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THE INTERNATIONAL EXPANSION OF MELIÁ HOTELS INTERNATIONAL AND ITS BRAND EXPANSION

Margalida, Seguí Crespí

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Thesis Supervisor's Name María Vanessa Díaz Moriana

Tutor's Name (if applicable) María Vanessa Díaz Moriana

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Author		Supervisor	
Yes	No	Yes	No
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Index.

Table of Content

1. Introduction.....	6
2. Theoretical Background	
2.1. Tourism Origin's in the Balearic Islands	7
2.2. Family Firms and its internationalisation.....	8
2.2.1. The Internationalisation Process of FF	9
2.2.2. Specific Features of Hotel Chain's Internationalisation.	9
2.2.3 Limitations and Strengths of Family Businesses in Internationalisation	9
3. Methodology	
3.1. Origins of Meliá	11
3.2. Data Collection	12
3.3. Data Analysis	12
4. Findings	
4.1. Market presence of the company	13
4.2. Meliá Business Model	14
4.3. Meliá's Brands	15
4.4. Internationalisation	22
4.4.1. Territorial Expansion in 2020	23
4.4.2. Future Business expansion plans	24
4.5. COVID-19 Impact	24
5. Conclusions	27
6. Bibliography	29

Index of Figures

Figure I - Portfolio & pipeline of MHI.....	13
Figure II - Classification of company brands.....	16
Figure III - Map presence of Gran Meliá Hotels & Resorts	17
Figure IV - Map presence ME by Melià.....	18
Figure V - Map presence Paradisus by Meliá	19
Figure VI - Map presence Melià Hotels & Resorts	19
Figure VII - Map presence INNSIDE	20
Figure VIII - Map presence Sol by Meliá	21
Figure IX - Meliá's Pipeline.....	24

Abstract

The aim of this paper is to analyse the internationalisation process of family businesses in one of the most important sectors of modern society, which is undoubtedly the main economic engine for the Balearic Islands: the tourism sector.

Starting from a theoretical framework on the main aspects of the internationalisation of family businesses, specifically the process of international expansion, strengths and weaknesses of this type of business, I propose the study of the case of the hotel chain Meliá Hotels International, a family business with a long history and leader in our country.

The analysis of the company in question will be developed from its beginnings to its internationalisation, ending with a special mention of the actions carried out by the company in the current context marked by the COVID 19 health crisis.

Finally, the keys to the company's successful internationalisation will be analysed, linking them to the concepts developed in the theoretical framework.

1. Introduction

The choice of the subject of this paper is mainly due to the fact that, although there is a high percentage of internationalised family businesses in the Spanish hotel sector (Andreu, Claver, Quer, & Rienda, 2018), there are few studies that analyse the internationalisation strategies of this type of companies and how their idiosyncrasies influence this process. (Andreu et al 2020).

A definition of a family business could be "a company whose main distinguishing feature is that it is owned for the most part by members of the same family, who are responsible for managing it in all areas". In this type of company, it is essential that ownership is maintained within the same family, so generational handover is particularly important.

A second differentiating feature of this type of company may be that sometimes, the profit motive may not be their sole or primary objective. Non-financial objectives aligned with those of the family identity may be imposed, which may involve prioritising values such as altruism, proximity, long-term vision, stewardship and trust rather than profit. (James, 1999; Zahra).

The process of international expansion in this type of business can be affected by generational changes of family members, which can have a direct impact on this process, either slowing it down, maintaining it or increasing it (Graves & Thomas, 2008). Moreover, family firms, being conservative and risk-averse, tend to focus on a limited number of foreign markets to maximise their revenues (Zahra, 2003).

This paper focuses on the case of the family business Meliá Hotels International, whose founder, Gabriel Escarrer Juliá, is recognised as one of the driving forces behind the internationalisation of Spanish companies and one of the most important figures in international tourism (Foro de Marcas Renombradas Españolas, 2017),

The study of this company is of special interest given that its internationalisation strategy has been one of the key factors in the development and positioning of the chain, topping the ranking carried out by Hosteltur at the end of 2020 of Spanish hotel chains with the greatest presence abroad, followed by NH Hotel Group. It should also be noted that Meliá Hotels International was ranked 19th in the world ranking of hotel chains carried out by Hotels Magazine in 2019. (Hosteltur, 2020)

On the other hand, it is considered interesting to study the case of the internationalisation process of companies in the tourism sector, as this sector has an important weight in the Spanish economy, constituting one of the main drivers of the country's economic activity. The tourism sector represented 12.4% of the GDP of the Spanish economy in 2019, contributing 154,487 million euros, before the COVID 19 pandemic, which has particularly affected this sector, being the most affected (INE, 2020).

2. Theoretical Background

2.1. Tourism Origins in the Balearic Islands

Tourism is in constant change and continuity. Until XIX, tourism was only practiced by the elite of the society, those who had money and time. The main purpose was educational.

In Majorca emerged the elitist urban tourism with the inauguration of the Grand Hotel in 1903. After 2 years, appeared the institution “Fomento del Turismo de Mallorca.”

In the 20s, arouse a tendency to travel to the coast. In this decade, the inauguration of the Hotel Formentor in 1927 stands out. During the following decade, the construction of tourist urbanisation began. The cruise ship tourism was very important. (Seguí, 2018)

Nevertheless, the crack of 1929 and the Civil War halted this first expansive phase. But the basis was already established.

After the World War II and thanks to the change produced in means of transport, the concept of tourism evolves to mass tourism. It arises a tendency of Europeans towards the Mediterranean. (Salvá, 2018)

Majorca became the most popular destination in Europe. In 1946, began Mallorca’s first advertising campaigns with the slogan “Honeymoon in Mallorca”, with great success in the domestic market. (Bardolet, 2014)

Some facts that took place in the socio-political context that benefited the tourism in Spain. First of all, in 1951, Spain got out of the international political isolation. In 1956 entered into force the law on land regime and urban planning, which entailed a large urban development and tourist construction activity. In 1959, the Spanish government approved the Economic Stabilisation Plan that was decisive for the Balearic Islands, since allowed them to enter in the tourism development at the international level by incorporating measures such as the liberty of currency exchange, the promotion of foreign investments with a new legislation that allowed the participation of foreign capital in Spanish companies, the elimination of visas, etc.

This Stabilisation Plan included different economic laws that resulted in a reinforcement to the commitment to tourism as the main development industry of the Spanish economy. (Bardolet, 2014)

In the period 1959-1973 the first touristic “boom” of the Balearic Islands, specially in Mallorca, took place. In the Balearic Islands the tourist GDP grew 28% in 20 years, in 1950 it was only 2% and in 1970 was close to the 30%. It was then when the hotel chains began to arise in Mallorca. They formed alliances with the big Tour Operators: Sol Meliá with Thomas Cook, Riu with TUI, and Grupo Barceló stood up for his good relationship with the regime, Abel Matutes (Doliga Group). (Seguí, 2018)

2.2. Family Firms and its Internationalisation

The Internationalisation Process of Family Businesses:

There is no doubt that internationalisation is positive for family businesses, as it represents an opportunity for growth and increased value (Hsu, Chen, & Cheng, 2013), on the other hand, it also implies a diversification of risk and an increase in potential profits (Gande, Schenzler, & Senbet, 2009).

Uncertainty and risk aversion largely condition the internationalisation process of family businesses, which is why they may decide to focus their internationalisation process on geographically close and culturally similar markets. (Ratten, 2017).

One of the differentiating characteristics of family businesses is that in this type of business, socio-emotional wealth, known as SEW, has a strong influence (even to the point of reference) on strategic decisions (Xi, Kraus, Filser & Kellermanns, 2015). This is mainly due to the strong linkage and identification of the family in the entrepreneurial activity (Kraus S et al., 2016).

As discussed by Gómez-Mejía et al. (2007), the willingness to preserve SEW influences strategic decisions and thus has a direct impact on internationalisation. The internationalisation process may lead to a loss of SEW as higher levels of international market knowledge and management skills are required, which may necessitate the hiring of more skilled external resources with greater knowledge of the international market, and consequently a decrease in family influence and loss of SEW (Voordeckers, 2014).

Undoubtedly, the internationalisation process in a family business involves reconciling the family's business values with external advice, that is initiating a mixed process that involves the family accepting a possible reduction in its SEW, giving entry to external owners, in order to have a better chance of success in internationalisation. However, the family does not lose influence over the organisation as it retains control over strategic decisions (Gómez-Mejía et al., 2011).

From the analysis of the international growth of family firms with high and low SEW endowments, it can be concluded that those with low SEW endowments are more successful in the process. These companies decide to make maximum use of external resources as their goal is to achieve high international growth, but they always try to retain full control by maintaining majority share ownership.

Family businesses that have been more successful in their international expansion project are those that have been more proactive in their innovation (either taking into account customer feedback or as a result of their strategic plan); those that have been more able to evaluate international opportunities by being more responsive to customers; and those that have been willing to take more risks.

Another important factor for success in international expansion is to combine the advantages and strengths of the firm in its home country and project them in the area of expansion with the aim of developing a competitive advantage that distinguishes them and brings value, hence the importance of the home country context, which represents a clear reputational advantage linked to product quality, durability and craftsmanship (Eddleston, et al., 2018).

Specific Features of Hotel Chain's Internationalisation

In the case of hotel companies, the internationalisation process can be very different depending on whether or not investments are made in the productive assets located abroad. In the case of hotel companies, internationalisation that does not involve direct investment has been common, with expansion being carried out on the basis of management agreements, franchises, leases, etc. This type of internationalisation minimises risk, although the risk is ceded in terms of resources and risk (Brouthers & Hennart, 2007). This modality minimises risk, although control is ceded, which can also make it difficult to maintain quality standards.

The risk aversion of family businesses may lead them to choose internationalisation routes that do not involve direct investment, even though this may mean a loss of control. Direct investment may jeopardise the company's results and, consequently, the profits and dividends to be distributed.

On occasions, and in certain markets, the instability and uncertainty of the environment lead companies to favour the entry of a local partner with greater knowledge of the market. In this sense, risk is minimised in the case of hotel companies in countries with high tourism revenues.

On the other hand, the size of the hotel company may make entry more difficult. If the company is of considerable size, with many establishments in its portfolio and a high level of indebtedness, it may make this expansion difficult, opting for leasing or management control rather than the direct acquisition of productive resources.

Limitations and Strengths of Family Businesses in Internationalisation:

The strategy of internationalisation can be limited by various general factors such as cultural and regulatory diversity, competition, market as well as factors specific to the family business (international orientation of the family, lack of international management skills, previous experiences, risk aversion, limited financial support, etc.) that are explained below. In contrast, facilitating factors can be the long-term orientation inherent in family businesses, as well as the high level of commitment and communication among family members.

One of the most characteristic constraints to internationalisation that family businesses may have is their conservative attitude or risk aversion. The internationalisation process requires a significant capital investment, which often requires external financing or the entry of new partners, something that family businesses are very reluctant to do because one of their priorities is to maintain control and protect the SEW.

It is common for family businesses to favour family members to the detriment of other employees with greater skills or abilities (Sirmon & Hitt, 2003; Verbeke & Kano, 2012). In reality, they often do not consider these employees as an important part of the company, but rather as a replaceable resource without valuing their commitment and achievements in the company. (Arregle et al., 2016). This situation can lead to difficulties in the internationalisation of the company (Verbeke & Cano, 2012), as this process requires a degree of training and professionalisation that family members often lack.

It may be the case that in family businesses, the objectives of maintaining ownership and avoiding the entry of external ownership may take precedence over obtaining better returns. (Gomez-Mejia et al., 2011; Kraus, Fink, & Harms, 2011).

Perhaps the main and most important strength of the family business in an internationalisation process is the symbiosis between the family and the company. This union can facilitate decision-making. In the family business, long-term orientation stands out as one of its main characteristics. Smooth communication between its members, their family ties and their common goal can facilitate the internationalisation process. This process requires an organisational culture, autonomy and risk-taking with long-term returns (Arregle et al., 2016).

The identification between management and firm is much more pronounced in the case of family firms, which can undoubtedly translate into greater motivation of management and to seek international opportunities. On the other hand, such firms can be very vulnerable to personal conflicts between family members. (Arregle et al., 2016).

Generally, the internationalisation process involves the assumption of a medium/long-term risk; this circumstance may not be a disadvantage in the case of family management, since the lasting relationships between its members and the intention of perpetuating over time facilitate medium and long-term decisions, which ultimately allows them to accept the risks associated with an internationalisation process, extending the time horizons of investment and profitability (Arregle et al., 2016).

3. Methodology

3.1. Origins of Meliá

The first hotel opened by the company was HOTEL ALTAIR, inaugurated in 1956 by Julià Escarrer Jaume in Palma de Mallorca, at the age of 21 years. Julià Escarrer Jaume has held the position of CEO for more than 60 years, a period during which the group first consolidated its leadership in Spain, the cradle of holiday tourism in Europe, and then expanded throughout the rest of the world.

During the 60s it took place a development in Balearic Islands and continued to grow until it reached the main holiday destinations in Spain in the 1970s.

Already the leader in the resort segment, the company bought HOTASA in 1984. In 1985 they began their international expansion with the opening of their first international hotel in Bali. Shortly afterwards, they acquired CHM in 1986 and the Meliá hotel chain in 1987, which became their insignia brand, preserving the group's strength and leadership in both the holiday and urban sectors. It represented the definitive leap forward to quality and high recognition of this brand and the 22 hotels it owned. Meliá was a pioneer in Cuba, where it maintains a strong commitment to hotels, managing 27 establishments.

The 1990s was a period of great change, in 1995 the Paradisus brand was born in the Caribbean, focused on the luxury sector. Subsequently, they continued their urban growth by entering the main cities of Europe and Asia. In 1996 the company became the first hotel group in Europe to be listed on the stock exchange.

Since then, the company has maintained a steady pace of international growth that has enabled it to position itself today in key markets such as Southeast Asia, China, the Middle East and the United States, as well as maintaining its leadership in Europe, Latin America and the Caribbean.

At the beginning of the 21st century, Sol Meliá underwent extensive expansion in the main cities of Europe by acquiring TRYP Hotels and the German company Ininside, operations that were complemented during the 1990s and 2000s with the launching of its most avant-garde brands of his portfolio ME by Meliá and INNSIDE by Meliá, as well as the Meliá Hotels International Vacation Club business. In 2008, the Gran Meliá brand was relaunched and entered the US market. It is now present in more than 40 countries and 4 continents. In 2011, Sol Meliá became Meliá Hotels International. In 2014, Meliá Hotels International relaunched the new Sol brand, made alliances with the main international investment funds to transform the sector, it developed the Meliá Digital Project to transform the relationship with customers and strengthened his management model value proposition.

Meliá Hotels International is a leader in the hotel industry, leading the ranking of Spanish companies and being in the ranking among the top 20 international hotel companies. A leader for decades in holiday hotels, the balance that the

company's portfolio now presents between urban and holiday hotels gives it greater competitive strength in the face of possible crises in the different segments of demand.

3.2. Data Collection:

In order to understand the internationalisation process of the family business in the Spanish tourism sector, a single case study of the hotel chain Meliá Hotels International has been carried out, based on interpretative reasoning.

The work focuses on three sources of data: MHI's corporate archive, interviews with executives and third-party documents on the company. In addition to a bibliographic exploration of articles and theses whose main theme was the internationalisation of family businesses in order to gain a better understanding of the different factors that influence the internationalisation process of this type of company.

The main source of data has been interviews, facilitating a better understanding of the actions carried out by the company in its internationalisation process as well as its actions during the COVID-19 pandemic.

For this case study, interviews were developed based on the literature review. These interviews included semi-structured and open-ended questions about the company, its internationalisation process, its brand expansion and its actions during the pandemic. The duration of the interviews ranged from 44 to 1h 21minutes.

3.3. Data Analysis

The analysis of this data is based on interpretative reasoning.

The data processing was carried out by recording the interviews and subsequently making a handwritten copy of them, to which secondary data sources were added, notably the interview with the company's founder.

First of all, the data collected in the interviews was classified using thematic reasoning, with a deductive approach. Secondly, this data was interpreted and validation was sought with the exploration of secondary data such as papers, news, corporative documents, etc. To conclude, I've linked this findings with the concepts developed in literature explained in the theoretical background using the interpretative reasoning.

The interviews were complemented with newspaper articles (mainly from Hosteltur), as well as consulting the company's website and complementary materials to contrast the information.

4. Findings.

4.1. Market Presence of the Company

Meliá Hotels International is the most internationalised Spanish hotel chain and currently has 317 hotels in 41 countries, with presence in 4 continents, 48% of which are holiday hotels and 52% urban. Its presence stands out significantly in Spain, where it has 46,68% of its hotels.

As Ms Morales explains, it is specially present in key markets such as China, the Middle East and the United States, as well as maintaining its leadership in traditional markets such as Europe, the Caribbean and Latin America. Moreover, it has a renewed and differentiated portfolio of brands, in which products can be found for all customer segments and typologies.

In 2019, a year before the pandemic, the company opened 10 new hotels in 8 different countries, highlighting the incorporation of the *INNSIDE Prague Old Town*, which adds a new destination to the company's portfolio. It has also inaugurated another hotel of the same brand in Italy: *INNSIDE Milano Torre Galfa*, thus strengthening its presence in the Italian country. Moreover, the company has also increased its presence in Southeast Asia with the opening of three new hotels in Vietnam and the first hotel in Shanghai.

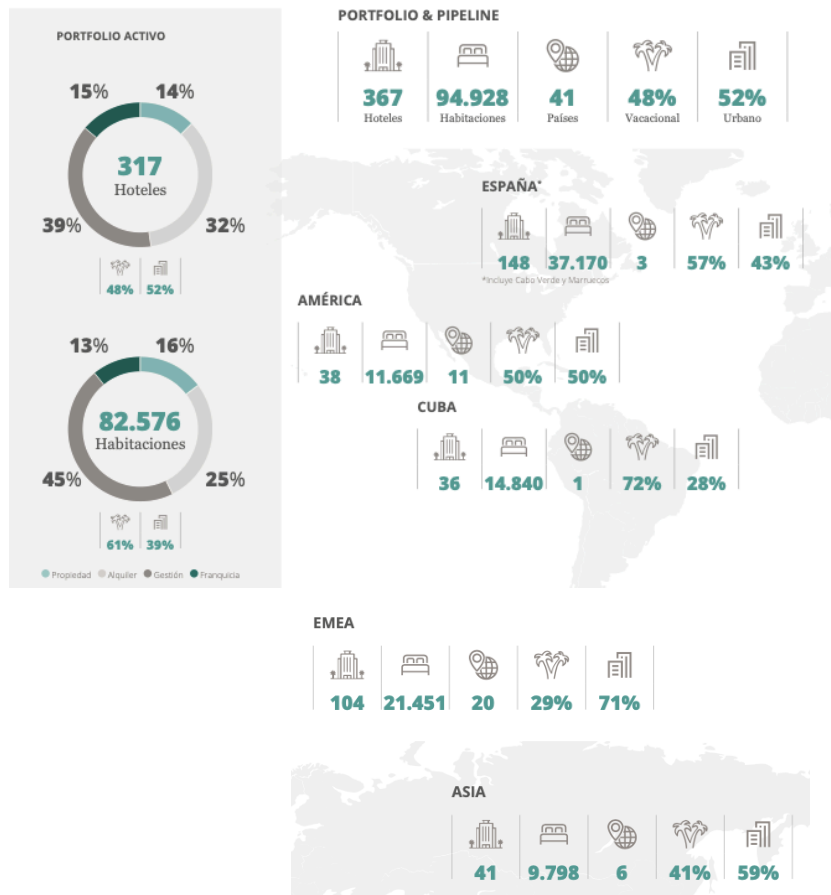


Figure I. Portfolio & pipeline of MHI.

Source: Management report and consolidated annual accounts MHI 2020

This presence map provides us with a graphic vision of the company's internationalisation. There are 4 main geographical areas: Spain, America, EMEA (Europe, Middle East and Africa) and Asia. Each zone shows variables such as number of hotels, number of rooms, countries, and percentages of holiday and urban hotels.

The hotel chain started selling the product "sun and beach". Nevertheless, we can see on the map that 52% are urban hotels and 48% are vacation hotels. This is due to the fact that in its internationalisation process the company has been focused more on other tourist areas such as business. The percentage of urban hotels in EMEA (71%) is particularly noteworthy, which has had an impact in the overall percentages of the hotel chain since this area is where the hotel chain has expanded the most, after Spain.

4.2. Meliá Business Model

Since 1956, when the company was founded, has grown at local, national and international level and has acquired several establishments. Moreover, in the 90s, the hotel chain expanded to Latin America and was listed on the stock exchange (1996), which made it the first European hotel company to be listed on the stock exchange. As a result of this two significative facts, is created its business model whose intention is reaching the following strategic objectives: the creation of value for its shareholders, the consolidation of its values, improve the customer experience, introduce new technologies, being more sustainable by taking into account the ESG impact (Environmental, Social and Governance) and to reinforce their international leadership in the hotel industry.

Ms Morales states that its business model comprehends four types of management models for operating its hotels: **ownership**, which represents 13,2% of its hotels (in this case Meliá Hotels International has the property of the hotel and its management); **rental**, which represents 33,1% of its operating establishments (the hotel company is the tenant of the hotel and has the operating profit); **management** which comprehends 39,3% of its hotels (Meliá operates the property of a third party under one of its brands, in this case, management fees are charged) and **franchising** which is the 14,4% of its total hotels (the owner of a hotel operates with one of the Meliá's brands and contracts its marketing channels).

This business model is mainly oriented to the management of hotels which operate under its brands. In this way, Meliá Hotels International has avoided to invest large quantities of money in buying hotels in which operates or in the leasing of those properties.

4.3. Meliá's Brands

As the company has grown, it has created new brands to focus on different audience. It currently has seven brands, each of which has specific characteristics which give them a distinctive personality, but all of them share the same values and principles of the company with regard to the public commitments the company has made in the different dimensions of sustainability, whether in the environmental or social field.

A directive who has worked in 3 different brands of the company, Ms Morales, pointed out: "As it cannot be otherwise, the company culture is common to all brands. The *raison d'être* of brands is simply to segment the market in order to reach a larger number of customers with different needs and expectations and meet them, always trying to achieve a high degree of loyalty." That is why each brand addresses to well-defined psychographic and demographic profiles. Nevertheless to achieve this goal, it is necessary to adapt to changes and new trends. That is why the hotel chain has implemented a continuous review process focused on innovation and constant evolution.

In his interview, Mr. Escarrer stresses the importance of brand segmentation. "This allows us to offer a differentiated, personalised and quality product", he says. His current strategy is the predominance of upscale and luxury brands over mid-scale brands in order to achieve a more competitive product with which to combat the wide range on offer in the current market, in which holiday rental websites are becoming more and more popular.

According to Ms Morales, MHI has been a pioneer in Spain in most aspects of innovation. "It has to be taken into account that it is one of the largest chains both in terms of hotels and hotel beds, which gives it an important strength in the sector", she explains.

Ms Morales specified that the chain was already well on track with its innovation process before the pandemic, but the current circumstances caused by COVID 19 have accelerated this process. The resources allocated to innovation have multiplied considerably and the fact that a large part of the workforce is on record of temporary employment regulation, with more free time, has allowed online training to be carried out (some compulsory depending on the job held by the worker in question and others optional), which has considerably improved the skills and broadened the knowledge of its staff.

The following table classifies each of its brands based on the profile they are focused in and also in which sector they belong to: upper upscale, upscale or midscale. As we can appreciate, the majority of its brands are focused on the demographic profile except for the brands "ME by Meliá" and "INNSiDE by Meliá" which are mainly focused in the psychographic profile. The majority of its hotels belong to the sector upscale with a 46%, followed by the sector of midscale with a 38% of its hotels.

	+ DEMOGRAPHIC	+ PSYCOGRAPHIC
Upper upscale 12% 5% Gran Meliá Hotels & Resorts 3% ME by Meliá 4% Paradisus by Meliá		
Upscale 52% 40% Meliá Hotels & Resorts 12% Ininside by Meliá		
Midscale 29% 18% Sol by Meliá 11% Tryp by Wyndham		
Affiliated by Meliá 7%		

Figure II: Classification of company brands
 Source: Management report and consolidated annual accounts MHI 2020

As Ms Morales, states that all brands have the same basis. However, each of them has some distinctive details that makes them unique. The company has well-defined brand standards and operational manuals for each of the brands. For this reason, the training of employees is mainly common to all brands, nevertheless, they need special training in those unique standards of the brand they are working for.

Upper Upscale

Meliá Hotels International has 3 different brands operating under this category *Gran Meliá Hotels & Resorts*, *ME by Meliá* and *Paradisus by Meliá*. This is the highest category in which the company operates.



In reference to this brand, the main intention of the company was to open luxury hotels in different parts of the world, specially in Europe and Asia. Currently, they have 11 hotels opened 8 in Spain, 1 in Rome, 1 in China and another one in Indonesia. Furthermore, they have a project to open two more in China and another one in Maldives.



Figure III. Map presence of Gran Meliá Hotels & Resorts
Source: Management report and consolidated annual accounts MHI 2020

Gran Meliá has as a main goal to create memorable experiences for its guests. Ms Morales affirmed that, undoubtedly, in all the hotels of the chain, wherever they are, the "Spain" brand is sold. But specially in Gran Meliá, where every single detail is planned to offer a unique experience and at the same time evoke the Spanish essence.

In fact, they have introduced the concept "BRAVOS" which consists in having employees such as chefs, designers and artists from every intellectual discipline in order to bring their creativity to the Gran Meliá experience. It captures the Spanish character and passion and it represents praise of talent.

"It is an added value that makes us different and is valued. Obviously there are always adaptations depending on the destination, harmonising the two cultures and of course giving great value to our gastronomic culture." , states Ms Morales.

Gran Meliá has a special brand attribute called "Red Level", as explains Ms Morales, who defines the "Red Level" as the premium version of "The Level" (which is basically the same attribute for the brand Meliá). It consists in offering a service during the stay at the hotel that includes access to exclusive areas, best suites or rooms with the best views, special treatment, etc. As Ms Morales says, "Red Level" it is oriented to the Gran Meliá brand, which is a premium brand of the chain, very focused on detail, so "Red Level" is going a step further.

ME

BY MELIÀ

ME by Meliá is a brand of luxury hotels inspired by the European lifestyle. In this case, Meliá wants to evoke the essence of the destination. It is the perfect combination of art, gastronomy, design and architecture. Through their strong cultural connections, they attract local and international talent to their hotels by working with artists, influencers and tech-savvy creatives to create social hubs that transmit energy and inspiration.

The brand has 7 hotels, five of them located in Europe, one in Dubai and another one in Cabo. However, the company has a project which include the opening of 4 hotels: ME Malta, ME Dubai, ME Barcelona and ME Doha.



Figure IV: Map presence ME by Melià

Source: Management report and consolidated annual accounts MHI 2020



PARADISUS

BY MELIÀ

Paradisus by Meliá it is a selection of luxury resorts. Unlike the company's two other luxury brands, all hotels operating under this brand are 100% vacation with the all-inclusive package. Their objective is to offer experiences to the client by connecting with the nature of the destination and its local culture.

At the present moment the company has 12 hotels operating under this brand in 3 different countries Dominican Republic, Mexico and Cuba.



Figure V: Map presence Paradisus by Meliá
Source: Management report and consolidated annual accounts MHI 2020

Upscale



Meliá Hotels & Resorts is the biggest brand of the hotel chain, at the current moment counts with 121 hotels in 34 countries and a project of opening 26 more hotels. It is the most internationalised brand of the company, combining urban hotels and “sun and beach” hotels.



Figure VI: Map presence Meliá Hotels & Resorts
Source: Management report and consolidated annual accounts MHI 2020

Its target market is wide it goes from families, mainstream vacationers or couples to business travellers. It has two additional operating models in order to meet the needs of its different clients: “Adults only” and “All inclusive”

As Director Morales explains, the Meliá brand has a brand attribute (and a service) called "The Level". This service includes exclusive access to a Lounge (where clients check-in, check-out, have breakfast and where they also have what they call Cocktail Time, a time slot in which the client is offered a glass of alcohol "free of charge", as it is already included in the initial price). This service also includes distinctive rooms, such as suites or rooms with the best views. The Level is the service that provides access to the most exclusive part of the brand itself.

INNSiDE

BY MELIÁ

INNSiDE was originally founded in Germany, it was a pioneer in the sector of lifestyle hotels. In 2007, was bought by Meliá Hotels International and started its expansion through Europe, United States and Indonesia. At the current moment has 32 hotels in 12 countries and a pipeline of 11 hotels in 9 countries.



Figure VII: Map presence INNSiDE
Source: Management report and consolidated annual accounts MHI 2020

This brand is specialised in the bleisure sector, specially thought for business travellers who also want to enjoy the destination they are in.

Ms Morales states that INNSIDE is the most jovial, the freshest brand, it is very face-to-face, close to people. It's a very experiential concept, very much about sensations, emotions...specially designed for targeting young people.

Midscale

SOL
BY MELIÁ

Sol by Meliá was the first brand ever created by the company and therefore it continues to hold its initial position over the type of hotels it has, 100% of which are holiday hotels specially targeted to families and couples. The main objective of the brand is to satisfy the needs of the client, tailor his experience and foresee his needs.



Figure VIII: Map presence Sol by Meliá

Source: Management report and consolidated annual accounts MHI 2020

The company has developed this brand up to the point that we can find subbrands within it, for example, Sol Katmandu Park & Resort, Sol Resorts, Sol House and Sol Beach House. Nowadays it counts with 72 hotels, most of them are located in Spain, although they have also expanded to 7 different countries

4.4. Internationalisation

According to Ms Morales, director of the company's 3 hotels, the main keys to the success of the company's internationalisation are, first of all, *the portfolio of brands*. The diversity of brands makes it possible to satisfy different types of customers and, consequently, expand its market.

Secondly, the *strength of their customer base in direct channels* (website and call centre). Most of their sales are channelled through these direct channels and the company also has a high degree of customer loyalty. For this type of customer, the first choice is always a hotel of the chain. This is a great added value for the company, which translates into confidence for investors or hotel owners.

And finally, the *structure of the company itself*, which allows, from a basic structure common to all hotels, to also have a differentiating structure adapted to each country and its idiosyncrasies. These same concepts are detailed by Mr. Escarrer in his interview at the Leading Brands of Spain Forum in 2017, adding a fourth key to the company's success, which is the constant innovation that has allowed them to grow continuously over the 6 decades he has been CEO.

In the opinion of Ms Morales, two of the most important milestones that led to major changes in the company (and hence, its internationalisation) were the change in the business model by starting to manage hotels that were not owned and, of course, the company's IPO.

The change of management model was a first step towards expansion and internationalisation, it meant a professionalisation of processes and the possibility of growing with a moderate risk by not having to buy the hotels. Without this management model it would not have been possible to reach the current expansion.

The IPO was a turning point in terms of the company's processes, the fact of being listed on the stock market implies greater transparency and an adaptation of the company's corporate social responsibility (CSR) to the demands of the regulator.

“Apart from these two facts, which I consider the most important in the last 10 years, other aspects have changed, such as the simplification of administrative processes, the introduction of the "customer experience" concept, important technological and IT advances, the establishment of customer loyalty as the main objective, and the inception and evolution of the different brands”, claims Ms Morales.

Territorial Expansion in 2020

During 2020, the crisis has affected the speed of the company's expansion due to the complete paralysis suffered by the markets. Even so, Meliá's geographic diversification has once again proved to be one of its greatest competitive advantages to resist and lead the recovery after this crisis, with the opening of 3 new hotels in 3 countries this year. Among them, the incorporation of ME Dubai stands out. On the other hand, as part of its expansion plan in the Mediterranean basin, this year it completed the opening of more than 1,000 rooms in Bulgaria, with the new Meliá Sunny Beach.

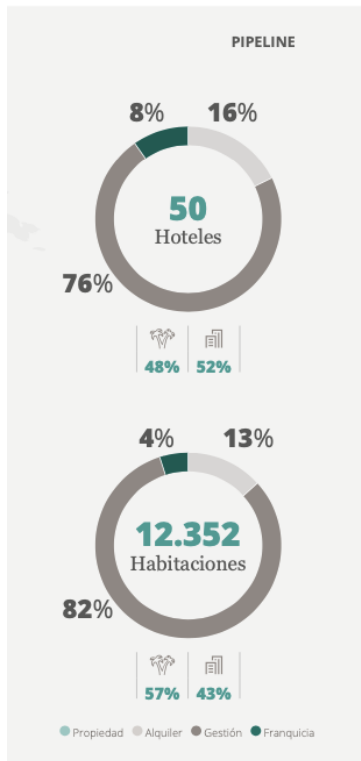
Also this year, they have continued with their growth plan, focused in their expansion in China and Southeast Asia, with three new signings, Meliá Detian Falls in China and two new hotels in Nha Trang, Vietnam, which will strengthen their portfolio in the country.

Ms Morales believes that COVID 19 will not affect the planned hotel openings in Asia, as the pandemic has been effectively managed there and is returning to normality, unlike in Europe. However, this might affect the openings in other destinations.

The chain's pipeline will close at the end of 2020 with 50 hotels, 84% of which are asset light management models. The company has opted mainly for the upscale segment, representing 72% of its new additions, and the remaining 22% belong to the premium segment. It should be noted that its growth strategy is strongly focused on the internationalisation of the company, as 98% of its future openings are outside Spain. Meliá Hotels International continues to be strongly committed to its expansion in Asia, as 32% of the current pipeline, which represents 16 of the 50 hotels, will be opened in different Asian countries (China, Indonesia, Malaysia, Thailand and Vietnam), which will allow them to strengthen their position in the continent.

In the short term, in 2021, the company expects to open 20 hotels, highlighting the arrival of the ME brand in Barcelona with the opening of ME by Meliá in that city, as well as the new Paradisus in Playa Mujeres, Mexico.

Future Business Expansion Plans



The main objective of its growth strategy is to position the hotel chain as one of the leading hotel groups in the upscale and premium segments, with the aim of strengthening its leadership in the holiday and bleisure markets. Over the next decade, the company will finalise its expansion strategy in Mediterranean destinations (Spain, Italy, Montenegro, Portugal, Greece, Croatia, as well as other leisure and bleisure destinations) and also in the Caribbean and Southeast Asia.

To achieve this objective, and taking into account the new context created as a result of the Covid-19 pandemic in the tourism sector, the company has launched a strategy called "Affiliated by Meliá", so that they can provide both small chains and independent hotels with the expertise of Meliá Hotels International and thus enhance their distribution. They have also reinforced their growth strategy under asset light formulas, promoting new management and franchise contracts.

Figure IX: Meliá's Pipeline

Source: Management report and consolidated annual accounts MHI 2020

4.5 COVID-19 Impact.

Impact on the Company and its Actions during the Pandemic.

Meliá Hotels International started 2020 making a good start, as in January they inaugurated Meliá Koh Samui in Thailand.

However, COVID 19 began to spread in China, which led to a progressive paralysis of hotel activity. In response, Meliá decided to implement the Global Contingency Plan and created the Crisis Management Committee. Subsequently, given the evolution of the pandemic, they were forced to close practically all of their hotels and corporate offices worldwide.

During the health crisis, taking into account the interval from April to December, 40% of its portfolio remained closed. According to their typology, urban hotels have suffered more than holiday hotels, mainly those located in large cities due to their dependence on the MICE segment, Business Travel and the

international market. In addition, the highest peaks of the virus have been during the high season for urban hotels (March, May, October and December).

In terms of regional hotels, Cuba has been the most affected, with 60% of the portfolio closed. This is due to its high dependence on the international market.

In Spain is where they have more hotels, so they try to optimise openings (52%), in order to maximise operational efficiency by concentrating customers in a single hotel.

Followed by America, although 32% remained closed, 40% opened between 6 and 9 months. This is due to the fact that almost all the hotels in the area are holiday hotels and that Mexico was the first international destination to open, which impacted them positively.

In EMEA, especially during the first wave, the central European countries managed the situation very well and there were even countries, such as Austria or Luxembourg, that never closed. Germany was the first large country in Europe to open and where Meliá has the strongest presence. These countries have a strong domestic market component, which favoured their recovery. Unlike France, where they concentrate their entire portfolio in Paris, which is highly dependent on the international market and has suffered the consequences of the decline of this client.

Finally, Asia, even though the pandemic started there, has been one of the first areas to recover. Especially China and also countries such as Vietnam, which have a significant domestic market, have allowed them to remain almost always open (78% of the portfolio).

Faced with this situation, the company carried out the "Meliá with the Heroes" action, which was valued at €4.9m, and, as proof of its solidarity, distributed thousands of free stays among health personnel and security forces. Meliá's commitment to society has also translated into donations valued at more than €5M.

In fact, the company medicalised 6 hotels to accommodate COVID-positive patients and thus reinforce the healthcare structure, which it offered to the competent authorities, both inside and outside Spain, including the Meliá Palma Bay.

As the director of Meliá Palma Bay, Mr. Vidal, commented, the company offered the hotel together with the Palau de Congressos to Ib-Salut, who chose this hotel for its location, easy access and for having an adequate infrastructure for the medicalisation of these facilities.

The medicalisation process was coordinated by Ib-Salut together with Meliá. The Son LLàtzer hospital was responsible and in charge of the management, which even included catering and room cleaning. Most of the staff were employees of this hospital, and only a minimum of maintenance and security

personnel from Meliá were kept on, and of course, Mr. Vidal as the hotel manager.

Mr. Vidal tells us that this process did not entail any additional costs for the company; they practically limited themselves to handing over their facilities. They had the help of the army and volunteer personnel from the company itself. Obviously, what meant a loss for the company was the stoppage of its usual activity, but that was a consequence of the pandemic crisis.

In May, they launched the "Stay Safe with Meliá" program and prepared to start reopening their hotels. The company invested €2.2m in this program with the aim of making the company safer from the virus.

Ms. Morales thinks that there were 2 key factors in the development of the Stay Safe With Meliá programme: first of all, the fact that the chain has 6 hotels medicalised, which has undoubtedly been a fundamental pillar in the design of the programme and Mr Vidal agrees with her, adding that they benefited from the knowledge of the health authorities in terms of protocols and other actions to prevent the spread of the virus. Secondly, according to Ms. Morales, the fact that the company has hotels in Asia. Asia has more experience in the fight against the virus than the rest of the world. "The fact that we were able to experience this situation in another destination was also an important determinant," he says.

The COVID-19 impact on the hotel chain's has been a reduction by 71% on the total annual revenue. EBITDA has contracted by -128% and net debt has increased by almost 30%.

In August they got the "Stay Safe with Meliá" program certified by Bureau Veritas. A month later, they achieved the highest peak of 176 hotels open since the beginning of the pandemic. However, faced with the new panorama established by the pandemic, they saw a virtual standstill in business travel and mobility restrictions, so they looked for alternatives to improve occupancy and income, among them "Workation by Meliá", in which they reconverted some of their hotels into "offices", so that clients could telework and at the same time enjoy the hotel's complementary offer.

Regarding Meliá's plans for the revival of business tourism, Mr. Vidal commented that he does not believe that the event organisation activity will be reduced, quite the opposite. In his opinion, interpersonal contact is a necessity, the exchange of knowledge, sharing of experiences, etc. must necessarily be done in person and the company has spaces for this. With regard to technological advances in this area of the business, he commented that actions such as hybrid events have been designed. In this type of event, participants take part both in person and virtually, which makes it possible to reach a larger number of participants, even those located in different countries or continents. Such is the case of the event scheduled for next June, a national medical congress of family doctors, the first to be held in Spain since the start of the pandemic, which will be broadcast in several Latin American countries. It is a first step towards the internationalisation of events thanks to technology.

It is also worth mentioning that in September they resumed their expansion and opened their sixth hotel: the Gran Meliá Chengdu. This expansion continued with the opening of ME Dubai two months later.

However, Ms Morales believes that brands that are focused on luxury tourism will recover before brands that are focused on a customer with average purchasing power, because, as soon as mobility restrictions and limitations are lifted, the customers who will come first will be those with a higher budget.

“The Day After”

"From contingency to resilience and recovery", this is the motto of the new strategic plan to face the new context in which we live. It is made up of 5 stages focused on recovery. The first, in the short term, consists of carrying out a tactical management of COVID-19, structured around 5 axes: health safety and trust through the Stay Safe With Meliá programme, preservation of employment, liquidity and financial position, business continuity by establishing a management plan for opening and closing its hotels, as well as marketing and sales through its website, and finally, management of its reputation through careful communication and reinforcing its social commitment.

The other 4 stages are designed for the medium/long term. The second is an organisational evolution that guarantees the efficiency and professionalisation of the service. The third is based on a commitment to digitalisation and technological innovation in order to gain efficiency. The fourth aims to maintain sustainable management and the last focuses on reinforcing its main business strengths.

5. Conclusion

Meliá Hotels International is a family-owned hotel chain that has successfully carried out its internationalisation process, which has made them a leading company in the Spanish hotel sector.

In this case, they decided to start their international expansion process in 1985 by opening their first hotel in Bali, which differs from Ratten (2017) in that family businesses may decide to focus their internationalisation process on geographically close and culturally similar markets in order to reduce risk. However, it should be noted that they opened a holiday hotel, attracting sun and beach tourism, the same business model they had in Spain. Their knowledge of the business model and the fact that the area had similar geographical characteristics minimised the risk in Mr Escarrer's eyes.

Gómez-Mejía et al (2011), commented that in the process of internationalisation in a family business, external advice is necessary which, in turn, represents a possible decrease in SEW by giving entry to external owners, something that family businesses are reluctant to do. MHI has been able to successfully carry out a mixed process, bringing in external owners (when it went public) and retaining the family's influence in the company by reserving control of strategic decisions, with Gabriel Escarrer Jaume (the founder's son) as CEO of the company. In this way, they have made the most of external resources to maximise the possibilities of success in their internationalisation process (thus overcoming one of the limitations of the family business in terms of international expansion). Although the family has continued to maintain control of the company.

Andreu R, et al (2020) studied the influence of the family character of the firm on the choice of entry mode in a foreign market. Their conclusion was that, in the case of hotel companies, expansion through management agreements, franchises or leases minimises risk. This was the case for MHI, which changed its business model by starting to manage non-owned hotels, which allowed it to grow internationally with moderate risk since it did not have to buy the hotels (which are considered heavy assets since they imply a significant increase in the company's debt ratio). The change to this management model considerably increased its revenues without increasing its debt ratio. As Ms Morales commented, this was key to the company's internationalisation process, otherwise it would not have been possible to reach the current levels of expansion.

In addition, MHI has developed a competitive advantage by exploiting the reputation of its home country, Spain, in the areas of expansion. It has been able to harmonise Spanish culture and gastronomy with the local culture of the different tourist destinations in which its hotels are located. Something to which it has given special importance in its Gran Meliá, Meliá and Sol brands, and which has been highly valued by its customers, as stated by Ms. Morales. As commented by Eddleston et al. (2008) this factor is an important key as an enhancer of success in the process of international expansion.

In my opinion, Meliá Hotels International has been able to leverage its strengths as a family business and overcome the limitations inherent to the family's participation in the company in terms of internationalisation, which today has allowed it to achieve success and to be in the top 20 hotel chains worldwide and at the top of the ranking at a national level.

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