chinese legal system has more laws than any of the nations worldwide. They have 260-something full sets of laws." (Interviewee J)

But the bottleneck is when it comes to the implementation of those laws and directives, and it appears as if many of them are *mock* regulations, as suggested by the following quote:

“Very often a client comes to us and we say: what about the moratorium. And they say: ‘yes, but it does not apply to us, we’ve got a way around it.’ Or, some special circumstances.” (Interviewee E)

Even the respective project consultants/advisors do not know how particular investors get around certain legal restrictions. According to Interviewee J, it is not that China does not want to cure its judiciary corruption problem, but when it comes to project implementation it comes down to how a given “law court plays the role” (Interviewee J).

6.2.3 Investments’ Financial Structure

What are investors’ reasons for financially structuring their hotel ventures in certain ways?

More often than not foreign developers will be “forced into a joint venture” (Interviewee J), even though legally they would be entitled to set up a WFOE. While the concept of ‘trophy assets (properties)’ is well known in hotel development literature, there is an extension to the concept explaining why certain hotel management companies would opt for JV-structures in China. Interviewee A offered a revealing account of a JV scenario:

“[...] Accor got a deal with Olympic Game Committee and also the Beijing Municipal Government. So they negotiated about the four hotels in Beijing, so it’s kind of pressure from the Mainland side. They said: if you want to get this deal we have to become a joint venture. [...] they used the joint venture to renovate the Sofitel Hotel Peace, Sofitel Peace Hotel in Beijing. This hotel used to be the property of the Beijing Municipal Government and also belonged to Beijing Water [...].

So that's the kind of pressure from the Chinese side, and then they agreed, [...] and then they got another hotel. So the first time they put, if I am not wrong, 25 percent of the total venture, they put into that hotel.” (Interviewee A)

Eventually, Accor was permitted to manage other hotels as well, particularly those in Beijing serving the 2008 Olympic Games market. Whether such a strategy would be appropriate for a foreign investor will very much depend on what the strategy entailed. Accor was a ‘latecomer’ to the Chinese market and had to make use of the opportunities that presented themselves. Instead of a joint venture structure, it might be preferable for the interested foreign party to avoid a certain deal altogether (“don’t create trouble,” Interviewee J). Notwithstanding, a particular approach will depend on the investor and whether a foreign investor is able to find someone it can “trust” (Interviewee G). For example, a closed private equity fund worth US\$ 2 billion held in Hong Kong, a representative of which was interviewed during this investigation, willingly joined forces with a Chinese joint venture partner. The division of labor is manifestly advantageous for both sides. The Hong Kong partner collects capital from institutional investors and high net-worth individuals mainly from the Western world (Interviewee F). The fund uses an offshore investment vehicle, which indirectly holds the Chinese property development. The Chinese JV partner is an established developer in China which deals with the government and helps in transferring capital ‘on shore. The “problem with offshore investors is [to bring] capital onshore, due to currency restrictions and [other] limitations” (Interviewee G). A result of the study indicates that the successful investors have the relevant expertise in structuring Chinese ventures and are knowledgeable in what to do to bring a particular asset to the market. Understanding the actual expertise of investors is difficult. After all, this is a secretive about the Chinese hotel FDI jigsaw. Thus, with regard to this research question the results are rather broad.

But in the future this particular angle of foreign-invested hotel projects in China could and should be further investigated.

6.2.4 Companies' Timelines

What are companies' timelines for their Chinese ventures?

This particular sector of the phenomenon has been discussed above as part of section 5.2.1, coded under 'investment strategy' for the purpose of data analysis and as such has been integrated into the category 'FDI: State and Strategy.' The timelines for hotel investments in China are almost as heterogeneous as the composition of the group of investors. Congruously, "different foreign investors have different strategies" (Interviewee E). However, it was suggested that generally, investors enter a venture without a "pre-determined exit strategy" (Interviewee H). This, in turn, suggests that investors would aim at a long-term hold, but this is not generally true. Investment funds, for example, do not typically pursue a long-term strategy, but rather want "to get in and out [of a market] quickly" (Interviewee E). The following is an account of how Interviewee E describes the behavior of an investment bank when looking into property investments in the Chinese market:

"[...] it's normally [a] very short timeframe to get out and close that deal and to do the due diligence. [...] They say: 'we need a report on cash flows and potential of this property within two weeks.' For most of our projects we are saying it's an eight-week timeframe. So it is much, much shorter, [...] they have targets of three months, at the most, I mean they [have] short timeframes. If something doesn't happen [within that time], then, I think, they typically move on. But the holding period, I think it's quite common for anywhere in the world, it's [going to be] be three to five years – max." (Interviewee E)

Such investment behavior is not the norm, though. How short-dated, for example, the timeframe for a feasibility study and due diligence of investment banks is, becomes evident when looking at the comparative timeframes of other investors. The lead-time for planning and implementation of a hotel project from the first proposal to its completion is on “a five to six year cycle” (Interviewee H; cf. Section 2.3.1). Even taking into account the fact that investment banks typically would rather deal with acquisitions, their planning cycles are unusually short. On the contrary, closed equity funds can have a comparatively longer-term view. The equity fund that became a case for this study has a holding period of “seven, plus one, plus one years” (Interviewee F). It seems to be more advisable in holding a long-term view of a Chinese investment project, instead of practicing “short-term speculation” (Interviewee A). The following quote illuminates the diversity of investors, and their respective strategies:

“[...] With respect to holding period it depends on each entities strategy with respect to investment. Some people buy certain assets for the long-term, some people do not, some people are forced to have these hotels, especially with respect to [...] mixed-used [developments], they may or may not wish to sell them in all probability, because they are local developers, and I mentioned they need to churn their money, more often than not, they would like to sell them. Whether or not they are in a position to sell them is a completely different matter.” (Interviewee G)

The above-mentioned introduces the special case of mixed-use developments. There, the hotel development is part of the overall plan, and it cannot be easily truncated from the master development plan. The hotel is an integral part, both for the overall product, as well as economic. In these scenarios, developers deliberately accept lower margins for the hotel development. They know that, given that a certain company manages and brands the hotel estate, it will yield

premiums in other parts – foremost residential – of the development. In turn, the timeline of these projects follows entirely different criteria. It is crucial for the ‘average’ investor to be on a long-term strategy:

“So I think, if people have holding power – they will see the light at the end of the tunnel. That is, why overall I address – there’s great opportunity, but there’s a lot of risk, you’ve got to have a strong stamina to stay through this kind. (Interviewee H)

The preceding statement, along with the previously mentioned, suggests that investors are well advised to enter the Chinese market with a long-term strategy. In many cases, developments will be part of a wider urbanization or tourism development process. Potentially, a hotel investor will depend on the government’s commitment to improving infrastructure. In one case in northwestern China, it took one investor over ten years to be able to pay the first dividend to his partners, because s/he had to wait for the government to fulfill its promises on improving the airport, the railroads and streets:

“We only started to dish out our first dividend four years ago. So it’s almost eleven years [...]” (Interviewee H)

The interviewee laughed when making this remark. Thus, eventually, the investor is very pleased with the outcome of this particular venture and is still convinced that the original market study was to the point. But, if investors’ cash reserves are too shallow, they may be facing enormous risks when investing in China, when their assumptions regarding planning, implementation and overall timelines are unrealistic. Then, their venture may be considered, after only several years, where appropriate, as a failure.

6.2.5 Distinct Cultural Factors

What are the distinct cultural factors influencing the investment setting in China?

On the surface, the answer to this question is that doing business in China is hardly different from doing business in other transition economies. This attitude is proverbially reflected in the statement of Interviewee B saying “business is practical,” suggesting that enterprises tend to go about transactions very efficiently, regardless of the actual socio-economic context. However, certain particularities could be identified, especially in those instances where interviewees had a moment to reflect on the question. Then an exemplary response would be:

“There’s clearly a difference between the generations, [...] the Cultural Revolution generation and the younger generation of people. With that older generation the level of understanding of representing financial analysis and reasons, I often think is not understood at all.”
(Interviewee E)

In a similar way, this generational change was confirmed by two further interviewees (F & I). The interviewees generally spoke highly of the professionalism shown by the portion of Chinese managers who are now in their 30s and 40s. Interviewee E spoke candidly of the older generation of managers saying that it was literally pointless

“[...] giving them [older managers] [a] report because they don’t understand it anyway. While it’s completely different with [the] younger generation [...]. They are starting to really look into and analyze projects and investments properly.” (Interviewee E)

The situation with the younger generation of managers is very different. Those managers move more and more into management or other leading positions in Chinese organizations. Interviewee H indirectly confirmed the assumption of Interviewee E who suggested certain unprofessionalism among more seasoned managers in China. From experience, Interviewee H reported that the Chinese hotel market is particularly complex.

“The interest of your joint venture partner or your owner [...], may be completely unrelated to what would be normally expected, return on investment measures for instance, they are a lot more intangible reasons [...], and it might be entirely related to image building, it might be entirely related to dealing with some political objectives in a given market, and therefore it’s more complex”. (Interviewee H)

This affects the relationship between owners and operators, where the day-to-day involvement of owners significantly exceeds that of owners in other markets. This, coupled with, “in many cases” (Interviewee H), an absence of experience, creates a lot of complexity. For instance, even though they only own five percent of a JV, they may work as if they own 50 percent or sometimes more than 50 percent:

“If they don’t get what they want, they can work around the governments to twitch you. So, the idea is: don’t get into a joint venture.” (Interviewee H)

One particular factor, which can add intricacy to an investment, is ethnic minority rights in China. There are 56 distinct minorities recognized by China’s government.

"[...] You have to also bear in mind that minorities in China have a lot of rights. Far more than what you in the West would expect."
(Interviewee G)

A similar, more specific remark stems from another interviewee, who said:

"So you have got to respect and know how these people are sensitive to – and how these people, the ethnic people – their tradition. [...] And there are certain traditions and practices you've got to be aware of. So I think that this is one – we on our Group, we are not a big group, but the thing is we are – area spread quite wide. So we've got to be very sensitive to the local ethnicity, and government practices."
(Interviewee J)

China is a "very diverse market" (Interviewee A). The circumstances surrounding ethnic minorities will only gain in importance the more China's development process will stretch to her central and western provinces. Viz. Guizhou, Gansu, Ningxia, Tibet, or Xinjiang, and to a certain extent Hainan, are all areas with large minority populations (Cheng, 2009, January, p. 67). "Ethnic minorities are vested with certain, albeit limited, autonomy rights by the constitution" (Bertelsmann Stiftung, 2007, p. 5). Practically, that may lead to a situation where an investor may have to deal with cases at people's courts where hearings are conducted and legal documents are issued in a language "commonly used by the [respective] local ethnic groups" (PRC Civil Procedure Law [Revised]⁴²). Furthermore, the people's courts are encouraged to provide interpretation and translation of cases for those participants in an action who are not familiar with the spoken or written language commonly used by a given ethnic group. All this

⁴² Division One: General Provisions, Part One: Purpose, Scope of Application and Basic Principles. Promulgated by the National People's Congress on October 28, 2007, and effective from April 1, 2008. Translation: *China Law & Practice*.

can potentially add complexity to a development process in areas where many foreign parties may not have suspected, and “there are no simple solutions” (Interviewee G). Given the expansion of regional development in China with a comparatively larger proportion of ethnic minorities, foreign investors should prepare for this extra step (or layer), in cultural awareness and sensitivity.

China is “not just totally different from the West, but even within China, [one] cannot use” (Interviewee A) a single approach to invest across different regions within the country.

6.3 Synthesis of Findings and Discussions

As this research project evolved, it became clear that it is situated in an area of tension when examining the phenomenon of foreign-invested hotel real estate in China. There is on one hand the ‘economic approach,’ and on the other the ‘sociological approach.’ The economic approach is interested in macroeconomic aggregates and their relationships, something that given the research problem was found inappropriate because of the scarce data available on the phenomenon. The sociological approach is rather concerned with individuals (entities). It is the individual that makes choices, usually under incomplete information. Kirchgässner (2008) writes:

[...] He only knows part of his alternatives, and he knows only part of the consequences that will occur if [making a choice]. Thus, he will often use behavioral rules, but he will do so in a rational manner: he will react to known changes of his action leeway in a (predictable) systematic manner. In most cases, he will consider only his own preferences: he is self-interested. (p. 268)

The methodological means adopted in this study, the (primarily *Straussian*) grounded theory approach, very much has the ability to explain individuals’ decision-making and their behavior, drawing directly from their personal

experiences. Conceptually, this work is rooted in economic theory. It goes beyond the scope of this work to conduct a discourse about which approach, the economic or sociological, might be preferable⁴³. The author finds the latter a fruitful methodological addition to the economic concepts that underlie the research problem of this study. He agrees with Kirchgässner (2008), who describes the two as “mutually critical correctives” (p. 275). What can be concluded with absolute certainty is that the understanding of FDI on the level of macroeconomic aggregates is in parts very different from the commercial reality of entities involved in such transactions on a project level. Based loosely on Habermas, this work provides a heightened understanding of circumstances involved, under which FDI in China is undertaken. For Habermas, humans have self-reflection or reflectivity, intentions and reasons for what they do. The findings of this investigation enlighten the process through which FDI in hotel properties, a very distinct form of real estate is determined. The more investors understand the springs of their own behavior and the social institutions in which that behavior is involved, the more they are likely to be able to escape constraints to which they were previously subject to. It is shown herein how decisions by individuals are made, given the current socio-economic conditions in China. The study provides an interesting insight into the dynamic decision-making process in hotel investment in times of socio-economic transformation in the world’s largest transition economy, according to demographic magnitude and economic importance. The study shows that hotel development is taking place in the border region between tourism policy, urban planning and real estate economics. Furthermore it sheds light on the institutional conditions under which it is practiced. This research has shown how volatile the environment for FDI in

⁴³ For a detailed discussion on ‘Economic versus sociological approaches’ cf. Kirchgässner (2008, pp. 268 ff.).

China is. The determinants of hotel FDI in China are altered by a wide range of national and international events and decisions made.

The understanding of Sino-foreign or WFOE ventures in China is often opaque for the international market entrant, with such ventures appearing to be highly risky. As indicated by Interviewee J, without citing official sources, that “90 percent of all Sino-foreign joint ventures have failed” over the past decades. Myth and reality are occasionally hard to distinguish. It is just over 30 years since the economic reform process was officially adopted by the CPC. This study set out to investigate the "China factor in hotel development."

Does it exist, and how significant is it? Hence, it takes a very distinct viewpoint at doing business in the PRC. Hotel development, as being one of the earliest if not the first, of movers into the development of a certain market, makes the hotel investors' experience genuine. In this respect, the study could significantly add to understanding the environment FDI into China takes place within.

Apart from addressing the research questions that guided this investigation, this study could particularly contribute to available literature by developing three distinct categories that help describe factors that decisively affect the nature of FDI in China in general, and FDI in hotel properties in particular. Viz. (1) the Hotels' Hedonist Appeal, (2) the Investors' Sphere of Influence, and (3) the Poly-Politics.

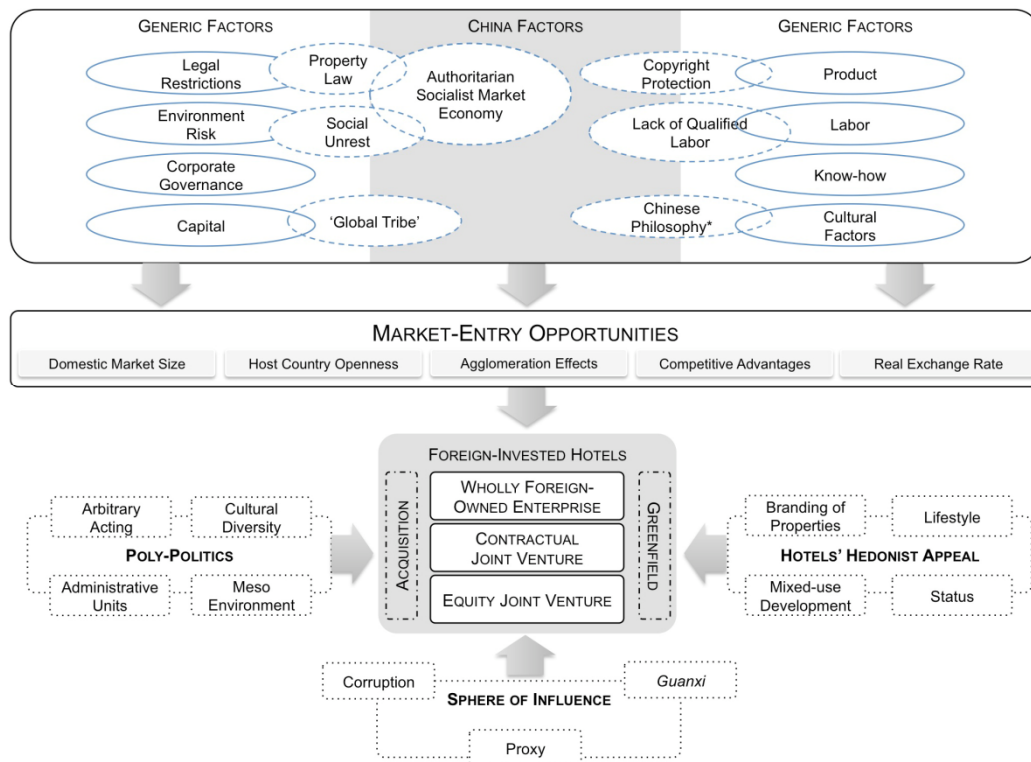


Figure 6-1: China Hotel FDI, Distinctive Investment Determinants

Own illustration

The Hotels' Hedonist Appeal refers to Greek philosophy, whereby hedonism (from the Greek *hēdonē* 'pleasure'), is the quest for pleasure as being of ultimate importance in the pursuit of humanity. It identifies instances where hotels or the hotel product are described as a lifestyle choice. Often in those cases, the actual economic efficiency of the hotel project becomes secondary to one or several stakeholders. The character of the hotel property is rather auxiliary to a wider real estate development. Often, for example, the hotel development is only a branding tool to charge a premium on other types of related real estate, typically as part of a mixed-use development. The foreign involvement, as evidence shows in such a scenario, is sought after to deliver typically a Western lifestyle choice, which is preferred by the thriving Chinese middle class. Apart from this secondary hedonic effect, sometimes the 'pleasure seeking' in hotel investment is more direct, though less obvious. While the 'ego effect' of hotel assets has been addressed in the past and after all is not limited to this class of asset alone, another angle to hedonism could be found. The data collected provides evidence

that, frequently, the approval process is influenced by local government representatives who view hotels as “a place for them to have fun in” (Interviewee D). One quotation from the data is particularly revealing in this respect as it unveils the attitude of officials towards whether they approve a certain kind of hotel project, or whether they don't:

“I once sat at the Shangri-La in [...]”⁴⁴ and I sat next to the vice-mayor. The vice-mayor had a few drinks and said to me: ‘this hotel still does not have a Cantonese restaurant, they have a Sichuan restaurant, and this is [...]. We taught them a lesson, we gave them hell for two years and they still haven’t learnt the lesson because Shangri-La did not want to give in. This is face. [...] It’s a, it’s an insult, right. Rather serve Cantonese food.’ And they can make life very, very difficult. How do they make life difficult? Okay, if you have the right partner, if you have the support of the municipal government or city of, or whatever. You find that as much as a third of your F&B revenue will come from them – there is so much entertaining going around. People entertaining them, they entertaining people, right, you know. So if they move that business some other place, you are dead, okay.”
(Interviewee B)

Subsequently this Interviewee continued to point out:

“So make sure that the government is somebody that you can work with – that the relationships are there, right.” (Interviewee B)

The previous quotation makes an ideal transition to the next determinant. This is the assumption that the ability of a foreign party to complete transactions like a

⁴⁴ The City name is omitted for confidentiality reasons.

real estate investment will depend on a particular investor's 'Sphere of Influence' (SOI).

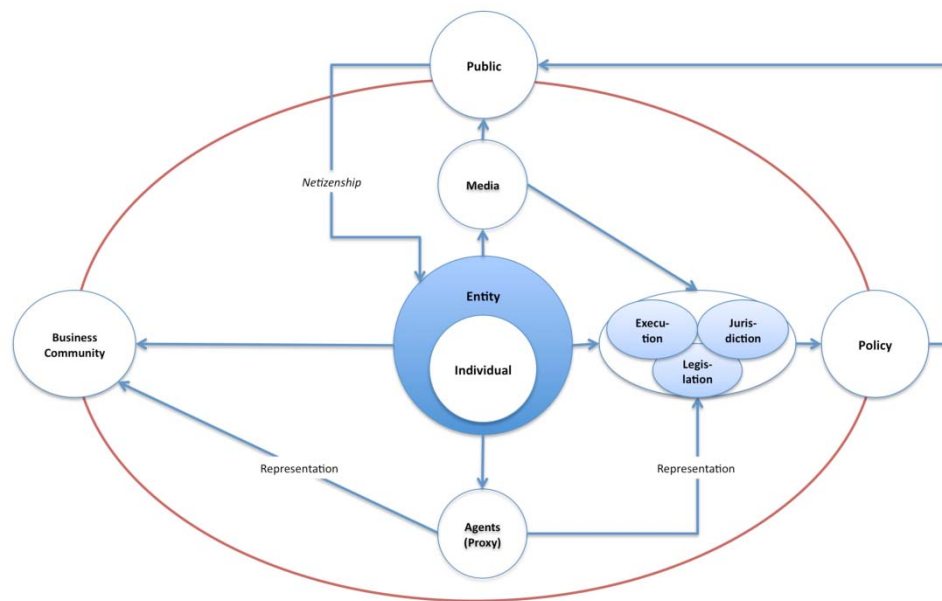


Figure 6-2: Investors' Sphere of Influence

Own illustration

SOI as a concept originates from the realm of political science on an international level. In this instance it is to conceptualize the relationships that an investor may or may not entertain in the socio-economic setting it operates within (e.g. community, province, or nation). All Interviewees pointed out that it is crucial to have a network of relationships if one wants to engage in business in China. In the past, given the Chinese context, this fact was conveniently captured under the Chinese cultural concept of *guanxi*. This author's argument for creating a new category is as follows: *guanxi* is usually limited to the establishment of personal relationships. However, the actions of market participants are more complex than this. Apart from personal relationships an investor will depend on a host of relationships. Nowadays, this includes actively managing media and dealing with the public image that is created through the growing numbers of 'netizens' in China, i.e. the increasing number of individuals who voice their

concerns via the internet. Investment transactions will often depend on agents as mediators. These relationships, in one way or another, should be actively managed by the market entrant/participant. As far as this leads to an increase in transaction costs it will require market participants to realize efficiency gains to offset those higher expenses.

As has been shown, probably the most crucial determinant of FDI is the constantly changing socio-political environment in China. This study contributes to available literature by providing an update in this respect. Those constant changes also inspired the development of the following concept, which captures other important determinants of FDI in China. With the following response from Interviewee J this section will address the notion of 'Poly-Politics':

"In theory, no more restrictions on foreign ownership exist, following China's WTO accession; however, any WFOE will depend on the authorities' approval." (Interviewee J)

It has already been mentioned that 'rule of law' is not always granted depending on the setting of a particular project. POP captures the amorphous character of political decision-making confronting foreign investors at different administrative levels, at different times during a development process and at different locations.

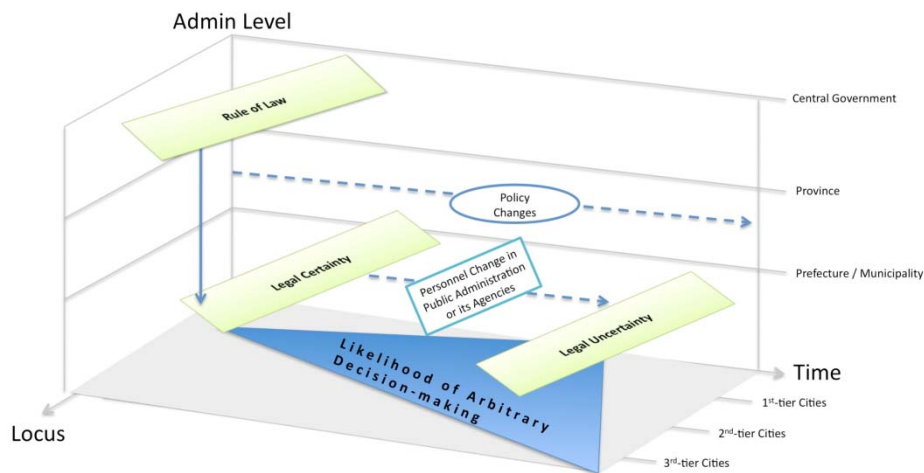


Figure 6-3: Visualization of Poly-Politics

Own illustration

POP refers to the differences in governance across provinces/regions, prefectures, counties, cities, and municipalities (Locus). It also captures the arbitrariness of approval processes across different administrative levels ('Admin Level'). This is also to say that politics in China is literally "amorphous," very difficult to grasp, especially for the not so culturally attuned foreign investor. The following quote, previously presented in Chapter 5 (cf. Section 5.2.2) in a slightly different context, clearly provides evidence for the synthesis of the concept of POP:

"The biggest challenge dealing with governments in China is that, if you asked them if they had a set of rules which you can follow, they will come back and say: 'no, I'll set up rules. You submit what you plan and we will approve.' At the end of the day they will probably admit that they have rules that originated in Europe, States, Canada - all around the world. - That they just have to decide which set to

apply to you. And through that process they create a lot more fees that they can collect, a lot more hurdles.” (Interview D)

During the data analysis (which findings were presented in Chapter 5), the above data was coded as evidence for the concepts of ‘rule of law’ and ‘separation of powers’. In parts, this concept also describes the conflict between different layers of the administration. Multi-directedness: (1) geography, (2) administrative levels and (3) time, which ultimately causes the dynamic political-economic environment of which investment decisions are made within. It may sound platitudinous, but the author believes that the following catchphrase probably best captured the socio-political semantics in present-day China: One country, two systems – but we have our own system.

6.4 Implications of the Findings

6.4.1 Academic Contribution

As a relevant study, this inquiry has added to the discourse on FDI in transition economies. Instead of analyzing aggregate data, it has investigated single cases on a project level, drawing on stakeholders’ personal experiences, broaching tacit knowledge and inferring relevant causal relationships that determine investment in the asset class of hotel real estate in China. This study has presented theory developed from the interview data, the respective concepts are (1) the ‘Hotel’s Hedonist Appeal’, (2) the investors’ ‘Sphere of Influence’, and (3) the ‘Poly-Politics,’ of which have been suggested and made available to the academy for further discussion. Furthermore, the author argues that this study implies a relevant methodological addition by including different theories from economics, sociology, psychology (by the inclusion of aspects of behavioral economics), and political sciences. One has to be cautious about the potential of generalizing the findings, however, this study provides a valid point for departure when it comes to further investigating the foreign-investment environment in China.

Furthermore, it helps to, or at least partially, de-mystifies the business development process that hotel investors in China are facing. It is believed that in a *Heideggerian* way, this work has contributed in interpreting hotel investment activities and their meaning by investigating their contextual relations to *things* “in the world” (cf. Heidegger, 1927).

6.4.2 Industry Contribution

Comparing hotel investment decisions across different markets is naturally difficult because of the multitude of distinct features of various properties in the hotel real estate sector that make comparisons between different units extremely complicated. Hence, the market has a tendency to be rather opaque. In principal, FDI decisions are discrete and sequential. They absorb a good deal of management time and are rarely independent of past industry behavior. Political-economic factors are crucial if one is to understand and predict changes in the nature of MNCs. In view of China being under an authoritative governmental regime, the increasing sophistication and bargaining power on the part of the host government policy makers, viz. CPC, is noteworthy. Given the above, this study helps international market-entrants to China better plan their Sino ventures. This will effectively maneuver their undertaking through socio-political environments they face in the world’s largest transition economy in respect to demographic magnitude, as well as geopolitical and economic relevance.

Practitioners should take a closer look at the idiosyncrasy of Chinese hotel investment, where comparatively frequently the investment and management of hotel properties go hand in hand within the same foreign holding. Cases in point are Shangri-La and Kerry, as well as Marco Polo Hotels and Wharf.

With the majority of hotels in China yet being state-owned, foreign investors can expect to play a relevant role in their privatization process for years to come. This will create a new market, in which traditionally foreign companies have played their part (Mak, 2008, p. 355).

Interviewee A has identified the process of privatization as “critical” in China’s overall hotel market transformation, a process in which foreign participants in particular, must be wary of corruption. Disentangling hotel assets from state-ownership will be difficult. Typically, those assets belong to different government levels, with the majority of state-owned hotels belonging to state-owned enterprises on a “local” (Interviewee A) level. It has been shown that the issue of corruption and legal uncertainty, if at all, exists more on a local level. There has been significant interest in state hotel assets, e.g. China Post, for several years (Interviewee H). However, internationally interested parties in particular, need to be aware of the fact that “a lot in those portfolios is often very poor quality hotels” (Interviewee E), where state-owned companies are usually interested in selling a whole portfolio of multiple assets, which quality standards can be very heterogeneous.

“The difficulty, I think, for foreign investors, is that many of those hotels were designed and built at a time when the sophistication of construction techniques and design techniques in China were not that well advanced. You have hotel designs, which for the most part will not have longevity relative to the new product that’s coming into the market place. Probably not that suitable for retrofitting. I would say that the interest in hotels that are in excess of ten years old, in China, that may be state-owned will be - for foreign investors. Domestic investors may be different story.” (Interviewee H)

Whether or not Chinese SOEs will disinvest hotel portfolios or just single assets, this process will continue, as it is obvious that in many cases, hotels are not part of their core business activities. Presumably, foreign investors have a competitive edge as their involvement is more likely to lead to asset enhancement in quality, and eventually value.

6.5 Limitations and Self-reflection

It is without doubt that collecting data in a sensitive area such as foreign direct investment is not particularly easy. Furthermore, such information is typically not readily available, i.e. there is a “lack of publicly disclosed industry data” (Madanoglu & Olsen, 2005, p. 512). Madanoglu and Olsen referred to the industry as a whole, but this is especially true in the case of China where the hospitality market is not as mature as it is in North America or Western Europe, for example. A relevant problem for the validity of this study is the case of round-trip FDI (cf. Huang, 2003, p. 37 ff.), an issue that can only be acknowledged at this point, but cannot be resolved. *True*, FDI is not clearly identifiable, but FDI may stem from Chinese parties who channeled funds overseas (e.g. Hong Kong or Taiwan) and have re-invested it in China to gain more favorable investment conditions. The methodological challenge of this study was to draw from the *tacit knowledge* of the interviewees. Given the sensitivity of the phenomenon, in particular financial backgrounds, the respondents sometimes opted not to talk about a certain topic, or requested that certain information was only provided off the record – especially in legal insight cases. Some may argue that it is a disadvantage for a non-Chinese to study events in China. However, hotel FDI conditions were investigated from the point of view of foreign investors. This being, Hong Kong proved ideal in enabling the research to access stakeholders with the relevant experience. In fact, Hong Kong was the ideal place to ensure a diverse theoretical sample. Residing and collecting data in Hong Kong, language barriers were not a problem for the investigator during the data collection. The methodology adopted proved suitable for addressing the research problem and the objectives of this study. Cronbach (1975) wrote: “when we give proper weight to local conditions any generalization is a working hypothesis, not a conclusion” (p. 125. In Lincoln and Guba, 1985, p. 123). It is not intended to claim that the

results of this study can be generalized. However, the results are credible in the specific context of China.

Apart from the above rather technical limitations, the following paragraphs of this section acknowledge the unique role that the investigator plays in conducting qualitative research. Covan (2007) stated:

Now that I have more than 30 years of research experience [...] I am much better at 'doing grounded theory' than I could ever have been as a student. That is because I now have a great deal of experiential data in my own head, providing me with the wealth of anecdotal data on theory and research methods. This suggests that collaborating with others in grounded theory studies may be helpful as multiple researchers obviously cumulate more experience than one does alone. (Covan, 2007, p. 69)

The above citation is not supposed to excuse any methodological insufficiencies in this work. The quotation helps the author emphasize his discernment that the yet limited experience of the novice researcher might lead to some discounting of the value of the study results. The rigorousness achieved through adopting a proper research methodology, guarding scientific principles of reliability and validity; or in the words of the naturalist's inquiry: *trustworthiness* (Lincoln & Guba, 1985, pp. 218 f.; cf. above section) could also be further improved once the qualitative investigator has gained more research experience. Given the investigator's involvement in any process of post-modernist scholarly inquiry, makes this discussion even more relevant.

If one wants to internalize a certain skill, one is advised to conduct that very skill at a fraction of the speed it actually takes to complete. Meaning: if a golf swing takes not even a second to perform, one should stretch this movement up to 90 seconds in length, e.g., conducting it in a perfect manner, but only in slow motion. Taking this at face value, spending over three years on one's first major research

project is time and energy well spent – even though the author shall not claim to have achieved perfection in the role of researcher.

This chapter does not only physically comprise the last pages of this PhD project, but also symbolizes the final phase of the first leg of the author's activity as a novice academic. At this stage, he would like to humbly engage in some self-reflection before conclusion of the study. Paradigmatically, the research evolved as being both critical theory and constructivist; hence, the role of the researcher was one of a "transformative intellectual' as advocate and activist" (Guba & Lincoln, 2005, p. 196), and "facilitator", making such self-reflective wind-up only more relevant. It is a crucial part of the qualitative inquiry. Here, the researcher critically reflects on her-/himself as the human element in the research process, as a value-mediating subject.

It is a conscious experiencing of the self as both inquirer and respondent [...]. Reflexivity forces us to come to terms not only with our choice of research problem and with those with whom we engage in the research process, but with our selves [...]." (Alcoff & Potter, 1993. Cited in Guba & Lincoln, 2005, p. 210)

In an interview conducted in 1978, D. Trombadori put forth to Michael Foucault the following remark:

[...] The idea of a work as an experience should suggest a methodological reference point or at least offer the possibility of getting some ideas about method from the relation between the means you use and the results you arrive at in the research. (cf. Foucault, 2001, p. 240; published posthumous)

Hereupon Foucault responded:

When I begin a book, not only do I not know what I'll be thinking at the end, but it's not very clear to me what method I will employ. Each of my books is a way of carving out an object and of fabricating a method of analysis.

This interview was first published in the Italian journal *Il Contributo* (1980). Certainly, Foucault is a yardstick too long to compare, – but not in principle. Fundamentally, Foucault's explications describe only too well the journey this author has taken over the last three years. Ideally, no doubt, one should choose a (Ph.D. thesis) research problem according to whether s/he can envisage an appropriate methodology, which is able to validly provide answers to the research problem generated. This was not the case from the start with this research project. The author made discoveries at several levels. At the outset he unfolded a problem, which interested him – and a research committee agreed with him on its relevance when accepting him as a doctoral student. But the methodology to solve this problem lay much deeper. Hence, a key discovery for the author was the methodology in solving the research questions formulated in the first place. Ultimately, that led to the crucial discoveries, which are presented as the quintessence of this work, summarized and presented in this chapter.

6.6 Scenario Analysis: Outlook

Towards the end of this work the author will engage in a brief scenario analysis in an attempt to illuminate the future path that hotel FDI in China may take over the course of the next couple of years.

It is assumed that China will increasingly develop its central and western regions. At this point in time it is difficult to predict how the cost of transportation is likely to develop in the years to come. Higher transportation costs would lead to a more symmetrical pattern of regional development, where the focus tends to be more on the local market. In turn, sufficiently low transport costs would favor

agglomeration of manufacturers concentrating in core regions. Given the mobility of workers and consumers, this would even magnify the home market effect for suppliers (Krugman, 1991, pp. 496 f.). Inevitably this will affect the market development considerations of hotel investors. Currently, most investors assume a more regionally symmetrical economic development within China. However, this may not necessarily be the case given certain economic fundamentals and demographic developments, such as continuation of urbanization in China's coastal regions.

A lot of China's growth has been fuelled by underpriced human capital and underutilized resources. This was coupled with China's comparatively inexpensive currency. Furthermore, commodity prices must rise in the longer term and this will change China's export product portfolio. However, as much as this will affect export-driven manufacturing FDI to China, the service-oriented FDI is likely to continue to grow. Service ventures such as hotel investments are not primarily driven by comparatively underpriced human capital, to gain price advantages on an international market. On the other hand, service FDI, such as within hotel properties, sees the domestic market as delivering its services much more so. It is a fact that the domestic market is by far the most important one for most, if not all, star-rated hotels in China. Should manufacturing level off, services are likely to grow then eventually FDI will become the key driver of globalization, rather than trade (Schell, 2009, March 2). The question in this respect remains as to whether governments such as those of China, will really commit themselves to allow capital mobility to such an extent that this will actually happen.

6.7 Suggestions for Future Research

To the best of the author's knowledge no categorization exists for the various Chinese cities that are typically referred to as first-, second-, third-tier cities, and soon etc, or metropolitan areas. This would also help to answer more complex

questions regarding “possible interaction between spatial and temporal decisions” (Fujita & Thisse, 2009, p. 115). It is beyond the scope of this study to create a clear-cut definition to categorize such urban areas. In respect to international market participants, it would be of particular importance to rank urban areas in China, according to their social-, political-, and economic significance – describing the hierarchy of Chinese cities (Henderson, 1974).

It would be beneficial to both academics and industry representatives in better understanding the political-economic geography of the country, moving this debate beyond the anecdotal evidence that people generally perceive. That is, typically leading to an impromptu classification of Chinese cities, where the only agreeable fact seems to be that Beijing and Shanghai, maybe accompanied by Guangzhou and Shenzhen, are ‘first-tier’ cities. Although the research objective of this study is geographically constrained to mainland China, given the definition of FDI (cf. 1.5), it appears to be relevant that China’s special administrative regions should be part of such a classification. This is because they do have, at least, an economic impact on China’s development, for example, when locations such as Shenzhen and Hong Kong, or Hong Kong and Shanghai are competing for FDI. It is believed that such a socio-economic geography would help international market entrants in planning their China ventures.

Also, given the significant public spending initiatives by the Chinese government at the present time, it will be worthwhile to investigate whether this will lead to foregone private investment in the aftermath of the current financial crisis. Potentially, such investment, foremost in infrastructure, could foster private real estate in due course. However, it could also be that future studies will identify a macroeconomic squeezing out effect, i.e. foregoing private investment due to increased public investment, when it comes to real estate investment in China. That remains to be investigated by future studies.

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APPENDIX

Appendix A: Data Collection Guide Generic Sample

INTERVIEW GUIDE ON “THE CHINA FACTOR IN HOTEL DEVELOPMENT: FDI DETERMINANTS OF HOTEL REAL ESTATE INVESTMENT DECISIONS IN CHINA”

INTERVIEW SUMMARY: GENERAL INFORMATION

Interviewee	
Name	Mrs. Sample Smith
Position	Director
Affiliation	China Investment Corporations
Brief description	n/a
Setting	
Place	88/F, Grounded Theory Tower, 99 Interview Drive
Date (Weekday)	08.08.2008 (Friday)
Start / End	10:30-11:30 a.m.
Interviewer	
Name	Mr. Alexander Grunewald
Position	PhD Candidate
Affiliation	The Hong Kong Polytechnic University School of Hotel and Tourism Management

INTERVIEWER'S BACKGROUND

My name is Alexander Grunewald. I am a PhD Candidate with HK Polytechnic's School of Hotel and Tourism Management. My research interest regards market-entry strategies of foreign hotel investors in China. Over the previous eleven years I have partially worked in the tourism industry, foremost hotels, and partially enjoyed my tertiary education. I received a Bachelor of Arts from the University of Brighton in England, a Master from the International University of Applied Sciences Bad Honnef (Bonn) in Germany, and I am resident in Hong Kong since spring 2006, conducting my PhD study.

GENERAL INTRODUCTION

Thank you for sharing your precious time with me and herewith supporting the data collection of my study. Would you agree with this interview being tape-recorded? If you agreed it will be transcribed following this interview and will be send to you for your revision. All information part of this interview will be kept confidential! Any reporting on this study's findings will be anonymous and you, as an individual or the organization you are affiliated with, will not be identifiable. While several interview questions are prepared for our conversation I would like to point out that I encourage you to discuss anything what you find important. You are flexible to express all your thoughts, feelings and experiences about FDI and hotel development, which you may find important! I would like you to understand that this is not about 'right' or 'wrong' answers, but foremost I want to learn your thoughts and ways of thinking about the phenomenon.

BRIEF BACKGROUND AND PURPOSE OF THE STUDY

It is understood that the class of stakeholders pursuing equity involvement in hotel property is not homogeneous. In addition there are various parties involved in hotel development. It can be asserted that the group of hotel property investors range from pure property investors, to institutional investors, and to service multinationals, i.e. hotel corporations, which may or may not decide to pursue equity involvement in a hotel property which then later is to be managed by a given (international) hotel firm. The purpose of this study is to understand

hotel investor's motivations, and particularly identify the factors of international hotel firms for seeking entry to a particular market with a specific strategy, particularly China. And especially, what factors determine FDI in Chinese hotel real estate?

RESEARCH QUESTIONS OF THE STUDY

Which unique challenges do decision makers identify in the case of China when considering market entry of a hotel firm? How will recent changes in China's policy on corporate tax and property law impact FIs' perceptions of return expectations and therefore their FDI decision-making? How and why do foreign hotel investors structure equity of their ventures in certain ways. What are companies' timelines for their China ventures? What are distinct cultural factors influencing the investment setting in China?

PERSONAL DATA OF THE INTERVIEWEE

Item		
Gender	<input checked="" type="checkbox"/> female	<input type="checkbox"/> male
Age group (years)	<input type="checkbox"/> 20-29	<input type="checkbox"/> 30-39
	<input checked="" type="checkbox"/> 40-49	<input type="checkbox"/> 50-59
	<input type="checkbox"/> 60-69	<input type="checkbox"/> > 69
Experience in hotel operation (years)	n/a	
Experience in hotel development (years)	18+ years	
Other industry experiences (years)	20+ years	Various sectors
Other industry backgrounds, please specify	<input type="checkbox"/> Manufacturing <input checked="" type="checkbox"/> Financial Services <input type="checkbox"/> Automotive <input type="checkbox"/> Energy & Utilities <input type="checkbox"/> Consumer Goods <input type="checkbox"/> Pharmaceuticals & Healthcare <input type="checkbox"/> Retailing <input type="checkbox"/> Telecommunications <input type="checkbox"/> (New) Media <input type="checkbox"/> Education <input checked="" type="checkbox"/> Other: Real estate	

TABLE: INTERVIEW GUIDE

Issue	Questions/conversational topics	Probing questions
(1) Introduction	<ul style="list-style-type: none"> Study's background information Confidentiality and recording procedures 'Smalltalk': weather, news, etc. Work experience 	<ul style="list-style-type: none"> Cf. also afore-mentioned remarks on 'General introduction'
(2) Business environment	<ul style="list-style-type: none"> Considering investment decisions in China, what issues deserve your attention? 	<ul style="list-style-type: none"> Which economic, social, and political factors in China do you regard as relevant from your firm's perspective?
Firm's strategy	<ul style="list-style-type: none"> What is your firm's internationalization strategy and which role does the Chinese market play in it? Assuming that you are entering various markets across Asia, could you please elaborate on your market-entry strategies across those markets? What particular factors do you need to consider when entering 	<ul style="list-style-type: none"> Would you share with me what in your opinion are the strength of your organization in its internationalization approach? Which Asian market has the greatest potential for development, considering not only growth, but profitability? What do you consider factors, which are influential

	China?	
Market-entry consideration	<ul style="list-style-type: none"> Which economic factors (would) affect your decision to enter the Chinese market? 	<p>when entering the Chinese market as a hospitality firm in general, or hotel investor in particular?</p> <ul style="list-style-type: none"> Considering China's recent economic development, which events deserve a market-entrant's attention? Which factors would be relevant for entities seeking FDI in hotels?
China-specific conditions	<ul style="list-style-type: none"> If you entered the Chinese market then what particular factors influenced this decision? What are the factors that affect the FDI environment? In how far do you perceive the Chinese market as specific, compared to other transition economies? 	<ul style="list-style-type: none"> If you have opted not to enter the Chinese market, which factors drove this decision? What are your greatest concerns when considering FDI in this market? Do you have experience or knowledge about other transitional economies? What has happened in other transition economies regarding the entry of foreign companies?
Others/ closing remarks	<ul style="list-style-type: none"> When working with Chinese what particularities do you notice? If one of your offspring would tell you tonight that they wanted to invest in China's hotel property market, what would be your advise? 	<ul style="list-style-type: none"> What are your views on work ethics, cultural specifics, and China's political system? What would be your three most important advices to a friend who considers setting up a hotel project in China? Any follow-up questions, if appropriate

QUESTIONS, SPECIFICALLY DESIGNED FOR THIS INTERVIEW

How do you currently assess the role of FDI in hotel properties in Mainland China, in general? Past and present: how has the process of hotel development evolved over the past 30 years? I mean, can you identify distinctions in the development process between the first foreign-invested hotels in China in the early 1980s, compared to the 1990s, and the current decade?

In your company profile you speak of "government encouragement of developing the Western region of China." How does this *encouragement* practically materialize, and which consequences does it have for the overall hotel development process?

You state on your Web site that you are "cooperating with different regional governments [...] to develop commercial projects." Could you please describe such cooperation for me?

Can you please describe for me the nature of your equity partners? What are their motivations, and timelines, i.e. holding periods? What can you generally share about international hotel investors?

The Ministry of Commerce in Beijing has altered FDI guidelines. Hotel real estate development projects are not among favored investment areas. Would you say that these investment guidelines practically change market-entry opportunities for foreign investors in the Mainland?

Have you practiced your profession in different markets? Would you say that the experiences made in developing hotel projects vary across different markets/countries?

- If so, would you say that hotel development in China requires unique skill set?
- And, what would these skills be?
- How would you assess the development process in China as opposed to other transition economies?
- “oh no, not again”

From your experience in the Chinese context, can you identify any cultural idiosyncrasies that need to be dealt with in the development process? – I refer to e.g. Eastern Philosophy in general, or things like *feng shui* in particular.

TRANSCRIPT

Note: EE for ‘interviewee’ and ER for ‘interviewer’. Everything said as part of this interview are the interviewee’s personal views, based on her/his understanding of the hotel development situation in China.

ER [...]

EE [...]

ER Thank you very much.

--- [End: 00:58:50] ---

[Main part of the interview ended here.]