



# Chapter IX

## Gaining Strategic Intelligence Through the Firm's Market Value: The Hospitality Industry

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### ABSTRACT

*This chapter uses the market value to assess the different factors and actors that influence the firm performance. The market value of a company, obtained from the stock exchange, can be used to both, detect and measure the impact of elements of the role, market, and far environment. The empirical application analyzes the hospitality industry that is currently facing an increasingly complex business environment: apart from the terms uncertainty, complexity, and dynamism that shape the environment, in this industry the concepts of munificence and illiberality are strongly applied. This procedure can aid in scanning-related activities, as the analysis shows that environmental events are recognized quite well.*

### INTRODUCTION

According to the theory of open systems, Selznick postulated in 1948 that organizations are cooperative systems constituted of individuals interacting in relation to a formal system of coordination. This structure is an adaptive entity reacting to influences upon it from an external environment. In order to maintain this system, the organization has to be awoken to, for instance, potential

encroachments undertaken by competitors, and be able to forestall rivalry movements, thereby avoiding deleterious consequences. Therefore, the organization must be mindful of the world in which it exists and competes, since in order to survive it must adapt. Central to this approach appears to be the concept of homeostasis, which means that the organization's system pursues to remain stable in the face of a changing environment (Thompson, 1967).

However, this objective of stability implies the detection of all kinds of events affecting the organization as well as the quantification of their impacts. Although the first is a relatively attainable task, the second is more complex. In fact, Olsen, Murthy, and Teare (1994) point out that, in general, many decision-makers still choose not to devote much energy to the scanning of their business environment because they are uncertain about the cause and effect relationships which exist between environmental events and firm performance. On this account, Olsen, Tse, and West (1998) state that, given that the concept of strategic uncertainty becomes specially relevant when it is expressed as the degree of variability in any performance measure such as cash flow per share of stock, managers should identify the forces that cause variability in the firm's cash flow, and concentrate on monitoring them and determining their impact on this performance measure. With this respect, this chapter proposes an approach which explicitly takes these considerations into account, as it models separately the impact that different kinds of elements of the role, market and far environment have on the present value of future cash flows per share. For this purpose, we formalize and apply a model that allows us to analyze the environment on a daily basis, whose main advantage is its ability to directly measure the effects of environmental factors on firm performance; the main novelty is the way the projections the three types of environmental factors are measured: they are not just mere *perceptions* but *money reactions* based on expectations. It is also important to note that this approach not only detects the events affecting the organization but it also quantifies their impacts.

This chapter carries out an empirical application in the context of the hospitality industry. This industry is witnessing an increasingly complex business environment, which involves looking

carefully at those factors influencing present and future success. On the one hand, as Olsen et al. (1998) point out, the growing number of interdependencies among all elements of industry structure will increase the need for managers to expand their scanning activities to include monitoring forces driving change in items within the environment. In fact, the ambiguity of the hospitality industry structure is strongly contingent upon the specific area in which the firm operates and its product specialization: in zones where small atomized hotels coexist, the perfect competition takes place; in others like the case of business cities and particular resorts, the dominance of a few chains results in an oligopolistic industry; finally, monopolistic competition appears in the hotel market where diversification strategy is a key element in the rivalry game, specially when it is developed through accessibility and extra products offered to add value to the core product as well as to help to differentiate it, in line with the theory on supporting and augmented products proposed by Kotler, Bowen, and Makens (2003). On the other hand, the ever-increasing trend to expand the business so as to boost the chain's image and to soar the market share, what in turn leads to adapt and operate into different markets, brings about an exhibition of a growing interest in scanning activities.

The next section presents a conceptualization of the environmental scanning and describes the different components of the environment. Also, the situation of scanning activities in the hospitality industry is briefly analyzed. In the third section, the formalization of the proposed model is shown. The fourth section is devoted to the empirical application, where the data, the sample, and the operationalisation of the model are described in the first place, to end up showing the results obtained. Finally, in the fifth section, the conclusions and managerial implications that can be drawn are highlighted.

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