The Antecedent Factors and Entry Mode Choice of Multinational Lodging Firms The Case of Growth Strategies into New International Markets

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(ABSTRACT)

The primary objective of this study was to utilize an exploratory research methodology to determine relationships among the antecedent factors and entry mode choices of multinational lodging firms. A basic framework was developed based on the review of the literature of multinational strategy, international business theories and concepts and hospitality management strategy.

A qualitative research approach, specifically a multiple-case study method was used. The data was collected through interviews and secondary resources of five multinational lodging companies, analyzed through summary tables and matrices.

The findings from the research included sixteen propositions that explain the relationships among the antecedent factors and entry mode choices in the multinational lodging operations. A framework was developed to illustrate the antecedent factors which may support the entry mode choices of the multinational lodging companies. Factors in the framework include those from the external environment: taxation and repatriation in

the political dimension, infrastructure and tourism related factors in the economic dimension, adaptation to local needs and expectations in the socio-cultural dimension, investment and sharing technology in the technological dimension and awareness of the natural environment in the ecological dimension. Antecedent factors in the internal environment include: local and regional competitors, international and local customers, gateway and commercial centers of property locations, the strengths and weaknesses in tangible and intangible assets and partner selection criteria. These factors were found to have an important influence on the entry mode choices of the five participating multinational lodging companies.

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Finally, I would like to dedicate this dissertation to my wife, Guixia and my daughter, Rose, for their support, encouragement, patience and sacrifice through all my scholarly efforts. I also dedicate this dissertation to my late mother for her love and encouragement. She passed away quietly during the completion of this dissertation and my doctoral study.

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CHAPTER ONE
INTRODUCTION

INTRODUCTION

This dissertation is an exploratory study looking at the relationships among antecedent factors and entry mode choices utilized in international expansion efforts by multinational lodging firms (the word "antecedent" is used to show the logic rather than causal relationships as mentioned above). The study identifies the antecedent factors in the external environment (of the political, economic, socio-cultural, technological, and ecological dimensions) and internal environment (competitors, customers, suppliers, and strengths and weaknesses, and partner selection of the firms) which may affect the entry mode choices, by investigating five multinational lodging companies. The entry mode choices are analyzed under the categories of wholly owned subsidiary, joint venture, and non-equity agreements (as management contract, franchising, membership consortium or other contractual agreements). The study found there is not enough evidence to show the relationship between generic international strategies (broad strategic approaches applied by multinational companies in their international competition) and the entry mode choices utilized by the participating companies.

This study provides researchers with a better understanding of what the antecedent factors are that influence a multinational lodging firm in its selection of a certain kind of entry mode choice in a foreign market. Researchers may use the identified antecedent factors in the environment to further analyze the process of the choice of entry decision and to analyze the performance of multinational lodging firms based on the choice of certain entry mode. The study contributes to strategic management research in the world lodging industry.

PROBLEM STATEMENT

Globalization is a major trend in the world's lodging industry. Accelerated by the rapid development of the world tourism industry and modern technology, deregulation of political constraints in many countries, and a freer flow of capital throughout the world, the lodging industry has become more and more a global industry. Because of the saturation of domestic lodging markets in developed countries, especially the United States, many mature lodging firms have discovered that their future survival and growth depend upon their successfully exploiting world markets, and have looked anxiously for opportunities and lodging development partners around the world. This is amply illustrated in the annual report of Hotels (Baum, 1992), which indicates that the world's top fifteen lodging firms operate about 15,834 hotels and motels worldwide with more than 2,155,154 rooms. Half of the two hundred largest lodging chains have foreign operations. Several of the largest lodging chains cover as many as 50 or more countries. These lodging firms truly are multinational chains. Complementing the international growth interest of these chains are many host firms, organizations and government agencies in tourism generating countries, especially in some developing countries with huge tourism resources, which have been seeking help from multinational lodging firms to develop their lodging industries. Thus, the lodging industry is experiencing increasing interdependencies as it pushes for global expansion. In sum, the rapidly changing environment, both at home and abroad and in and out of the industry context, is driving many domestic lodging chains to enter other countries for their survival and growth. However, there is no consistent pattern in the way these firms have decided to enter or establish their ownership structures.

Little research in the "globalization" of the lodging industry has been done over the last ten years. Dunning and McQueen (1982) completed a comprehensive study based on descriptive data analysis of multinational corporations in the international lodging industry. They used eclectic theory (in terms of ownership, location, and internalization advantages) to analyze entry modes of international lodging chains. Tse and Olsen (1990), Olsen, Tse and Crawford-Welch (1990) conceptually analyzed the international strategies of the world hospitality industry and defined operating strategies such as strategic alliances, franchising, management contract, joint venture, and acquisition. Crawford-

Welch and Tse (1990) studied mergers, acquisitions and alliances in the European hospitality industry.

However, except for Dunning and McQueen (1982) , the above studies were mostly conceptual. They made little attempt to investigate the antecedent factors which influence multinational lodging firms in making various entry decisions in overseas settings, though many lodging chains have already expanded throughout the world with all entry mode choices. These are the questions that have not been answered:

* What are the antecedent factors in the external environment that influence the entry mode choice of a multinational lodging firm?
* What are the antecedent factors in the internal environment that affect the entry mode choice of the multinational lodging firm?
* What role do the generic international strategies of a firm play in the entry mode choice?
* To what degree does a "match" between the internal environment of a multinational lodging firm and the external environment of the prospective country determine that a multinational lodging firm will choose one entry mode over others?

An objective of this research is to answer the above questions. Furthermore, though research in international business strategies in general has been done in this direction with multinational manufacturing firms, and most of the research is isolated in certain conceptual boxes, some of concepts basically share the same commonality. (See the underpinning theories and concepts below). Little of the research, however, has attempted to use unified theories to explore the phenomenon, and what has been done has been limited to the manufacturing sector. Therefore, another objective of this research is to make use of a more comprehensive array of theories and concepts that influence the entry mode choice in the multinational lodging industry.

UNDERPINNING THEORY AND CONCEPTS

In order to explore the relationships between the antecedent factors and the entry mode choice of a multinational lodging firm, it is necessary to discuss the underpinning theories and concepts. This section first briefly provides an overview of the emergence of multinational cooperations and globalization under the world's changing political, economic, socio-cultural and technological environment, then introduces the underpinning theories and supportive research from two approaches--the strategic management perspective and the international business perspective--and then synthesizes the theories of these two approaches.

Multinational Corporations and Globalization

Multinational corporations (MNCs) emerged after World War II. The growth of multinational corporations has been one of the landmark developments of the world economy since the post-war period (Dymsza, 1984).

Stopford and Wells (1972) and Dymsza (1972) were among early scholars to study the MNCs. Dymsza (1972) stated that "at some point, the management of firms started to consider expanding outside the boundaries of the home country. The first move might cause little attention, but gradually it might become international in scope. At the most extreme state of development, the international company is deeply involved in and committed to a global perspective in its management and decision making." Such firms are defined as multinational enterprises.

The reality of the world economy in the period 1950-1970 was the emergence of many multinational companies, especially many American multinational companies. Since the 1980s, globalization has become a major trend in the world community. With the growing interdependence of the world economy, the business activities of many firms have expanded into more than one country. Some firms have coordinated their far-flung operations into a global environment. Others have established a set of organizations operating in unique national environments (Rosenzweig and Singh, 1991). This expansion has occurred because of the advance of technology in transportation and communication, deregulation and incentive policies of many countries, and the freer flow of capital in the world market. Multinational corporations have expanded to all corners of the world. Competition for a larger market share in any particular industry has intensified among the multinational corporations in the ever-changing international environment.

The Studies of Multinational Companies and Globalization

Researchers have studied multinational organizations and globalization in the context of two broad paradigms: the international strategic management perspective and the international business perspective. The research in the international strategic management view is based upon general strategic management theory and broadly defines the phenomenon. It focuses on the relationships among the external and internal environment, generic international strategies, and implementation of the international strategies. It does not specifically address the choice of entry modes. But studies of international business do emphasize the entry choice decision. They analyze what may influence the entry mode choice when a multinational company plans to enter a foreign market. However, the analyses have been based on various fragmented theories and concepts, such as transaction cost theory, eclectic theory, needs and expectations, partner selection, and bargaining power, etc. The research of the international strategic management perspective seems more conceptual and systematic in terms of defining the environment and generic international strategies, but the international business perspective seems more applicable in terms of defining entry modes. The following section discusses the studies by the two approaches, then attempts to synthesize briefly the two approaches and combine them into a unified framework.

The International Strategic Management Perspective

The research in international strategic management follows general strategic management theory, which stresses the importance of the organization-environment co-alignment in any strategic decision of a company. The concept of general strategic management consists of four elements as stated by Olsen, Tse and West (1992), "environmental scanning, strategy formulation, strategy choice, and implementation of strategy".

The International Environment and Environmental Scanning

Strategic management literature suggests that no organization exists in a vacuum but in a complex and ever-changing environment, which consists of external and internal threats and opportunities. In order to maintain strength and growth and longevity, an organization must monitor, analyze, and adapt to the environment. Carefully scanning the firm's environment may enable the firm to seek the opportunities which match its capabilities and to achieve economic success. Misunderstanding of the environment and inaccurate assessments of the environmental changes may lead an organization to lose opportunities, improperly allocate resources, and take risks, which may hinder growth and development.

Among the external and internal environments, the external environment includes opportunities, improperly allocate resources, and take risks, which may hinder growth and development.

Among the external and internal environments, the external environment includes "all elements that exist outside the boundary of the organization and have the potential to affect all or part of the organization" (Daft, 1989); the internal environment or the task environment (Dill, 1958) includes the environment within the industry structure: competitors, customers, suppliers, and substitutions (Porter, 1980), as well as the internal strengths and weaknesses of the functional areas within the organization itself.

As an organization expands its business outside its national border, it faces all the influences from a host country or countries as well as generalized international environmental conditions such as: increasing **economic** interdependence between the organization's home country and its host countries, increasing uncertainty; governmental involvement which presents new **political** risks as well as opportunities; modern **technology** which reshapes the environment almost on a daily basis; the **socio-cultural** dimension which forces the organization to adapt to new cultures; and **ecological** impact which may demand that the organization keep air and water clean and provide safe products. Within the industry, an organization will face competition and substitution, and will need to understand its customers and suppliers. Within the organization itself, it must analyze its strengths and weaknesses in its functional areas, such as finance, administration, operation, marketing, human resources, research and development so that it can properly allocate its resources. Figure 1.1 displays a model of the elements of the international hospitality environment.

Correctly perceiving, systematically monitoring, interpreting, and predicting the environmental changes is a very important task for the top management of an multinational organization. This is because the host country's environment for the multinational firm may be very different and complex when compared to that of its own country. There can be political risks, economic constraints, cultural differences, and technological disadvantages that prevent a multinational firm from carrying out its international expansion plan. The economic and political conditions and government policies are critical to the survival and profitability of a firm's operation in a foreign country. If a company enters into a country without carefully assessing that nation's environment, it may end up losing its assets and failing to repatriate its earnings. There have been several studies of international environment and environmental scanning. Those studies focus on various dimensions: environmental factors (Sethi 1982, Pearce and Robinson 1988, Preble et al. 1989); political risks (Yapark and Sheldon 1984, Howard and Hashmi 1991, Kim 1992); the impact of the national culture (Kogut and Singh, 1988, Olie, 1990); industry structure (Porter 1980), firms' intangible assets (Hall 1992); and international environmental scanning (Aguilar 1967, Keegan 1974, Preble et al. 1989, etc.) (These will be discussed in Chapter Two--Literature Review.)

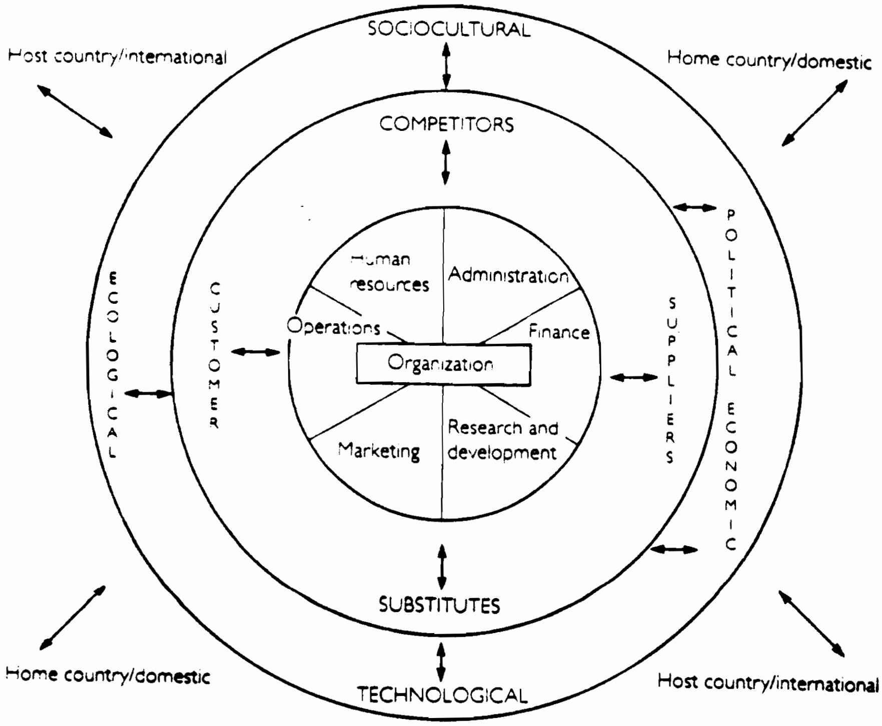

Figure 1.1 The Elements of the International Hospitality Environment

Adapted from Zhao and Merna (1992)

Strategy Formulation

Strategy, as many researchers have defined it, is a long-term plan or the mechanism to match a firm's organizational goals, objectives, and resources with its environment (Andrews 1965, Pearce and Robinson 1988). International strategic planning is the mechanism to guide a multinational company's activities in the world's complex and changing environment. Most large business organizations have their large scale and long term plans, which can be defined as strategic plans. Each strategic plan is usually the result of a serious formulation process, which usually resembles the following:

The company

* establishes its mission and goals,
* assesses its external and internal environments,
* selects strategic alternatives,
* makes the best strategic decision,
* implements the strategic plan,
* relies upon feedback mechanisms.

International strategic planning follows the same planning process. However, the international environment is more complex, the strategic alternatives can be various, and the implementation can be more complex and difficult. Sethi (1982) and Godiwalla (1986) designed separate approaches to their multinational strategic planning. Their models were basically the same as for any other strategic planning models; however, there were more considerations such as broader external and internal environments and more strategic alternatives in the planning steps. This research focuses on understanding the complex external and internal environments that a multinational lodging company faces, which precedes strategy formulation. Thus, the actual process of strategy formulation will not be a part this research.

Generic International Strategies

A company seeks competitive strategic choices which will help it create a defendable position and outperform its competitors in an industry, which Porter (1980) defined as **generic competitive strategies**. Beginning in the 1980s, globalization has become a key theme in the discussion of generic international strategies in the research on strategic management. Levitt (1983) discussed the globalization of markets with standardization of products and brands worldwide. Douglas and Wind (1987) argued the myth of globalization with product adaptation to local and regional differences. They urged companies to analyze carefully the driving forces and obstacles in their world expansion based on their strengths and weaknesses.

Kogut (1985a) discussed the competitive advantages of multinational firms and comparative advantages of the host country. He defined competitive advantages as the "differences among firms in their abilities to transform inputs into goods and services at maximum profit." The comparative advantages of host countries were directed at the analysis of which country provides better opportunities for multinational companies in their international expansion.

Porter (1986) discussed the characteristics of multi-domestic versus global strategies and competitive advantages of these strategies. Multinational firms may concentrate on a multi-domestic strategy or global strategy. The major difference of the two strategies is that the firm utilizing the multi-domestic strategy treats each target country individually based on its unique environment, while the firm using the global strategy considers all strategic moves integrated under one global strategy. In his study (1990), Porter presented the "national diamond" model (which was reiterated from his "five forces model" (1980, 1985)) for multinational companies to use to analyze their host countries' industrial structure and their competitive advantages in those host countries. Porter (1991) argued that in services, many industries are not global but multidomestic. They should exist as a group of autonomous national units.

In order to be successful in world competition, a multinational firm must analyze and identify its competitive advantages compared to its competitors in the same industry. It should also analyze the comparative advantage of the target countries where it is going to expand its business.

Other researchers are: Leontiades (1986) with his high share and niche strategies in national and global contexts, Kogut (1985b) with his global flexibility strategy, Hamel and Prahalad (1985) with their broad production portfolios strategy, Ghoshal and Bartlett (1990), and Yip (1989) with their studies of global strategy, integration, and national responsiveness. Each interpreted the international strategy in different respects. (There will be more discussion of these researches in Chapter Two.)

Implementation of International Strategy

The implementation of an international strategy focuses on how a multinational company establishes its structural means to fulfill the designated strategic plan. Previous research in this area focused on environment and structure (Ghoshal and Bartlett 1990); strategy and various kinds of structure (Engelhoff 1982, Herbert 1984, Lewis and Fandt 1990); and the relationship between headquarters and foreign properties (Pircard 1980, Prahalad and Doz 1981, Kriger and Rich 1987).

Implementation of international strategy is an important part of the strategic management concept, and deserves special attention. But because the focus in this study is on the key variables in the environment and the generic international strategies that may influence the entry mode choices by multinational lodging companies, this research focuses on the pre-implementation decision. Therefore, implementation will not be an element within the context of this research.

In summary, a multinational firm develops its multinational or global strategy based on carefully monitoring and assessing the environmental conditions. There are the external and internal environments which shape decision making. The analysis of the environment precedes strategic formulation. Strategy formulation is the process that a company utilizes to make strategic decisions. There could be various strategies for a company to choose from, such as standardization, adaption of local conditions, niche strategy, flexible strategy, and the concentration of global or multi-domestic strategies. Implementation of the strategy is how a company uses structural means to carry out the chosen strategic plan.

International Business Perspective

Most studies of international business generally look at how a firm would be involved in international business operations, and what should be the better choice of entry in a specific foreign market. The research in this approach has used various theories and concepts, such as transaction cost theory, eclectic theory, needs and expectations, partner selection, and bargaining power to explain the causes and decision choices for a multinational firm when entering a foreign market. However, the theories and concepts seem to share a lot of similarities in explaining the same set of antecedent factors. This section will briefly review those theories and concepts.

Transaction Cost Theory

Transaction cost theory created by Williamson (1975) is based on the logic that any business transaction bears the costs of negotiating, monitoring, and enforcing contracts with external parties and the cost of coordination (Jarillo and Stevenson 1991). The costs can also include the capital costs of establishing a facility overseas, the costs of familiarizing the firm with the local market and culture, the costs of transferring know-how abroad, and the costs of controlling the expanded organization (Hill and Kim 1988). Transaction cost theory is used as a governance mechanism to help a firm analyze the costs and decide what can be the best mode to deal with a transaction so that the firm minimizes the sum of the costs (Koh and Venkatraman, 1991). Many researchers, such as Anderson and Gatignon (1986), Hill and Kim (1988) and Hennart (1988, 1989) used transaction cost theory to analyze and compare different entry mode choices such as a wholly owned subsidiary, joint venture, or contractual agreement (management contract, franchising, membership consortia, and other contractual agreements) when dealing with international expansion.

Anderson and Gatignon's (1986) transaction cost framework for efficiency of entry modes not only looked into the transaction-specific assets but also into the interaction between the assets and external uncertainty, the internal uncertainty, and free-riding potential (the ability to receive benefits without bearing the associated cost). However, because the framework was built only upon the transaction cost theory, Hill, Hwang and Kim (1990) considered the model to be flawed.

Contractor (1990), Gomes-Casseres (1990), and Kim and Hwang (1992) argued that transaction cost theory could not explain totally why a multinational company uses one entry mode versus other methods. Contractor (1990) argued that transaction cost theory only focuses on the cost side, while the examination of the optimum mode should also look into the revenue and profit side. Gomes-Casseres (1990) argued that previous research based on the transaction cost theory ignored the effects of the host country's ownership restrictions. Boddewyn et al. (1986) argued previous studies based on the transaction cost theory did not consider the cost resulting from the buyer's uncertainty and market imperfections.

The Eclectic Theory

As early as 1976, Dunning put forward the concept of an eclectic paradigm of international production. He believed that international production was determined by the configuration of three sets of advantages perceived by international firms: ownership advantage, location advantage and internalization advantage. **Ownership advantage** is concerned with the fact that a firm must possess superior assets and skills when competing with its rivals. **Location advantage** involves comparing the potential and risk of various locations and choosing the most attractive market/markets for the firm. **Internalization advantage** compares the cost and benefit of integrating its assets and skills within the firm. The assumption is that if the cost of the integration is low, the multinational firm will be better off to highly control its assets and skills within the firm by choosing a wholly-owned subsidiary; on the other hand, if the cost is high, the company may choose the entry mode of a contractual agreement such as management contract or franchise agreement and lower the control of its assets and skills (Dunning, 1988). Dunning argued that the configuration of the advantages determines the entry modes, such as exports (where only the products enter a foreign market with no investment in that market), contractual resource transfers, and foreign direct investment.

Agarwal and Ramaswami (1992) used Dunning's eclectic theory to analyze different international entry modes. They examined the impact of the interrelationship among ownership, location, and internalization advantages on the entry mode choices of foreign markets. They used a multinomial logistic regression analysis of the U.S. equipment leasing industry. They found the three advantages (ownership, location and internalization) have interaction effects in the choice of entry modes. (This will be discussed in Chapter Two.)

Boddewyn, Halbrich and Perry (1986) used Dunning's eclectic model in the analysis of multinational service firms. They believed the model can be applied in the world service industry. However, they stressed that when analyzing **ownership advantage**, the intangibility of the offering of multinational service companies must be the focus. In terms of **internalization advantage**, they argued that two issues need to be addressed: 1) the service industry is driven by "low technology", (it would be more accurately defined as "a bimodal technology" (Olsen et al. 1991)), which is required in producing both physical products and intangible service goods in comparison with only physical products as in a manufacturing industry which is R & D intensive; 2) multinational service companies are accounting for "non-equity" FDI (foreign direct investment) in world business. As far as **location advantage** is concerned, they argued that the service industry is more country-specific (some of the services must be located where customers want to be), and that those variables such as size of the market, quality of local resources, government policies, and political climate also affect location choices.

However, Macharzina and Engelhard (1991) challenged the eclectic model. They argued that the model did not precisely explain the study subject, that the structural and contextual variables in the model were difficult to operationalize, that it may interpret the managers' behavior with bias, that the connection between the relevant variables and different types of business activities is not clear. (Chapter Two will further review their argument.)

Needs and Expectations, Partner Selection, and Bargaining Power

Although there are some studies on needs and expectations, partner selection criteria, and bargaining power in engaging in international business, they actually addressed only one problem: how to establish a more efficient and effective arrangement of an international business operation. The reasoning when a multinational firm decides to go abroad or a host country seeks a multinational partner, both have needs and expectations from the other: based on its needs and expectations, each selects a partner with its criteria and each uses its possessions and contributions as bargaining power to obtain a certain degree of control of the business operation.

A multinational firm should study the needs and expectations of the host country so that it can better understand its international customers and successfully expand into the target foreign market. To invite multinational companies to participate in its economic development, each host country may have its unique needs and expectations in terms of finance, human resources, marketing development, management know-how, and political needs. Beamish (1987) studied the needs and expectations of the host countries. He categorized the needs into five groups: items readily capitalized (capital, raw material supply, and technology or equipment); human resource needs (general managers and other special function area personnel); market access needs (access to export markets and distribution channels); government/political needs; and knowledge needs.

Meleka (1985) in this same vein analyzed the benefits the host countries expect to obtain from the participation of multinational companies in their countries' business operations. He identified five kinds of benefits: developing the national economy; increasing national employment; training and management development; strengthening domestic industries through joint ventures; and establishing national peace and political stability.

Kobrin (1988) argued that it is essential for multinational companies to understand the host needs and expectations as well as the host country's policies and preferences toward multinational companies' participation. Some countries do not allow wholly-owned subsidiaries, but mandate local participation in its economy. Companies should monitor the changes of policies and regulations of the host countries.

Based on needs and expectations, a partner from either a multinational company or a host country will carefully select the other side of a partnership, because the specific partner chosen helps to determine the mix of skills and resources, operation policies and procedures, and overall competitive viability of an international joint venture. The correct choice of a partner is very important for the success of a cooperative venture. Geringer (1991) argued that partner selection is a strategic determinant variable in the formulation and operation of international joint ventures. He classified the criteria into fifteen categories such as government pressures, regulatory requirements, access to financial resources, qualification of management and employees, location and cost, knowledge of entry methods, reputation, marketing or distribution systems, etc. (This will be discussed in the literature review.) Awadzi et al. (1988) studied the relationship between bargaining power and partner selection. They argued that a company's contribution is a component of the bargaining power in the partner selection process in forming a joint venture. Gomes-Casseres (1987) suggested that the resources the partners may possess can help them to gain bargaining power. Harrigan (1984) also discussed the determinant factors of bargaining power (See Chapter Two).

Entry Modes for Ownership and Control

Mascarenhas (1989) argued that "ownership may be a theoretically based, predominant approach to pursuing the international strategic space." "Understanding the relationships among ownership and domain dimensions can help to reveal the underlying logic for an organization's activities" and can help organization members evaluate the consistency of the firm's strategies with resources, interests, and the constraints underlying ownership. Entry modes are forms of ownership arrangements through which a multinational firm organizes and conducts international business transactions.

The entry modes for ownership and control issues caught the attention of many other scholars such as Fayerweather's (1981) discussion of the role of ownership, Blodgett's (1991) equity share issues, Agarwal and Ramaswami's (1992) discussion of the impact of ownership advantage. Hu (1992) explained the important implications of ownership structure from the financial perspectives of: profits for the parent companies versus foreign liability of the host countries; preference of liquid assets in home currency; local shareholders' interest and host government interference.

The Evolution of Entry Modes for Ownership and Control There has been an evolution of ownership structure and control in the international business environment. At the early stages of overseas expansion, multinational firms mainly used the strategy of direct investment and tight control of its subsidiaries. At the present stage, multinational firms have shifted their practice into more non-equity involvement strategies and cooperative alliances.

Douglas and Craig (1989) argued that the U.S. firms mainly used foreign direct investment in the 1960s and 1970s. Stopford and Wells (1972) found in their study that almost three-fourths of the initial ventures of five manufacturing investments overseas were wholly owned. From the 1980s, there is growing recognition of the alternative modes of international business operations involving negotiated arrangements between two or more firms, except for the traditional "standard operating paradigm--a globally-optimizing parent supervising a constellation of controlled or fully-owned foreign affiliates." (Editorial, MIR Special Issue, 1988). The 1988 special issue of Management International Review featured several international business scholars such as Contractor and Lorange, Buckley and Casson, Kogut, Kobrin, Harrigan, and Lyles who addressed the "new forms" of international cooperative ventures, rather than wholly owned direct investment.

The Various Entry Modes Entry modes differ from each other based on the degree of ownership. Researchers categorized entry modes in many ways, for example: Erramilli and Rao (1990) classified entry modes into nine categories (see Table 2.5). Contractor and Lorange (1988) ranked eight categories of entry modes. However, Contractor (1990), Hill et al. (1990), Kim and Kwang (1992) used three categories of entry modes (wholly owned, joint venture and non-equity involvement) in their unified theory models. They argued that there is a continuum in the entry mode choices with wholly owned subsidiary at one end, licensing or other contractual agreement at the other end, and joint venture in the middle. Generally, the wholly owned subsidiary has a relatively high level of control and resource commitments, while a licensing agreement is at the low end of control and resource commitments. Joint ventures vary in the middle with the nature of ownership split (Hill, et.al. 1990). However, Dunning and McQueen (1982) argued in the world lodging industry that "100% equity participation in a hotel may be combined with little control over lodging operation, and conversely a multinational enterprise may exert almost complete control without any equity participation".

With these characteristics of coexistence, joint efforts, interdependence of world markets, and a constantly changing world environment, multinational firms tend to apply for more cooperative agreements rather than for fully-owned foreign subsidiaries. Researchers describe the complex pattern with numerous terms: such as partnership (Crouse 1991), transnational alliances (Gugler 1992), strategic alliances (Lorange and Roos 1991), and cooperative strategies (Jarillo and Stevenson 1991). Gugler (1992) summarized the alliances into: formal and informal alliances; vertical, horizontal and conglomerate links; non equity agreements; local, national, continental or trans-oceanic alliances; etc. There are many studies about the different cooperative arrangements. Many researchers have specifically focused their studies on either joint venture or franchising, which will be discussed more in Chapter Two.

Toward a Unified Theory and Concept

There is a tendency within the studies of international business to combine theories and concepts to analyze the determinant factors of the entry mode choice. Hill et al. (1990) designed an entry-mode decision framework and made nine propositions of the entry mode choices such as licensing, joint venture, and wholly owned subsidiary. Their propositions were based on the analysis of strategic, environmental and transaction variables in conjunction with degree of control, resource commitment, and dissemination risk. Kim and Hwang (1992) revised Hill et al.'s (1990) model. They believed that the entry mode decision is dependent upon three groups of variables: global strategic variables (global concentration, synergies, and motivations), environmental variables (country risk, location unfamiliarity, demand uncertainty, and competition intensity), and transaction-specific variables (value of firm-specific know-how and tacit nature of know-how). They tested their framework with an empirical study (See Chapter Two.) Contractor (1990) combined theories of international business and designed a general contingency framework. The framework indicates that an international business modal choice is affected by two groups of variables: the independent variables and the intermediate variables. The independent variables include five groups of factors: negotiation and contractual; organizational; market characteristics; technology transfer; and general investment risk conditions. The intermediate variables are drawn from five groups of independent variables: Project revenues, costs of production, cost of administration, costs of transaction, and costs of internalization. Based on the revenues and costs presented in the intermediate variables, a certain entry mode is decided by a firm for a foreign market. Contractor's model , however, has not been tested.

SYNTHESIZING THE TWO APPROACHES OF RESEARCH

As mentioned earlier, strategic management theorists have focused more on the conceptual development of theory in the field of multinational strategic management. The theorists of the international business perspective have been more interested in applicable concepts: how to enter into a country; how to assess a partner; how to minimize cost, etc. The two approaches seem to utilize different terminology, and follow different theoretic patterns and different sources of literature. However, upon a closer review the approaches are similar and address the same problem-- how a multinational company successfully expands overseas.

Both approaches stress the importance of the assessment of the environment. The strategic management theorists more conceptually and systematically analyze the external environment (political, economic, socio-cultural, technological and ecological dimensions) (Sethi 1982), internal environment (competitor, supplier, customer, substitute) (Porter, 1980), and internal strengths and weaknesses within a firm (Pearce and Robinson, 1988). The international business theorists also analyze the environment with different terminology based upon many different and fragmented theories and concepts, as mentioned earlier. However, these theories and concepts share the commonality of analyzing the same set of external and internal variables. For example, location advantage is similar to the local partner contributions criteria of partner selection process as both look at what the target market can offer; ownership advantage can be the bargaining power; and both transaction cost and internalization focus on minimizing cost if a certain arrangement is formed. Some variables identified such as those from the expectations and needs, partner selection criteria, and bargaining power are not categorized but packed together, though some should be the variables in the external environment (government/political, economic, etc.), and some should be the variables of the internal environment (capital, knowledge, personnel, etc.). Based on the commonality of these concepts and theories, all the variables discussed in the international business perspective can be categorized in the external and internal environment constructs of the strategic management theory. Those variables that can be sorted into the external environment are: the uncertainties, risks, unfamiliarities, location advantages, needs and expectation (political; economical, technological). The variables that can be categorized into the internal environment are: ownership advantage, contributions, commitments, the costs, market demand, bargaining power, etc.

Porter (1986) and Kogut (1985a) argued that international strategies can be classified into the multi-domestic strategy (country specific strategy) or global strategy (integral strategy on a worldwide basis). Porter (1990) developed the "Nation's Diamond" model. The theme of the strategies and model is to help a multinational firm to identify its competitive advantages (firm specific advantage) and comparative advantage (country specific advantage). While Dunning's (1980) eclectic model of international business utilized the same concept, it helps a multinational firm to identify ownership advantage (competitive advantage), location advantage (comparative advantage) and internalization (competitive advantage). The strategic variables used by Kim and Hwang (1992) are from the global strategies of the theory of strategic management. Transaction cost theory intends to minimize the cost, while competitive advantage seeks maximum profit from the input transfer. Just a different side of interpretation! Table 1.1 compares the similarities of the research between strategic management and international business.

Table 1.1 Comparison of the Theories and Concepts between the Research on International Strategic Management and Studies of International Business

Strategic Management	International Business
External Environment	**Host Country Conditions**
(political, economical, socio-cultural, technological ecological)	Needs & Expectations Investment/country risks
Comparative Advantages (country specific advantage)	**Location Advantages**
Internal Environment (competitor, customer, supplier, substitution) Competitive Advantages (firm specific advantages)	**Ownership Advantages** Bargaining Power/* Contribution/Commitment/ Partner Selection
Maximizing Profit	Minimizing Cost /Internalization
Generic Int'l Strategies Multi-domestic vs. Global	**Global Strategic Variables** National Difference vs. Global Concentration, Scale Economies
Coordination & integration	Synergies & Motivations

* "/" as an indication of overlapping and repetition in the theories and concepts.

There are also differences in the two approaches in research topics: the research in multinational strategic management focuses more on the generic international strategies such as standardization of products (Levitt 1983), adaption of local and regional conditions (Douglas and Wind 1987), flexibility (Kogut 1985b), and global versus multidomestic strategies (Porter 1986). While the international business theorists focus more on the various alternative choices of entry modes (Contractor 1990). However, Hill et al. (1990) and Kim & Hwang (1992) argued that there is a relationship between the generic international strategies and entry modes, because the generic international strategies should guide the specific expansion strategy and thus the entry modes.

Researchers such as Contractor (1990), Hill et al. (1990), and Kim and Hwang (1992) tried to use unified theories to analyze the relationship between determinant factors and the entry mode choices; however, their research interest is in the manufacturing sector. The variables such as the global strategic variables of Kim and Hwang (1992), may not explain the unique characteristics of the world lodging industry, because as has been suggested, the service industry depends more on a multi-domestic strategy (Porter 1991). The technology transfer factors of Contractor (1990) may not be a key variable for the lodging industry since the lodging industry is regarded as a "low tech" industry.

Strauss and Corbin (1990) discussed the grounded theory approach and argued that "One does not begin with a theory, then prove it. Rather, one begins with an area of study and what is relevant to that area is allowed to emerge." This research focuses on the relationships among the external and internal environment, generic international strategies, and the entry mode choices. All the above mentioned theories and concepts are relevant to the proposed relationships, so they should be systematically merged into a new theoretical framework in order to identify the key variables which may affect the entry mode choices in the multinational lodging industry. Thus, it would not be appropriate to use the argumentative models based on their fragmented theories and concepts; it would not be right to simply use one of the frameworks of the unified theories without considering the unique features of the lodging industry; it would be dangerous to handily pick some identified variables and simply combine them to form a new framework. Moreover, as the research of antecedent factors and entry mode choices of multinational lodging firms is at the beginning stage, it would be better to apply a broad and more systematic approach to fully explore the antecedent factors. Because of all these considerations, a basic framework is therefore going to be suggested which is a combination of the theories and concepts of strategic management and international business. In order to systematically analyze the antecedent factors but not to narrow them into isolated theory boxes, the proposed independent variables will be broadly grouped into the external and internal environments (the variables used in the above mentioned studies fall into these two categories of the environments), and generic international strategies (which was used by Kim and Hwang 1992). Based upon the review of literature regarding the various entry modes, there is sufficient support to suggest using three categories: wholly owned subsidiary, joint venture, and non-equity contractual agreement. These may be considered to be the non-equivalent dependent variables (the three categories used by Contractor 1990, Hill et al. 1990, and Kim and Hwang 1992 in their unified theory models). With the proposed framework, this research uses the case method to investigate five major multinational lodging companies in order to identify the antecedent factors in the external and internal environments, and generic international strategies, which may influence the entry mode decisions of the lodging companies. The research also analyzes to what extent the combination of the factors will help a firm to decide to choose one entry mode over another. Figure 1.2 is the basic proposed framework which illustrates the antecedent factors that may affect the entry mode choices of multinational lodging firms, and which combine the theories and concepts of both the strategic management and international business perspectives.

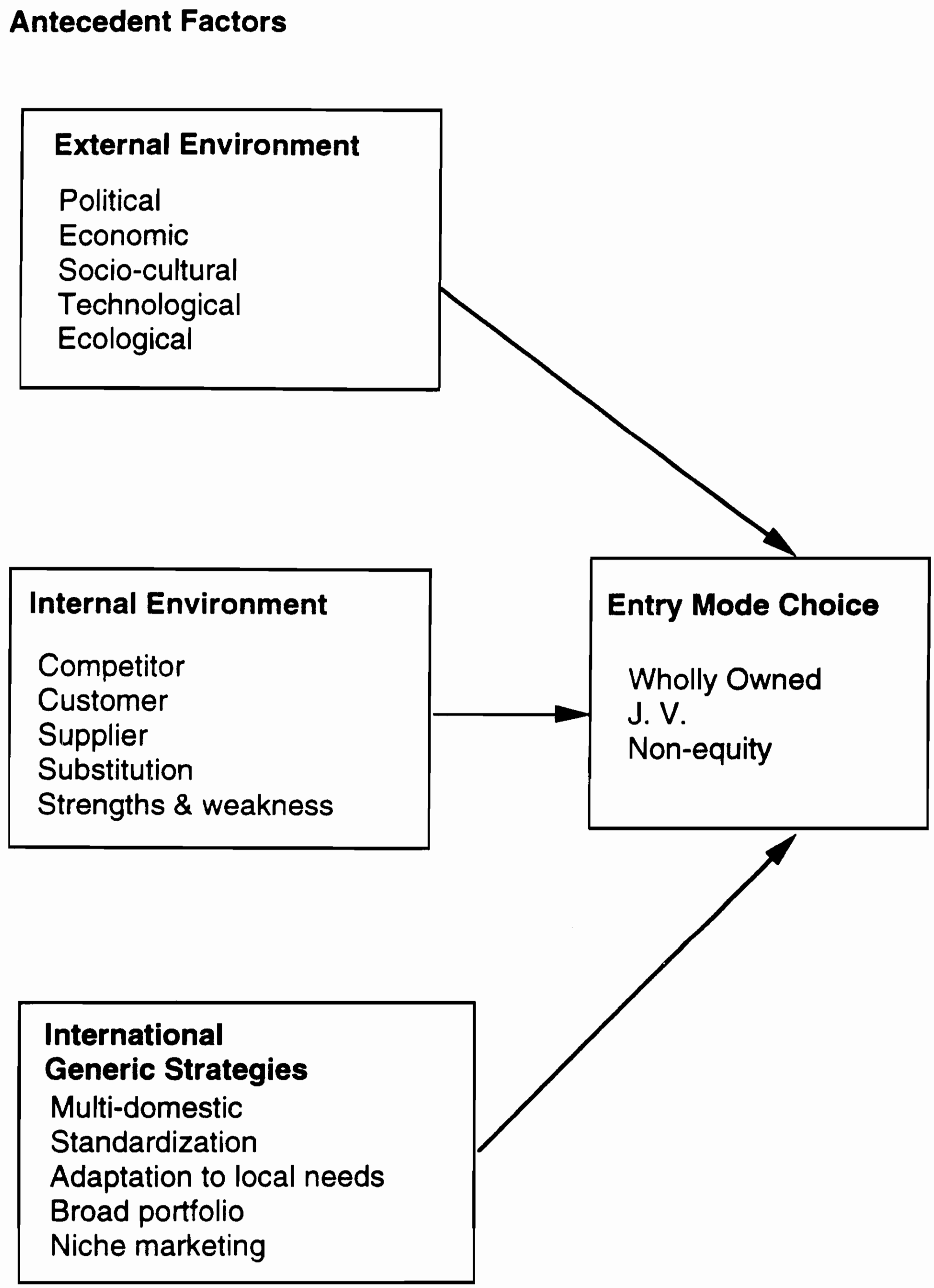

Figure: 1.2 Basic Framework of Antecedent Factors Affecting Entry Mode

THE GLOBALIZATION OF TOURISM AND LODGING INDUSTRY

Tourism

The rapid growth of the world tourism industry is due to the development of modern transportation and communication systems and the comparative stability of the world community. According to Edgell (1990), "international tourism has the potential to be one of the most important stimulants for global improvement in the social, cultural, economic, political, and ecological dimensions of future lifestyles". Within the four years between 1986 to 1990, world tourism receipts nearly doubled from $139.9 billion to $256.1 billion. (ANON, Choice Lodging International Study, 1992). World tourism is expected to generate $3.47 trillion gross output by 1993 and create 127 million jobs (The WTTC Report, 1993). Total worldwide travel expenditures represent almost 10% of the world gross national product and is among the three largest items in international trade (Edgell, 1990). It will become the world's largest industry by the year of 2000. International tourism makes great contributions to worldwide employment. It is the second largest industry in employment and plays a very important economic role, especially during a time of recession and high unemployment.

Lodging Industry

The increasing international travel and high demand for lodging facilities and services in areas such as Asia/Pacific, the Caribbean and Eastern Europe have stimulated the rapid growth of the world lodging industry.

Traditionally, the lodging industry was a domestic family business. However, since the 1920s and 1930s, lodging companies such as: Statler (1920), Hilton (1929), Sheraton (1937), and Choice International (1939) began to emerge as major hospitality firms in North America. The earliest international expansion was probably when Sheraton started its first foreign operation in Canada in 1949. Since then the world's larger lodging companies have gradually looked for international markets. Some of the lodging companies became multinational lodging chains. Between 1986 and 1991, because of the free flow of world capital, the weakness of the dollar, deregulation of political barriers, and the imbalance of supply and demand in the lodging markets of some of the developed countries, the lodging industry experienced worldwide mergers and acquisitions led by Japanese, British, Hong Kong and French companies. Some examples are: SHRM Sa's (France) acquisition of GSI Service for $1.1 million in 1986, Ladbroke PLC's acquisition of Hilton International for $1.07 billion in 1987, Aoki Corp.'s acquisition of Westin for $540 million in 1987, JMB Realty's acquisition of AMFAC Lodgings for $920 million in 1988, Seibu/Saison's acquisition of Inter-Continental for $2.2 billion in 1988, New World Development's acquisition of Ramada for $540 million in 1989 (Burritt, 1991), Bass's (U.K.) acquisition of Holiday Inn in 1989 for $1.25 Billion, and Accor's acquisition of Motel 6 for 1.3 $billion in 1991 (H&MM, 1991). The Japanese investment in U.S. real estate (with a big share in the lodging industry) was surging in the late 1980s. In 1985, Japanese investors invested $1.86 billion. The total Japanese investment jumped to approximately $7.53 billion in 1986, increased to $12.77 billion in 1987, and peaked in 1988 at $16.54 billion. However, it then dropped to $14.77 billion in 1989 and $13.06 billion in 1990 due to the world economic recession and new investment regulations of the Japanese government (Burritt, 1991).

According to the report of Hotels (Baum, 1992), half of the world's largest 200 corporate lodging chains have overseas operations with a total of 18,920 lodgings and motels with 2,842,169 rooms. Several of the biggest transnational chains have hotels and motels in many countries such as: (1) Accor/Pullman, France, in 74 countries, (2) Sheraton, USA, in 61 countries, (3) Hyatt, U.S., 54, (4) Holiday Inn, U.K., 52, and (5) Hilton International, U.K., 47, (Martin, 1992).

U.S. multinational lodging chains such as Best Western, Choice Hotels International, and Radisson have very aggressive overseas expansion plans: By the year 2000, Best Western plans to operate more than 5,000 independently owned hotels and inns with 450,000 rooms in at least 60 countries (Gillette, 1990); Choice Hotels International plans to shift its focus completely to the global markets and acquire 80% of the franchisees from overseas with a goal of 10,000 hotels and motels with one million rooms throughout the world (Harzard, 1989); Radisson reveals its plan to grow by one new hotel every five days (Blalock, 1990); La Quinta, the previous solely domestic U.S. chain, now has begun to look for opportunities in Mexico (Baum, Hotels 1992). Table 1.2 displays the major U.S. lodging chains in terms of their foreign units and rooms.

Table 1.2 Number of Foreign Properties of Major U.S. Lodging Chains

CHAIN	ROOMS	Properties
Best Western	107,738	1,546
Holiday Inn*	56,421	251
ITT Sheraton	45,746	134
Forte Lodgings	40,190	363
Choice International	39,670	430
Ramada Lodging	22,219	84
Hyatt Lodging	21,242	60
Carlson Hospitality	19,985	83
Westin Lodging	15,047	41
Marriott	13,459	43
Hospitality Franchise	10,087	87

Source: Lodging Hospitality (1993), * # estimated

Entry Modes for Ownership and Control in the World Lodging Industry

Before lodging chains enter the overseas markets, ownership and control of the chains have already been complex issues in the domestic economy. Lodging chains can be divided into many types of ownership structures such as state ownership, publicly traded ownership, and privately held ownership. There has been a heated debate over which kind of ownership structure performs better, public or private. In many countries, governments such as the former Eastern Bloc countries have begun to privatize the government owned properties. On the other hand, many governments, other than socialist countries, also own lodging companies. Among the top 200 of the world's largest lodging chains, the National Park Service of the U.S. Department of Interior has 165 hotels with 10,210 rooms (Baum, Hotels, 1992); the Spanish Tourism Administration, India Tourism Development Corp., an agency of India's government , EnturPeru, a company under Empresa Nacional Tursmo, Lima, Libyan government, and Tanzania Tourist Corp. all own hotels. Lodging companies also can be affiliations of large diversified companies such as Holiday Inn (Bass PLC Brewing), Choice Hotels International (Manor Health Care), Sheraton (ITT), Westin (Aoki Construction). Some chains are affiliations with airline companies such as Meridien Hotels (Air France), Nikko Hotels (JAL), SAS International Hotels (SAS), Tropical Hotels (Varig Brazilian Airline), etc. (Baum, Hotels, 1992).

In their overseas expansion efforts, multinational lodging firms have applied three types of entry modes. First, there is the non-equity involvement strategy, such as franchising, management contracts and consortia. Second, there is the partial equity involvement strategy, such as joint ventures. Third, there is the total equity involvement strategy, where firms own their foreign subsidiaries (Tse and Olsen 1990, Olsen, Craford-Welch and Tse 1990). Slattery and Roper (1986) categorized the expansion of U.K. lodging groups into nine methods along a continuum. They are owner/operator, leasehold operation, management contractor, franchisor, multiple franchisee, cooperative, marketing and purchasing consortium, marketing consortium and personnel training consortium. Japanese, British, Hong Kong and other Pacific investors have applied equity involvement strategies in order to gain world lodging market share. They merged and acquired many large lodging chains in the last ten years or so. Their involvements have been mostly in the North American and European regions (as mentioned above). North American lodging chains have been using advanced technology (worldwide reservation system etc.) and management know-how as their expansion tools. Their operating strategies have been the non-equity involvement modes, such as management contract, franchising, and consortia. Although some have been joint venture involvements, these are because of the requirements of the host governments. On the whole, non-equity forms of involvement particularly characterize the world lodging industry (Dunning and McQueen, 1982).

The entry mode choices by multinational lodging firms can be complicated by several factors: the needs and expectations of the host countries, the environmental conditions of the host countries, the strategic objectives of the multinational firms, and the competitive strengths of the firms. Under these conditions, multinational lodging companies have to change their entry mode choice accordingly. Sometimes they have to change their entry modes from what they use in their domestic operations in order to enter into various negotiated cooperative agreements with host countries. For example, though Choice Hotels International uses franchising, the non-equity involvement operating strategy at home, it will have to have 10% ownership of the properties in Hong Kong, Malaysia, and Singapore. Sheraton believes in expansion through management contract but it will have to have some equity in properties and acquire strong local partners for its development. Promus Company bought a minority interest in KYZ, a Hong Kong company, in order to develop its Embassy Suite and Hampton Inn brands in the Asia/Pacific area (Koss, 1992).

Olsen, Crawford-Welch and Tse (1990) identified the trend that American multinational lodging firms tend to use the non-equity involvement method and "asset liquidation" in their world expansion. Multinational lodging firms have preached the wisdom of management contract and franchising as methods of leveraging their expertise. Multinational lodging companies based in many other countries tend to apply the strategies of mergers and acquisitions of lodging assets and establish their foreign subsidiaries as discussed earlier.

Based on the brief review of the world lodging industry, one can see the great diversity in the industry. In order to be successful in world competition, multinational lodging firms must understand the rules played by the host countries. They need to carefully scan the environmental conditions in terms of political, economic, socio-cultural and technological factors, carefully analyzing their competitive advantages and the comparative advantages of the host country when they formulate entry mode choices.

Despite the growing number of units and rooms of foreign properties and large transactions of multinational lodging firms reported in the trade journals along with few conceptual analyses of the global lodging industry, little can be found in the literature about what the key factors are in the environment and what generic international strategies are that may influence the decisions of the entry mode choice into a host country/countries by multinational lodging firms. There is certainly a need to explore the key factors so that organizations can better analyze the choice decisions made by multinational lodging firms.

RESEARCH PURPOSE

Using the framework proposed in Figure 1.2 as applied to the context of the global lodging industry, the purpose of this exploratory study is:

1. to identify the antecedent factors that affect entry mode choices of multinational lodging firms in terms of the external environment of the host country, such as political, economic, socio-cultural, technological and ecological factors,
2. to identify the antecedent factors that affect the entry mode choices in the internal environment of multinational lodging firms in terms of competitors, customers,

suppliers, substitutions, strengths/weaknesses, and other competitive advantage,

3. to assess how generic international strategies of multinational lodging firms affect its choice of entry modes of overseas expansion,

4. to better understand to what degree the "match" between the external and internal environments may affect the entry mode choices applied by multinational lodging firms such as wholly owned subsidiaries, joint ventures, and non-equity involvement methods (franchising, management contract, consortia).

THE RESEARCH QUESTIONS

1. The External Environment

   * What are the important external environmental factors of the host country/countries that influence the choice of entry decisions: stability, government intervention, tourism development, supply and demand factors, investment risk, cultural difference, technological issues, and needs and expectations?

   * How are these factors related to the entry mode choices?

2. The Internal Environment

   * What are the important factors in the internal environment: competitors, customers, suppliers, substitutions, strengths and weaknesses such as financial assets and intangible assets, partner's

contribution, low cost, or other competitive advantages of the firm in the industry structure?

* How are these factors related to the entry mode choices?

3. International Generic strategies

* What are the international strategies of the company, such as standardization of the product, adaptation to local conditions, broad portfolio, national niche, and multi-domestic focus?
* What are the global strategic motivations of the company?
* How is the chosen strategy related to the entry mode choices?

4. The Entry Modes

* What are the choices of entry modes that the company is using for international expansion?
* To what degree does a "match" between the internal environment of a multinational lodging firm and the external environment of the prospective country determine whether the multinational lodging firm will choose one entry mode over others?

PLAN OF THE RESEARCH

This study used the case study method, which includes:

1. Selection of five large multinational lodging firms which represent the

publicly-traded corporations in terms of ownership structure and control, and regional coverage and size. These firms constituted the primary unit of analysis.

2. A thorough investigation of the five multinational lodging firms was conducted by individually interviewing the CEO and/or development officers with a semi-structured questionnaire to gain insights into the company's antecedent factors and entry modes.

3. A deeper archival and documentation study and secondary source study to complement the initial interviews.

4. A systematic analysis of the collected data of the company.

5. Cross-company comparison and analysis of the five companies' expansion strategy in terms of the antecedent factors and entry modes.

6. Proposition development.

7. Based on the study and analysis, formulation of a framework with key factors that influence multinational lodging firms' choice of the best entry modes for global expansion.

CONTRIBUTIONS OF THE RESEARCH

1. This study is the first attempt to explore the antecedent factors that influence the entry mode choices of multinational lodging firms. Such a

study fills the gap between academic research and industry practice in the world lodging industry. Such a study also contributes to the literature of international strategic management in the hospitality field.

2. The study provides in-depth information about what information the five multinational companies look for, and what international strategies and entry modes are commonly used by the five companies.

3. The study provides sixteen propositions about the relationships among the external and internal environments and entry mode choices for future research.

4. The study creates an analytical framework with the key antecedent factors in external and internal environments and entry mode choices which help a multinational lodging firm

    1. to analyze the conditions of a host country and the industrial conditions the firm is in.

    2. to make the better choice of entry modes (such as non-equity contractual agreement, joint venture, or wholly-owned subsidiary) for each of its foreign facilities.

5. The study explores the possibility of synthesizing the international strategic management theory and international business perspective.

LIMITATIONS OF THE RESEARCH

This study may share the several limitations identified by Yin (1989), Eisenhardt (1989) and Schmelzer (1992) regarding this type of qualitative studies:

1. One of the major limitations of the study is a concern about the generalizability of the findings. Like any other qualitative study, "sample logic" is not applicable. Though the author attempts to select the best representative cases from among the multinational lodging companies, the study can not cover all the unique features in the world lodging industry. Generalization can be obtained through future "replication logic" (Schmelzer 1992).

2. Another problem is that such a study might introduce bias, when only one researcher is collecting and synthesizing the data.

3. Still another problem is how well one can manage the large amount of data and properly interpret it. The researcher invited another researcher to participate in the data collecting process to soften the problem.

SUMMARY

This chapter discusses the urgent need of identifying the antecedent factors that influence the entry mode choices of multinational lodging firms. Based on the briefings of the underpinning theory and concepts, a basic research framework is designed, which includes the proposed independent variables - antecedent factors: the external and internal environments, generic international strategies, and non-equivalent dependent variables: the entry mode choices as wholly owned, joint venture, and non-equity contractual agreements (management contract, franchising, membership consortia and other contractual agreements). The research proposes to identify the key antecedent variables that affect the entry mode choices. The chapter also lists research questions, discusses the research method, contributions, and possible limitations.

CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION

This chapter reviews the literature of the environment, and generic international strategies, as well as theories and concepts of international business perspectives. Reviewing the literature helps us understand the importance of identifying the key factors that influence the entry mode choices applied by the multinational lodging firms for their global expansion. Previous research has taken two approaches: one is international strategic management theories and concepts, while the other focuses closely on the practice of international business. Although the two approaches may address the same phenomenon, the terminology, theories and concepts used are different. The literature review first focuses on the related research in international strategic management and then the research of international business. The review is divided into the evolution of globalization, international environment, generic international strategies, theories and concepts in the research of international business, the entry mode choices, and studies in the international hospitality industry.

THE EVOLUTION OF GLOBALIZATION

Businesses today are competing in a world economy for survival, growth and profitability. The globalization of service industries has accelerated under the pressures of technological advances-communication, transportation and travel (Levitt, 1983), widespread deregulation, and growing competition (Enderwick, 1990), as well as the increasing demand of global products by global citizens (Ohmae, 1989).

Porter (1986), Douglas and Craig (1989), and Kogut (1989) described the evolution of globalization. Douglas and Craig (1989) considered the evolution to have three key phases: 1.) initial entry of foreign market, 2.) expansion of national markets, 3.) globalization.

Research has reflected the changes of the phases: 1. The predominant focus in the 1960s and 1970s was direct investment, which involves location, control, and commitment (Stopford and Wells, 1972, Dymsza, 1972) when there was the emergence of many multinational companies. 2. The research focus in the early 1980s was competition in multiple markets (Hout, Porter and Rudden, 1982) and the argument of alternative operating methods (such as licensing) besides direct investment for international expansion (Contractor 1981). 3. The current theory focuses on global coordination, integration, and networking. Porter (1986) argued that the basis of the international strategy should be international coordination, value chain and configuration of international activities. Ghoshal and Bartlett (1990) stressed the need to build an interorganizational network to integrate the activities of a multinational corporation.

THE INTERNATIONAL ENVIRONMENT

Every organization exists in its environment. The environment in the international context is increasingly more complex, uncertain, and rapidly changing (Preble, et al, 1989, Pearce and Robinson, 1988) due to the instability of world political conditions, various government rules and regulations, different levels and systems of economies, various cultural differences, effects of technological changes, and increasing global competition. The environment creates both opportunities and threats/risks to an international company. In order to seize the opportunities and recognize threats and risks, a firm must analyze the environmental conditions. Moreover, a firm must assess carefully its strengths and weaknesses in order to maintain its competitive advantage and correct its weaknesses, and employ its capacities effectively within the operating environment. Sethi (1982) and Godiwalla (1986) regard environment analysis as one of the important parts in their multinational strategic planning models.

The External Environment

Based on the organizational theory approach, researchers mainly divide the environment into external and internal categories and analyze the environment by using various factors (Dill, 1958, Bourgeois 1980). Fayerweather (1981), Sethi (1982) and Pearce and Robinson (1988) indicated that, because multinational companies face multiple political, legal, economic, socio-cultural, and technological environments, they have to change or adapt to the local environment. Levitt (1983) especially stressed technology as a driving force for the world's "coveraging commonality".

Preble, Rau and Reichel (1989) did a descriptive analysis on the major types of environmental factors: legal, economic, political, competitive, technological and cultural as well as risks (balance of payment, inflation and political stability). They argued that U.S. based multinational firms must adjust to the rapidly changing environment. Fatehi-Sedeh and Safizadeh (1989) indicated that multinational companies consider the sociopolitical stability of the host country as one of the most important considerations in allocating funds to foreign projects.

The political stability of a host country is one of the most important considerations of a multinational company, as the political instability of the country may cause the multinational loss of ownership or control of its assets. The political risks may arise from both governments or political forces. Yapark and Sheldon (1984) closely looked at political risk and introduced a methodology for integrating political risk management into the corporate planning function of multinational firms. Howard and Hashmi (1991) predicted that both specific political risks and the risk associated with certain geographic areas are expected to increase in the future. Kennedy (1984) offered a portfolio planning model for political risk management, while Rummel and Heenan (1978) suggested an integrated approach by which a CEO could sort out political risks. Fatehi-Sedeh and Safizadeh (1989) analyzed the relationship between political instability and the flow of foreign direct investment.

Political risks arise from governmental and public forces. It is very important to understand the host government's policies and regulations before a multinational company enters into a country. Stoever (1985) identified nine common policy tools utilized by Lower Developing Countries (LDC): "pre-investment screening; incentives (tax holidays, import privileges, and tariff exemptions); subsidies (assistance in construction or training, low-interest loans); host government guarantees (investment insurance, currency convertibility, repatriation of dividends and capital); tariff protection and/or local monopolies; promotions; regulations, license requirements, laws to achieve various objectives; special licenses, permits, privileges for the investors. Multinational firms should carefully look into these issues before entering into a country; otherwise they face threat or risk in their future operation there. Blodgett (1991) argued that while the host investment regulation is one of the important environmental factors, it is primarily treated as a constraint.

However, it seems that some of the world's governments are tending to soften their foreign investment policies and reduce the barriers toward foreign direct investment (Globerman 1988). Weigel (1988) discussed the change of government policy in China, which has implemented over 60 pieces of legislation dealing solely with foreign direct investment since 1979, and 200 laws and regulations partially dealing with direct investment. It allowed 100% foreign ownership soon after the open door policy of 1979. Contractor (1990) studied ownership patterns in the 1980s and indicates governments in general have relaxed restrictions for the level of equity participation of foreign investors. The 50-50 equity joint ventures have increased.

Goodnow and Hansz (1972) clustered 100 selected countries into "Hot", "Moderate", and "Cold" countries on the basis of 59 characteristics. They classified the 59 characteristics into seven categories: political stability; market opportunity; economic development and performance; cultural unity; legal barriers; physiographic barriers and geocultural distance. Ehrman and Hamburg (1986) used 30 variables of political, commercial and monetary/financial factors for the assessment of a country in order to make direct investment decisions.

In summary, the external environment of the host countries affects the investment decisions of multinational firms. Political stability/risk, government policies toward the foreign investment and entries, and economic and financial matters are the major concerns of the multinational firms, and also the research interests of scholars.

The Internal Environment

Dill (1958) defined the internal environment as "task" or specific environment. Porter (1980) classified the internal environment into five competitive forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitutes and competitors. The five competitive forces collectively determine industry profitability (Glaister, 1991). To achieve competitive success, firms must understand the five competitive forces in the industrial structure.

Porter (1990) reiterated his earlier five-force model and created a new model-the "Nation's Diamond" model to help multinational companies analyze the internal or operating environment. He argued that the creation of competitive advantage is based on four attributes of a nation that shape the environment which are:

1. Factor conditions: The nation's position in factors of production, such as skilled labor and infrastructure, necessary to compete in a given industry.
2. Demand conditions: The nature of demand in a nation for the industry product or service.
3. Related and supporting industries: The presence of related industries that are internationally competitive.
4. Firm strategies, structure and rivalries: The conditions in the nation governing how companies are created, organized and managed, and the nature of domestic rivalry.

Besides the four attributes, there are two other factors involved in the "diamond" model: government and chances; the political and legal conditions and the opportunities of doing business respectively. Porter (1991) argued that "the origin of competitive advantage may be the proximate (the factors of input) or local environment in which a firm is based". A multinational company needs to compare and analyze the firm's own competitive advantages and the features of comparative national advantages so that it can promote international success in a global industry.

Multinational companies should also analyze the strengths and weaknesses of their functional areas such as: administration, finance, marketing, human resources, research and design, and operation (VA Tech trends Database 1991). Frayerweather (1981) and Pearce and Robinson (1988) suggested the analysis of the capabilities of a firm in terms of its resources, technology, marketing skills, capital, labor, and raw materials. Yip (1989) looked at marketing factors, cost factors, environmental factors, and competitive factors in his study of multinational companies. Ohmae (1989) saw globalization from the customer's perspective that customers' needs have globalized, so the companies must globalize to meet the customers' needs.

Hall (1992) reported his national survey study of CEOs in the U.K. and ranked the importance of intangible resources as competitive advantages for success of a business. Ninety-five respondents from five industries ranked thirteen intangible resources from the most important to the least important as follows: company reputation, product reputation, employee know-how, culture, networks, specialist physical resources, data bases, supplier know-how, distributor know-how, public knowledge, contracts, intellectual property rights and trade secrets. He developed a framework to analyze the intangible resources. In the framework, he categorized the thirteen intangible sources as legal context assets (contracts, licenses, etc), non-legal context assets (reputation, network, etc); and competencies (know-how) (organizational culture) (please see Figure 2.1).

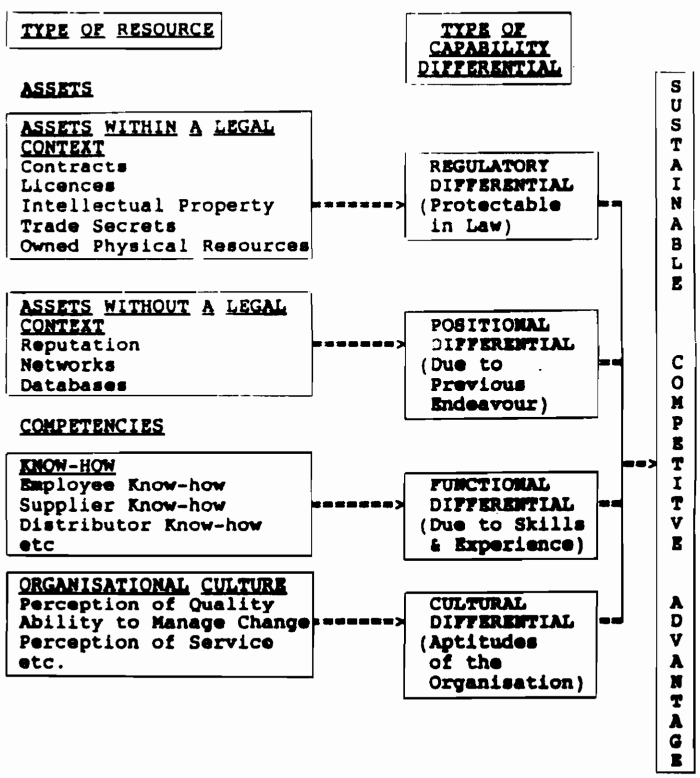

Figure 2.1 Intangible resources, capability differentials and sustainable competitive advantage

Adapted from Hall (1992)

To sum up, in order to be successful and profitable a multinational firm must analyze its competitive advantages (all its asset-resources, skills, technology, etc.), understand its customers, suppliers, competitors and substitutions, and analyze its internal functional areas and tangible and intangible assets.

International Environmental Scanning

Aguilar (1967), the pioneer of the study of environmental scanning, defined the activity as "the process that seeks information about the events and relationships in a company's outside environment; the knowledge which would assist top management in its task of charting the company's future course of action." Thus, environmental scanning is a systematic method to analyze the external and internal environments, and identify the major trends that influence the strategic decisions of a multinational firm.

As there is a myriad of influences in the external and internal international environment that greatly affect multinational organizations, a careful and systematic assessment and evaluation of the international environment is vital to the success of a multinational company. Several researchers have studied the environmental scanning practice of multinational companies. Keegan (1974) studied the sources of information obtained by multinational companies for their scanning activities. He identified three kinds of sources: human and documentary sources inside and outside the organization as well as physical phenomena (objectives, events and circumstances) outside the organization. He found executives of multinational companies did little environmental scanning. O'Connell and Zimmerman (1979) and Preble et al. (1989) studied the relative impact from environmental domains on strategic decisions. Both closely analyzed the domains such as political, socio-cultural, economic, and technological, while the former also look at ecological, and the latter examined the legal and competitive sectors as well. They urged companies to have a dependable environmental scanning unit to monitor the ever-changing environment. Kobrin et al. (1980) found that the assessment and evaluation of the non-economic environment is becoming a new managerial function in relatively large international firms. They identified the most important aspects of the overseas environment as political stability, foreign investment climate, profit remittances and exchange controls, taxation, expropriation, political party attitudes toward foreign investment, labor strike and unrest, administrative procedures, public sector industrial activities, and public image of the firm. Kennedy (1984) addressed the important relationship between external environmental analysis and strategic corporate planning. International companies should integrate the forecasts of environmental trends into the strategic planning process. Ghoshal (1988) studied six Korean companies' environmental scanning activities. He found that while the activities of U.S. firms are diverse, the activities of the Korean companies are very similar.

Although environmental scanning is vital to the strategic planning of multinational companies, not many multinational companies have established formal systematic scanning units to monitor the ever-changing international environment. Preble et al. (1989) did a descriptive survey analysis of the international environmental assessment of 450 U.S. multinational firms. They found only 5% of the firms have an environmental scanning unit tied to the planning process. They questioned whether different entry modes might have different criteria and levels of need of environmental scanning. They suggested a future study on the requirements of the assessment of the environment of different entry strategies.

In summary, the success of a multinational is contingent on its ability to establish and develop procedures and practices based on understanding the challenging and uncertain host country environment. Any strategic decision made by an organization is affected by its external and internal environment, and when a firm enters into an international market, the environment will be more dynamic and complex. It will be difficult to monitor, analyze, and adapt to the changing environment. However, it is arguable that all the dimensions of the external and internal environments carry equal influence and affect all decision making. Different entry modes may require a different level and criteria of assessment of the environment. There must be some key factors that carry more weight than others. It is very important to identify the key factors that influence the choice decisions made by multinational firms so that we can further analyze the effectiveness of the decision process. Table 2.1 summarizes the major research in the international environment and environmental scanning.

Table 2.1 Major Research in the International Environment and Environment Scanning

Research Focus	Authors
External environment: Political stability/legal Market opportunity Economic development Culture/geocultural Physiographic Country classification	Goodnow & Hansz (1972) Sethi (1982), Godiwalla (1986), Ehrman & Hamburg (1986)
Source of information (inside/outside, human/document)	Keegan (1974)
Political risks/uncertainty	Rummel & Heenan (1978) Fatehi-Sedeh & Safizadeh (1989), Howard & Hashmi (1991)
Five external environments	O'Connell & Zimmerman (1980)
Scanning unit, information source and important factors	Kobrin et al.(1980) Kennedy (1984), Preble et al. (1989)
Organizational environment and the pressures on MNCs	Roseenzweiz & Singh (1991)

GENERIC INTERNATIONAL STRATEGIES

Researchers defined strategy as a long-term plan or mechanism to match an organization's goals, objectives, decisions, and resources with its environment (Andrews 1965, Pearce and Robinson 1988). While there are no fundamental differences in the strategic formulation process between domestic and international companies (Fayerweather 1981, Tse and Olsen 1990), the context of the international environment can be very different with regard to complexity and dynamism, compared to the domestic environment (Dymsza 1972, Leontiades 1986, Pearce and Robinson 1988). Through the strategic formulation process, a company will search for generic competitive strategies which can help the company to create a defendable position and win the competition in an industry (Porter, 1980).

Sullivan and Bauerschmidt (1991) stated that in the last ten years or so "international strategy has been researched from a variety of angles with a variety of methods." Researchers suggested quite a few generic international strategies. Fayerweather (1981) defined four winning international strategies: dynamic high technology model, low or stable technology model, advanced management skill model, and unified logistic labor transmission model. In the advanced management model, he argued that the international corporation should have high competence in marketing or other management fields, and continuing integrated operations with competitively effective management skills.

Levitt (1983) argued that standardization of products could be a successful strategy for multinational firms. His argument was based on the three key assumptions summarized by Douglas and Wind (1987):

1. Customer needs and interests are becoming increasingly homogeneous worldwide.
2. People around the world are willing to sacrifice preferences in product features, functions, designs, and the like for lower prices and higher quality.
3. Substantial economies of scale in production and marketing can be achieved through supplying global markets.

Levitt's (1983) study received many challenges. Douglas and Wind (1987) argued that "global standardization" is only one of a broad range of strategic options. It can be applied only in certain product markets or market segments under certain environmental conditions, and is dependent upon company objectives and structure. Multinational companies should have a global adaptation perspective and consider various options of international strategies. Hamel and Prahalad (1985) recommended a broad production portfolio and development of a strong worldwide distribution system instead of single production standardization.

Kogut (1985b) argued that operational flexibility should be a guideline for designing global strategies. He described flexibility as arbitrage of market imperfection and leverage, which can be obtained by "decreasing the firm's dependence on assets already in place." Kogut (1985a) believed that global strategies should "rest on the interplay of competitive advantage of the firms and the comparative advantage of countries." Competitive advantage means the firm has more success in transforming the inputs into goods and services at maximum profit than its competitors. Comparative advantage is that a firm may pay less of the costs of the input in some countries compared to other countries.

Leontiades (1986) created four generic strategies based on the market share objectives and the scope of the business. They are global high share, global niche, national high share, and niche strategies. Global high share strategy serves the needs of the global industry giants with high volume segments of global market; global niche is the strategy of the global specialization for small companies. High national share strategy is obtained through the nationally based competitive advantage; national niche is gained by the advantage of specialization on a national scale.

The most recent research turns to the study of improving efficiency and establishing mechanisms to coordinate and integrate strategies across national markets. Porter (1986) expressed the changing patterns of international competition. He compared multidomestic and global competition and thought there is a tendency for multinational firms to shift their multinational strategies into global strategies. He defined the multidomestic strategies as country centered strategies. A firm practicing multidomestic strategies will pursue separate strategies in each of its foreign markets. Each overseas subsidiary is strategically independent with autonomous operations and competes independently in different domestic markets. The company enjoys a competitive advantage from a one time transfer of knowledge from its home base to foreign countries. The headquarters of the multidomestic company will coordinate financial and marketing (including brand name) policy, but decentralize business strategy and operation.

In terms of global strategies, he pointed out that a firm using global strategies will see its competitive position in one country as significantly influenced by its position in other countries; a firm must integrate its activities on a worldwide basis to capture the linkage among countries; the strategy is centralized; but operations may be centralized or decentralized depending on economics and effectiveness. He further discussed the two key dimensions of a firm's worldwide competitive activities: configuration and coordination.

Based on the theory of multinational and global strategies, Yip (1989) gave a detailed framework for evaluating whether and how to globalize a firm's corporate strategy, and exploit globalization drivers and strategy levers, and discussed relative merits of global and multinational strategies in various situations. He believed more than one strategy can be viable. He also examined the drawbacks of global strategy: earlier and greater commitment to a market, dissatisfaction from the customer due to product standardization, low responsiveness from the customer due to activity concentration, ineffective uniform marketing and possible loss of revenue, profit or competitive position due to integrated competitive moves.

Based on the review of international strategies, multinational lodging chains may have applied many of the strategies, such as advanced management skill (there are many management agreements between multinational lodging firms and host countries), standardization (lodging products), adaption to the local environment (hotel external design with local features), broad portfolio (many brand names within one firm), comparative and competitive advantages, national niche (heavy involvement in the countries with faster lodging development) and multidomestic strategies. However, it is not clear how these strategies are related to the entry mode choices of the multinational lodging firms, which needs exploring. Table 2.2 summarizes the major studies of international strategic management.

Table 2.2 Major Works of Generic International Strategies

Authors (Year)	Major Contribution
Fayerwear (1981)	Four strategies: Dynamic high-tech, Low-or stable tech, Advanced management skill, and Unified-logistic transmission models
Levitt (1983)	The strategy of standardization of product and brand to response the globalization of market
Hamel & Prahalad (1985)	A broad production portfolio and development of a strong worldwide distribution system
Kogut (1985a)	Global strategies: comparative (location-specific, low cost basis) and competitive (firm-specific) value-added chains
Kogut (1985b)	Global strategies through operational flexibility
Porter (1986)	International strategy based on the coordination, value chain and configuration of activities
Leontiades (1986)	Global high share and niche strategies versus national high share and niche strategies
Yip (1989)	Global strategy levers (dimensions): market participation, product offering, location of value-added activities, marketing approach, and competitive moves
Ghoshal & Bartlett (1990)	Conceptualization of a multinational corporation as an interorganizational network
Porter (1990)	National competitive advantages--diamond shaped chart: company strategy, structure and rivalry, factor conditions, demand conditions and related and supporting industries

THE THEORIES AND CONCEPTS OF INTERNATIONAL BUSINESS

To understand the conditions of international business involvement or the environment, researchers of international business utilized various different theories and concepts such as transaction cost, eclectic theory, needs and expectations, partner selection, bargaining power and unified theory. The following section reviews each of the theories and concepts.

Transaction Cost Theory

Jones and Hill (1988) and Jarillo and Stevenson (1991) defined transaction costs as the costs of negotiating, monitoring and enforcing contracts with external partners as well as the cost of coordination. Williamson (1975) argued that firms tend to choose structural arrangements for transactions that minimize these costs. Coordination or conflicts between partners can also create transaction costs because of the uncertainty, opportunistic behavior and asset specificity of the partners. Kogut (1988) discussed transaction costs in his study of joint ventures. He argued that "transaction cost is useful in analyzing problems in bi-literal bargaining." It is "an efficient solution to the hazards of economic transactions". Jones and Hill (1988) used the transaction cost theory and analyzed the strategy-structure choice. They argued that transaction cost theory allows an exchange between two parties of cooperative arrangement. Blodgett (1991) argued that transaction cost focuses on the internal decision making process which helps to analyze the benefit of joint venture versus other modal choices.

Anderson and Gatigon (1986) designed a model (Figure 2.2) to explain the entry mode choices, based on the transaction cost theory. In their model, the transaction costs include: the costs of transaction specific assets, the costs of the external and internal uncertainties and the free-riding potential (the ability to receive benefit without bearing the associated cost). They proposed nine propositions for determining the optimal degree of ownership and control which have not been tested. Hennart (1988, 1989) used the transaction cost theory to explain the choice of joint ventures and compare the entry modes of foreign direct investment versus contractual agreement, which were basically conceptual arguments.

However, Hill et al. (1990) and Contractor (1990) believe transaction cost theory does explain partially why a multinational company chooses one entry mode over other methods, but it alone does not provide all the answers to the entry mode choices. Kim and Kwang (1992) argued the model created by Anderson and Gatigon (1986) is a flaw, because it is only built on transaction cost theory. Gomes-Casseres (1990) argued that the previous transaction cost theory research did not take into consideration the host country restrictions on MNC choices. Hill and Kim (1988) added the dissemination cost of knowledge to the transaction cost. Table 2.3 summarizes the major contributions of the transaction cost theory.

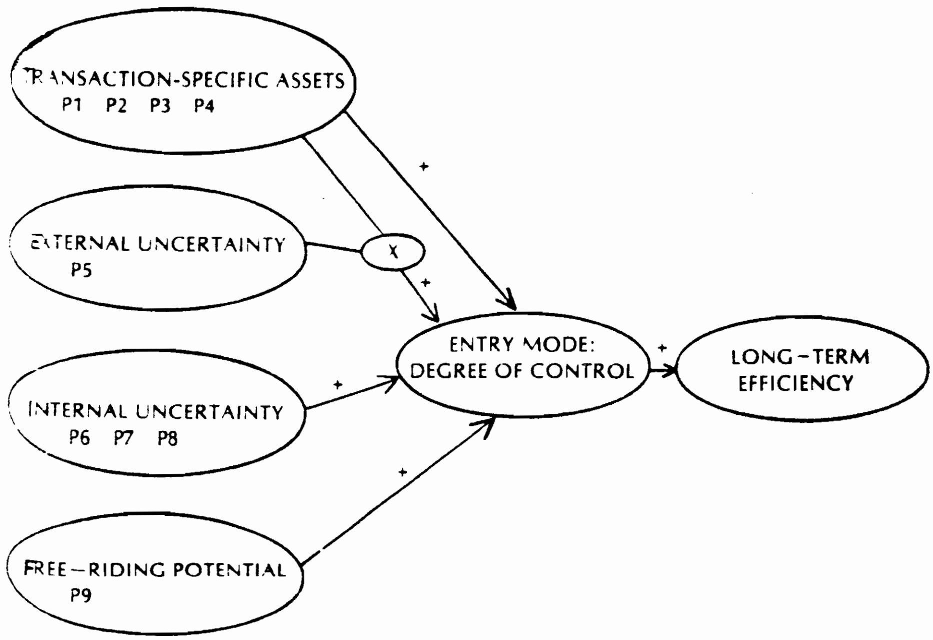

Figure 2.2 Anderson & Gatignon's Transaction Cost Model

Adapt from Anderson and Gatignon (1986)

Table 2.3 Major Contributions of Transaction Cost Theory

Authors (year)	Major Contributions
Williamson (1975)	to create transaction cost theory
Anderson & Gatignon (1986)	to analyze 17 entry mode within 3 level controls, 4 constructs determining the optimal degree of control, 9 propositions
Jones & Hill (1988)	to analyze the relationship between strategy and structure, 2 propositions
Hill & Kim (1988)	to explain the choices of WOS and licensing; and internalization cost
Kogut (1988)	to argue the theory is efficient and useful for economic transaction
Hennart (1988)	to explain why equity JVs is a first-best strategy
Hennart (1989)	to compare FDI and the "new forms" (new contractual alternatives)
Hill et.al. (1990)	to argue it provides not all the answers to the choice of entry modes
Contractor (1990)	to argue it does not analyzed the profit side of the entry modes
Gomes-Casseres (1990)	to argue it does not consider the restriction from the host country
Blodgett (1991)	to explain it help to analyze the benefit of J.V.
Jarillo & Stevenson (1991)	to explain the costs
Kim & Hwang (1992)	to argue it is a flaw if only using the cost theory to analyze the entry modes

The Eclectic Model

Dunning (1980) proposed a comprehensive framework, which states that the entry mode choice into a host country is affected by three types of advantages: ownership, location, and internalization of integrating transactions within the firm. Ownership advantage means the firms must own superior assets: capital, technology, size, knowledge, multinational experience and skills, brand name and marketing expertise to earn revenue and profit. Firms need asset power for absorbing the high cost of the international expansion and operations.

Location advantage looks into the attractiveness of the target market, and is based on the market potential and investment risk. The higher potential (in terms of size and growth) and low risk market is the attraction to enter.

Internalization advantage (contractual risk) means that companies internalize or keep control of their competitive advantages such as technology, organizational capability, product differentiation, promotion, brand name and other marketing expertise. They transfer such advantages only to subsidiaries under their control (Dunning, 1980). Wholly owned subsidiaries with integral assets and skills may provide better control over their advantages. However, they may encounter resistance from the host country's investment policy. Dunning argued that possession of competitive advantages may gain more profitability than "internalizing" the advantages, and more benefit can be obtained from exploiting the advantages outside the home-country market.

Several studies have attempted to apply the eclectic framework. Agarwal and Ramaswami (1992) designed a model based on the eclectic theory. They chose six factors to represent the three advantages in entry mode selection. The six factors were firm size, multinational experience and ability to develop differentiated products for ownership advantages, market potential and investment risk for location advantage, and contractual risk for internalization advantage. The six factors were used to analyze four entry mode choices: exporting, joint venture, sole venture, and licensing. Agarwal and Ramaswami used multinomial logistic regression analysis of the U.S. equipment leasing industry, and found that there were effects of the interrelationships among those factors and the entry mode choices in foreign markets. (Please see Figure 2.3, the model). Gugler (1992) interpreted Dunning's three-advantage concept in his study of transnational alliances. He argued that the growth in a strategic alliances is because of the impact of three major forces: technological innovation, convergence of technologies, and globalization. These forces have an impact on the three advantages conferred by alliances. His interpretation of the three advantages were: ownership advantages such as rapidity of new development and exploitation of existing advantage, combination of complementary assets, supply of systematic and compatible products and products with the dominant standard; location advantages such as access to complementary assets and access to the main world markets, and the internalization advantages such as sharing of the cost and spreading the risks, less important transaction cost, benefit from scale economies, and new oligopolistic reaction.

Macharzina and Engelhard (1991) challenged the eclectic model. They argued that the model can not precisely explain the subject--whether it is a study of the theory of country-specific investment or the theory of firm behavior. In this model, it is difficult to operate structural and contextual variables, interpretation of managers' behavior may be biased, and combination of causal connections of the relevant variables and different international activities is lacking. (Table 2.4 summarizes the major contributions in the eclectic theory studies.)

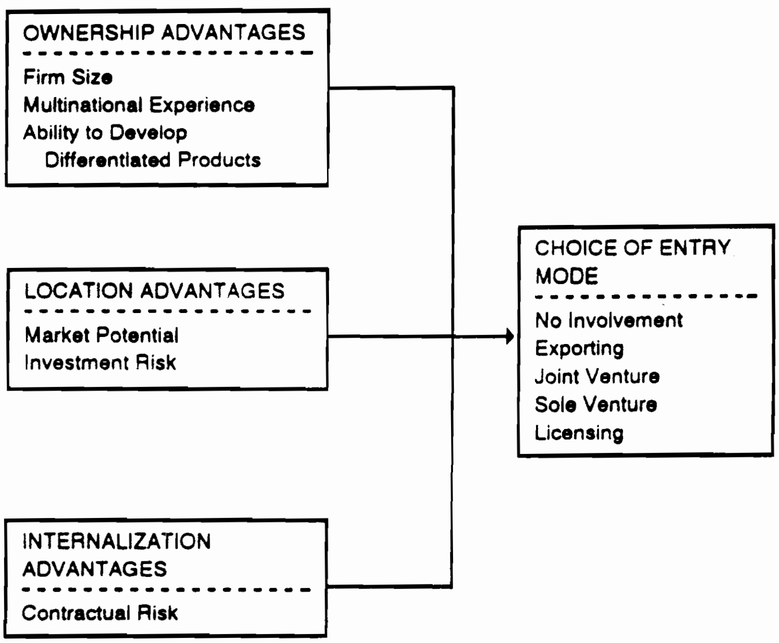

Figure 2.3 A Model of Factors of Eclectic Concept

Adapted from Agarwal and Ramaswami (1992)

Table 2.4 Major Studies of the Eclectic Model

Authors (year)	Major Contributions
Dunning (1980)	Three advantages of overseas expansion ownership, location & internalization.
Boddewyn, Halbrich & Perry (1986)	Applied the three-advantage theory into service multinationals.
Dunning (1988)	Renewed the eclectic model with some possible extensions.
Macharzina & Engelhard (1991)	Critique of the renewed ecletic model: unprecised explanation of suject, lack of operationalizing structural and contextual vairiables, bias on strategy-making behavior, lack of combining causual connections.
Agarwal & Ramaswami (1992)	Exam the impact of the three advantages on the choice of entry modes. 5 Hs were test on the interrelationship. The results support the 5 Hs.
Gugler (1992)	Provide detailed contents of the 3 advantages on the model of the value of strategic alliance.

Needs and Expectations, Partner Selection and Bargaining Power

Joint ventures, strategic alliances, and partnerships have the same feature--that is, the need for a partner to be involved in order to establish a new form of venture. Researchers studied the nature of partners with many theories and concepts: needs and expectations, partner selections, and bargaining power. However, partners have one characteristic: when a partner wants to be involved in a venture, it has needs and expectations. It establishes its criteria based on its needs and expectations, and asks other partner/partners to contribute so as to fulfil its needs and meet its expectations. This is a two-way track, the partner requiring others also makes a contribution; however, it uses its contribution as bargaining power on the negotiation table in order to gain a certain degree of the venture.

Beamish (1987) did a series of pilot studies of 32 joint ventures on the relationship between the need and commitment of partners and performance. The assumption is that more need and commitment on the part of the partners lead to more satisfactory performance. He identified five types of needs: items readily capitalized needs (capital, raw material, technology), human resource needs (general manager, marketing, technical personnel), market access needs (speedy entry, channel of distribution), and government/political needs (need to meet the government requirement). He also summarized and tested sixteen contributions from partners that can influence the performance of a joint venture: faster entry into local markets, local political advantage, inexpensive labor, raw material supply, knowledge of current business practice, better access to market than a wholly-owned subsidiary, satisfying expected government requirements for local ownership and avoiding political intervention, general manager, capital, general knowledge of the local economy, politics and customs, satisfying the host government's requirements for local ownership or import substitutions, technology or equipment, functional managers (marketing, production, financial, etc.), better access to the market for goods produced outside, better export opportunities and general knowledge of the foreign economy, politics and customs. Stoever (1985) argued that the LDCs seek foreign investment for the following benefits: technology transfer and upgrading, technical training, increase of local productive capacity and input, industry diversification, opportunities for local suppliers and contractors, full or partial local ownership, investment in remote regions, increased employment, the training and advancement of host citizens, establish new industry or products, exports and foreign exchange earnings, and government revenues. On one hand, the multinational firms should understand the host country's needs and expectations, and regulations; on the other hand, they should determine the benefits they can obtain by such expansion. Blodgett (1991) also studied the partner contribution issue. She looked at the relationship between partner contribution and certain patterns of equity ownership from published data. She mainly analyzed three contributions partners can offer: technology, knowledge of the local environment and/or market skill, and government suasion (pressure to take a local partner). She found that ownership patterns vary with the combination of resources contributed to the joint venture.

In the study of partner selection criteria in international joint ventures, Awadzi et al. (1988) used a sample of 40 international J.V.s to analyze the relationship between bargaining power and partner selection. They used four selection criteria: partners' resource contribution, past association between partners, relatedness of partners' business, and relatedness of foreign partners and international J.V. business. They found "the more resources a firm can contribute to a joint venture, the greater the likehood that it would be selected as a partner".

Geringer (1991) argued that the right selection of a partner influences the performance of the J.V. He did an empirical test on the relationship between selection criteria and J.V. performance. His results were drawn from the analysis of fifteen selection criteria variables on eighty-one U.S. multinationals. He tried to distinguish between task and partner related criteria. He stated that task-related criteria depend on the variables of operational skills and resources leading to competitive success. These can be tangible or intangible, such as patents or technical know-how, finance, experience of managerial personnel, marketing and distribution systems. Partner related variables refer to those variables leading to efficiency and effectiveness of partners' cooperation, such as the national and cooperative culture, past positive relationship, trust between the partners, and partner's organizational size and structure. He further condensed the fifteen variables into three categories: critical success factors, competitive position, and difficulty of internal development category. The results of his study support his three hypotheses: the relative weighing of selection criteria is positively correlated with potential success factors and difficulty of development category factors; and negatively correlated with the perceived relative competitive position on a particular variable.

The bargaining power model concerns the level of control that the partner can obtain. Equity ownership is seen as an outcoime of negotiation, and representation of relative power between partners. Gomes-Casseres (1987) argued that partners gain power from their commitment of various resources, such as technology, marketing expertise, access to financial market, etc. In Harrigan's (1984) dynamic model of joint venture activity, six factors were considered as determinants of partners' bargaining power: benefit, costs, resources, alternatives, needs and barriers.

Gomes-Casseres (1990) summarized the research theory of ownership structure preference and concluded that the preference is based on two approaches: one is that the multinationals prefer structures that can minimize the transaction cost of doing business abroad; the other is that ownership structures are determined by negotiation between multinationals and host governments. The final decision by the second approach is dependent on the bargaining power of the two sides. The first approach analyzes the factors which affect "what the firm wants"; the other approach analyzes "what the firms can get". He argued that it is difficult to test either approach, but he developed a conceptual framework to combine both approaches of argument and tested the bargaining approach with the data from the Harvard Multinational Enterprises Project. Several variables for the testing are from PIMS. The result of the study partially supports the bargaining power approach. Several factors (market attractiveness and subsidiary size) do affect the outcome of the negotiation. Some of the factors (R&D intensity, marketing intensity and intra-system sale) influence little or nothing about ownership negotiation. He argued that host governments use the strength of providing attractive markets as bargaining power in the globally competitive environment.

Other Ways of Analyzing the Environment and Strategies

Other ways to analyze the environment of multinational companies are by examining the reasons, motivations and triggers for global expansions. Godiwalla (1986) identified several reasons why a company goes global, such as expanding new market, development of its own people, advantage of lower cost of labor, hedge against the markets, economic or political instabilities, improving rate of return on investment, fast technical transfer, and closer supply sources. Douglas and Craig (1989) described environmental factors as triggers which provide impetus for a firm to expand into overseas markets. These triggers are saturation of the domestic markets; movement of customers overseas; diversification of risk; advantageous sourcing opportunities; retaliation to the entry of foreign competition into domestic markets; keeping abreast of technological change; host government incentives; and advances in transportation and communication technology. Kirpalani et al. (1992) identified fourteen attracting elements for foreign investment in Hong Kong, such as low taxes, free moving capital, low labor cost, non-tariff barrier, local market potential, etc. Kogut (1988) argued that besides the commonly utilized theory of transaction cost and strategic behavior, the organization's knowledge and learning should be added to explain the motivation for joint venture behavior, because firms in many cases are motivated to acquire another organization's know-how, or to maintain its own organizational capability while benefiting from other's knowledge.

Toward a Unified Theory

Several researchers have tried to combine the theories and concepts of international business into a unified theory to explain the entry mode choices utilized by multinational firms in the foreign markets. Contractor (1990), building on his own and others' research of contractual and co-operative forms of international business, designed a unified theory of modal choice. The framework is based on theories of internalization (the sources of internal specific advantage), transaction cost, and the strategy of inter-organization relationship. The logic of the framework is that a multinational firm should carefully analyze the influential variables that affect the entry mode choices. The analysis will help a firm understand the cost and benefit of the entry mode choices, and eventually help the firm choose the optimum entry mode for expansion. His framework indicates that the entry mode choice is determined by two groups of variables: the independent contextual variables such as the market characteristics, negotiation, organizational behavior, technology transfer factors, and general investment risk and conditions; and the intermediate variables such as the project revenue, and cost factors of production, administration, transaction and internalization. The independent contextual variables determine the revenue and cost factors; in turn, the revenue and cost factors determine the entry mode choice. He argued that the choice of alternative modes ranges from fully-owned foreign investment at one end to contractual agreement at the other, with varieties of integration of joint ventures in between. His model, however, has not been tested. (See Figure 2.4 Contractor's Model.)

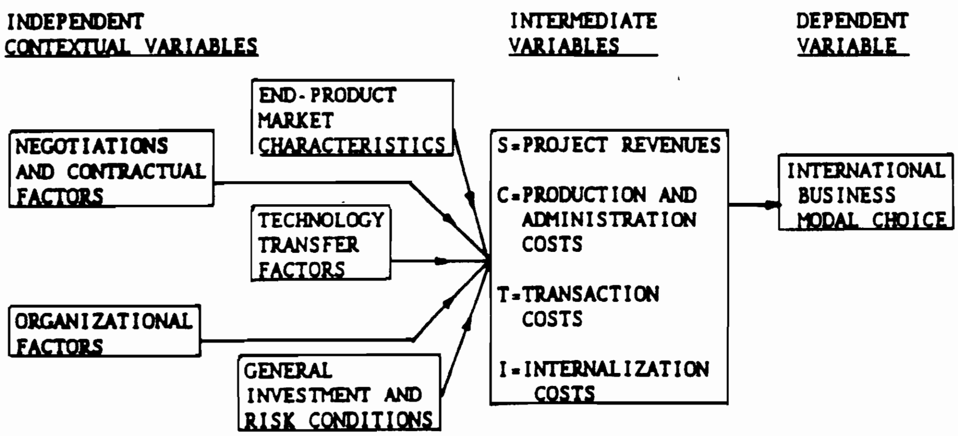

Figure 2.4 Factors Affecting the International Business Modal Choice

Adapted from Contractor (1990)

Hill, Hwang and Kim (1990) designed an eclectic model of the choice of international entry mode in conjunction with different levels of control (Figure 2.5). The model is based on three groups of variables: strategic variables (national difference, scale of economies, global concentration); environmental variables (country risk, location familiarity, demand conditions, and volatility of competition); and transaction cost variables (value of firm-specific know-how, and tactic nature of know-how). The constructs of their model are the level of control, resource commitment, and dissemination risk. While licensing will have low control and resource commitment but high dissemination risk, the wholly-owned subsidiary will have high control and resource commitment but low dissemination risk. The joint venture is stuck in the middle. Based on the framework, Hill et al. established nine propositions. They proposed that firms which pursue multidomestic strategies will favor low-control entry modes, while firms which pursue a global strategy and need high global coordination favor a high-control entry mode; if the foreign target markets that the firms plan to enter have high country risk, great distance from the firms' home, uncertain demand, and great volatility of competition, the firm will favor entry modes with low resource commitments; firms will favor an entry mode with minimum dissemination risk when firms generate greater quasi-rent streams from the firms' proprietary know-how; firms will favor high-control entry modes when the firms have a greater tacit component of firm-specific know-how. However, these propositions were not tested in their research.

Built on Hill et al.'s (1990) eclectic framework of the factors of entry decision, Kim and Hwang (1992) remodeled the framework. Without touching the environmental and transaction cost variables, they changed the strategic variables into global concentration, global synergies, and global strategic motivations. They then used a survey methodology to test the new model. (See Figure 2.6.) Ninety-six responses were considered useful. MANOVA, MDA, MNL (multimial Logit) and Q test were used for the analysis. The MANOVA results indicate that there are overall differences in the profiles of the three distinct entry modes (licensing, joint venture, and wholly owned) with respect to the nine types of determinant factors of the framework, which means the framework explains a multinational's entry decision behavior. The MDA, MNL and Q test results also suggest that the nine types of determinant factors significantly affect the entry mode decision of the firms. Kim and Hwang admitted limitation on the generalizability of the study (as it only drew the sample from the manufacturing industry and the study focused not on the entry decision process but the resulting period).

Entry mode	Constructs		
	Control	Resource commitment	Dissemination risk
Licensing	Low	Low	High
Joint venturing	Medium	Medium	Medium
Wholly owned subsidiary	High	High	Low

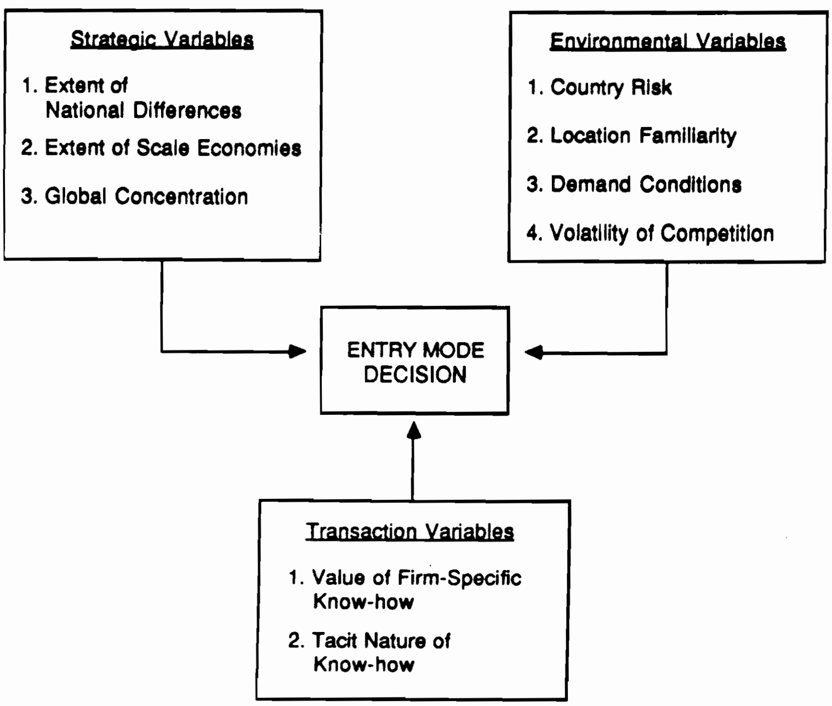

Figure 2.5 The Characteristics of different entry modes

Adapted from Hill, Hwang and Kim (1990)

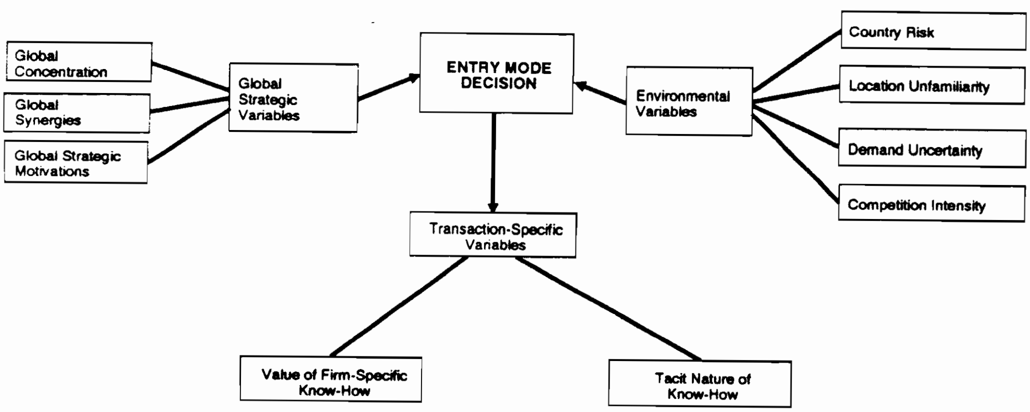

Figure 2.6 An Eclectic Framework of the Entry Mode Choice

Adapted from Kim and Hwang (1992)

In summary, many researchers in the international business perspectives broke the study into various narrow and isolated dimensions (transaction cost, eclectic theory, needs and expectations, partner selection, bargaining power, etc.) and analyzed a few variables instead of pulling together the different theoretical dimensions into a unified theory. Parkhe (1993) argued that "existing studies have tended to remain fragmented in their orientation". As research in this area is still at the theory-building stage, a more broad understanding of the phenomenon is needed. A unified theory that puts all the creative theories and concepts together would help to broadly understand the phenomenon. If the above mentioned theories and concepts are combined, they actually explain two sets of variables that influence the entry mode choices: the external environment of the host country/countries (country specific advantages--location advantages, country needs and expectations, and country risk/uncertainty, which can be drawn from the political, economic, socio-cultural and technological dimensions); and internal environments (the ownership advantages, the bargaining power, the firm specific needs and expectations, the benefits and costs for the firm of a certain entry mode choice). This seems valid, even though the theories and concepts did not clearly categorize their identified variables in that way, and obviously there are overlaps among the theories and concepts. These researchers with unified theories (Contractor 1990, Hill et al. 1990, Kim and Hwang 1992) provided a good start to combine the theories and concepts in the international business perspectives. It is also interesting to note that researchers are exploring the role of generic international strategies (Hill et al. 1990, Kim and Hwang 1992) in the determination of the entry mode choices. However, their research looked at the manufacturing sector. With many unique features of the world lodging industry, a new specific research framework is needed for the analysis of the world lodging industry.

The Studies of Entry Modes for Ownership and Control

Ownership in international business operations refers to how much of the assets an international firm owns or invests in a foreign facility. Control refers to what degree the firm controls the operation of the established foreign facility. In general, the higher percentage of the ownership the firm possesses, the higher level it controls the operation of the facility. Meleka (1985) believed direct control itself is a natural strategy. He classified control into different aspects: controls of technology, information, transfer of profits, regulations, host country policies, etc. However, Ohmae (1989) argued that "having control does not necessarily mean a better managed company. You can not manage a global company through control".

The choice of entry modes is a way to explain the ownership and control of international operations of multinational corporations. There can be many entry modes. Erramilli and Rao (1990) ranked nine different entry modes ranging from wholly owned to license and franchising based on resource commitment and market specificity commitment (see Table. 2.5). Contractor and Lorange (1988) identified eight categories of cooperative arrangement in conjunction with the extent of inter-organizational dependence. These cooperative arrangements range from technical training/start-up (with no inter-organization dependence) to equity joint venture (with high inter-organization dependence).

Although there can be many entry modes, as mentioned above, they are commonly classified into three major categories (Hill et al. 1990, Contractor 1990, Kim and Hwang 1992): Wholly owned subsidiary, joint venture, and non-equity contractual agreement. Wholly owned subsidiary assumes total ownership and full control. Joint venture assumes varied partial ownership and control. Non-equity contractual agreement assumes no ownership and little control. Although much research has been done of the entry mode choices and many frameworks have been created, such research remains in a conceptual state (Kim and Hwang 1992) with little empirical testing.

Table 2.5 The Level of Foreign Market Involvement Scale

Foreign Market Entry Mode	Resources reqd. for Commitment	Market Specificity of Commitment	Level of Involvement
1. Wholly Owned Subsidiary/Branch Started from Scratch	Very High	High	9 (Highest)
2. Wholly Owned Subsidiary Acquired	High	High	8
3. Majority Joint Venture	Moderate to High	High	7
4. 50-50 Joint Venture	Moderate	High	6
5. Minority Joint Venture	Moderate	High	5
6. Export Subsidiary	Moderate	Moderate	4
7. Direct to Customer Exports	Low to Moderate	Low	3
8. Agent/Distributor Exports	Low	Low	2
9. Licensing/Franchising	Very Low	Very Low	1 (Lowest)

Adapted from Erramilli and Rao (1990)

Wholly Owned Subsidiary

Wholly owned subsidiaries involve a 100% equity investment such as financial assets, technology, management skill, etc. in a foreign operation. Boddewyn (1985), after studying the theories of foreign direct investment and divestment, argued that the current theories of direct investment and divestment tend to follow three types of explanation: Conditions--prerequisite firms' perceived advantages or disadvantages, and the countries' factors (cost, market, and regulatory climate); Motivations--inner drive, impulse, incentive, goal (profitability, least cost opportunities, etc.); Precipitating Circumstances--efficient cause (changing factors, especially in the host countries).

Grosse (1981) classified the theory of foreign direct investment and divestment into five theories: international trade theory (from comparative cost view or product life-cycle view), location theory (the supply side and cost conditions), investment theory (imperfect capital market view or portfolio-of-FDI view), theory of the firm (managerial model of individual firm behavior), and industry organization theory (inter-industry difference).

Joint Venture

Researchers and scholars seem to put more attention on joint ventures as a form of international business strategy than other forms. Shan (1991) did an empirical study of the relationship between the level of ownership and environmental risks based on foreign joint ventures in China. He used the percentage of ownership as a dependent variable and J.V. characteristics, duration, business scope, location, and features of firms as independent variables. He found that the percentage of share in the J.V. negatively correlated with uncertainty and external dependence of the venture. Schillaci (1987) discussed the advantages and disadvantages of a joint venture. The advantages are: faster process; more flexibility; fewer risks; access to resources not internally available or transferable, or on the market; lower cost; less commitment; more concentration in one area; more autonomy; and more synergistic effects. The disadvantages are limited information, conflict between the two parties, change in parents' objectives, skills and capabilities, lack of trust, different management styles, lack of cooperative behavior, unwillingness to share internal skills and capabilities, no materialization of needed resources, and limited interest from either partner. Auster (1987) argued that firms enter joint ventures in order to circumvent restrictions, to develop regional know-how and cultural familiarity and expertise, to gain better quality or more cost efficient natural resources, to develop a low-cost labor force, to use under-utilized equipment, and to increase the economics of scale. Joint ventures are especially popular in risky and uncertain conditions. International firms will concede some controls if that will spread risk.

Many other studies have been done, such as: J.V. theory building (Lyons 1991); the partner selection and contribution (Beamish 1987, Blodgett 1991, Geringer 1991);

government policy toward J.V. (Contractor 1990); life cycle of J.V. (Kogut 1988); J.V. and global strategies (Harrigan 1984, 1988, Gomes-Casseres 1989); J.V. negotiations (Contractor 1984, 1985); and J.V. performance (Gomes-Casseres 1987, Geringer and Hebert 1989, 1991, Anderson 1990). (Table 2.6 summarizes the major research in joint ventures.)

Table 2.6 Major Research in Joint Ventures

Major Contributions	Authors (year)
Theory & Concept:	
Transaction Cost, Strategic Behavior, Organizatonal Knowledge & Learning, Motivation	Kogut (1988), Lyles (1988)
JV & Global Strategies	Harrigan (1984, 1988a), Awadzi, Kedia & Chinta (1988), Beamish & Banks (1987), Gomes-Casseres (1989), Franko (1989), Lyons (1991)
Antecedents, Factors Partner Selections	Beamish (1987), Contractor (1990), Blodgett (1991), Shan (1991), Geringer (1991), Koh et al(1991)
Negotiations & Structuring	Contractor (1984, 1985), Gyenes (1991)
Performance	Gomes-Casseres (1987), Geringer & Hebert (1989, 1991), Anderson (1990)
J.V. in Developing Country	Davidson (1987), Afriyie (1988), Shenkar (1990), Newman (1992)
J.V. with Cautions	Renard (1985), Lyles (1987)

Co-operative Alliance, Linkage, and Partnership

Co-operative alliance, linkage, and partnership are widely used terms. Sometimes they are simply used as another term for joint ventures; otherwise they are used for non-equity involvement agreements. Since the beginning of the 1980s, world markets have featured a rapid development of alliances and co-operative ventures. Joint venture and non-equity contractual arrangement are considered "new forms" of international business involvement. Creative authors give many names to such co-operative business operations: collaborative agreement (Morris and Hergert, 1987), partnership (Hollingsworth 1988, Crouse, 1991), strategic alliances (Harrigan 1987, 1988, Devlin and Bleakley 1988, Ohmae 1989, Gugler 1992), collective strategy (Bresser, 1988), and strategic linkage (Nohria and Garcia-Pont 1991). Gugler (1992) classified the alliances into four kinds: formal and informal; vertical, horizontal and conglomerate; equity and non-equity agreement; and local, national, continental or trans-oceanic alliances.

Harrigan (1987) discussed the reasons why strategic alliances are becoming so popular now: economic deregulation, rapid change of technology, larger capital requirement, new entry firms, industry and economic maturation, improved communication, and globalization. Lorange and Roos (1991) argued that the objective of any form of cooperation is to result in a "win-win match". If the "win-win" match emerges, the chance for success in implementation increases.

Crouse (1991) summarized the clear advantages of partnership: to leverage internal investment, focus on core competencies, leverage core competence of other organizations, reduce capital needs, broaden product offerings, gain fast entry to new markets, share scarce resources, spread risk and opportunities, improve quality and productivity, access alternative technology, use a larger talent pool, and satisfy the customer.

Henderson (1990) defined "partnership" as "a working relationship that reflects a long-term commitment, sense of mutual cooperation, shared risk, and the theory of participatory decision". He developed a partnership model of two dimensions: partnership in context, and partnership in action. The two dimensions have six determinants: under the context dimension, they are mutual benefits, commitment and predisposition; under the action dimension, they are shared knowledge, distinctive competency, and resource, and organization linkage. His point of view of partnership is sharing, trust, and mutual benefit.

However, Jarillo and Stevenson (1991), Lorange and Roos (1991), Lyles (1987) and Renard (1985) suggested that the investors should form strategic alliances with caution. There can be pitfalls if the alliances are not based on studies of the partner and the environment of the host countries. (Table 2.7 summarizes the major works on ownership and control issues.)

Table 2.7 Major Works on Ownership and Control Issues

Major Focus	Authors
The evolution	Rugman (1980), Dymsza (1984), Douglas & Craig (1989), Kogut (1989)
The eclectic theory: Location, Ownership & Internalization	Dunning (1980, 88), Rugman (1980), Boddewyn, Halbrich & Perry (1986), Agarwal & Ramaswami (1992), Macharzina & Engelhard (1991)
Ownership and entry modes: Comparison of different level of involvement	Hill et al (1990), Erramilli & Rao (1990)
Strategy and entry modes (concentration, synergies & motivation)	Kim & Hwang (1992)
Entry behavior	Erramilli (1991)
Culture and entry mode	Kogut & Sigh (1988)
Host relationship & ownership preference	Gomes-Casseres (1990), Brewer (1992), Globerman (1988), Weigel (1988), Stoever (1985)
Benefit/Cost vs. Choice	Contractor & Lorange (1988)
Host country's needs	Meleka (1985)
Investment in developing countries	Weigel (1988), Blitzer et al. (1984), Kobrin (1988)
Unified theory of modal choice	Contractor (1990)

(continued)

Building Alliances, Partnership, and Linkages	Harrigan (1987), Auster (1987), Morris & Hergert (1987), Hollingsworth (1988), Bresser (1988), Harrigan (1988b), Devlin & Bleackley (1988), Ohmae (1989), Tallman & Shenkar (1990), Crouse (1991), Nohria & Garcia-Pont (1991), Lorange & Roos (1991), Jarillo & Stevenson (1991), Henderson (1990), Parkhe (1991), Gugler (1992)

Franchising

In order to respond effectively to the changing and competitive environments, multinational firms increasingly use franchising as their expansion strategy. Franchising is defined as an act in which a franchisor grants a licensed privilege to a franchisee to do business. In return, the franchisee pays the franchisor royalties and other fees.

In the 1970s, scholars started to study the internalization of the franchise system. Walker and Etzel (1973) studied the progress, procedures, problems and prospects of overseas expansion of franchises. However, as multinational firms were more interested in direct investment, the mainstream research reflected the focus on direct investment at that time. Researchers in franchising and licensing had to insist loudly and clearly that licensing could be the best response to the changing international business environment and permit firms to avoid the risk of direct investment (Contractor 1981).

From the 1980s, franchising has become an important form of international business strategy, especially in the service industry. Cross and Walker (1987) claimed service marketing and franchising as "a practical business marriage". Franchising is the solution to many challenges encountered by the service industry, such as intangibility, discretionary nature of service purchases, labor intensity, quality control, focus on operation, and small size of firms. They identified that hotel, motel and campgrounds are some of the brightest future growth areas for franchising. Franchising as a business method not only has grown in North America, but also has become popular in the world marketplace.

Walker (1989) did a comprehensive study of the U.S. franchise systems expanding overseas. He examined the reasons, the stage of development, the benefit and drawbacks, and the determining factors for U.S. firms using franchising as an expansion tool overseas. Results from 451 responses indicate that U.S. firms, through franchising systems, can benefit from additional growth and expansion, additional revenue or profit, and larger market; but franchising has drawbacks such as the lack of control, difficulty of supporting, cost, etc. The top three determinants are political stability, substantial size of the host country's middle class, and high level of economic growth. Weinrauch and Langlois (1987) summarized six advantages and six risks in international licensing. The advantages are minimal capital outlay, ease of access to foreign markets, savings in cost, easy approval from the host government, two-way partnership, and mutual support. The risks can be creation of a competitor (a partner can become a competitor after the contract expires), limited revenues, unfulfilled obligations, diversity of partners, misunderstanding, and difficulty of management. These risks create conflicts between licensor and licensees. They also identified ten potential conflicts in international licensing, such as territory coverage, length of contract, quality assurance, advertising, and compensation. They suggested careful selection of partners and serious negotiation to maintain cooperative relationship and avoid misunderstandings as important ways to reduce conflict between licensor and licensees. (Table 2.8 summarizes the major works on franchising.)

In summary, the literature review in this part discusses various entry mode choices: wholly owned, joint venture or strategic alliances, linkage, partnership, and franchising. The research has shared the following common interests: the environmental conditions shaping the entry mode choices, the reasons for the emergence of the various choices, and the advantages and disadvantages of each choice. The review provides some insights into the analysis of the entry mode choices.

Table 2.8 Major Works on International Franchising

Authors (Year)	Major Contribution
Walker & Etzel (1973)	International franchising: progress, procedure, problem and prospects
Contractor (1981)	The circumstances of using licensing as a preferred strategy
Cross & Walker (1987)	Service marketing and franchising is good match for a business
Weinrauch & Langlois (1987)	Exploration of problems, challenges and solutions of potential conflicts in the international licensing
Walker (1989)	Comprehensive study of using franchise system for overseas expansion
Chan & Justis (1990)	Franchise management in East Asia: status, considerations (culture and political)
Hoffman and Preble (1991)	Using franchising as a strategy for rapid growth--a framework

THE STUDIES OF GLOBALIZATION IN THE HOSPITALITY INDUSTRY

Researchers in the hospitality industry have done some preliminary work on the globalization of the hospitality industry. This part will review the studies in environment and environment scanning, and the entry mode choices.

Environment and Environmental Scanning

The study of environment and research on environmental scanning in the hospitality industry started when Olsen (1980) urged hospitality executives to closely monitor the environment. Slattery and Olsen (1984) applied the environment theory and concepts to the hospitality industry of North America and Europe. They believed that the executives of the hospitality industry have limited and narrow perspectives of the environment. Kwansa et al. (1986) used content analysis to systematically study the information collected in the Virginia Tech Trends database. West and Olsen (1988) and Dev and Olsen (1989) studied the relationships among environmental scanning, strategy, and performance based on the U.S. hospitality industry. Kim (1992) closely looked at the political environment in four categories: law and regulation, administrative, legislative, judicial and lobbying. He identified fifty-eight key factors in the political dimension of the external environment which influence the strategic decisions of multinational lodging chains.

Seeing the increasing overseas expansion activities by many multinational hospitality firms, Hoffman and Schniederjans (1990) offered an international strategic management/goal programming model. The model is intended to help multinational firms make better site selection decisions for overseas expansion based on ten selection criteria, which include political, customer, supplier, growth, costs (labor, land, construction), and tax factors.

The hospitality industry has its unique reasons and motivations for overseas expansion, such as: to increase of the level of growth and profit; transplant domestic lodging concept and business style to other countries; increase world tourism; service the clients in overseas destinations; gain recognition and brand loyalty; increase freedom and speed of international financing, as identified by Leonard (1987), Tse and Olsen (1990).

In summary, the research of environment and environmental scanning has received the attention of scholars in the hospitality industry. Because of various environmental conditions, unique requirements and comparative advantages of each individual host country, and competitive advantages of multinational lodging firms, many international lodgings are unique cooperative entities in their particular environmental settings. The range of their foreign activities depends on the political and economic factors, legal restrictions, and other conditions of a host country. Thus, it is very important for a multinational firm to understand the complexity of the international environment, realize their strengths and weaknesses, and systematically monitor and analyze the conditions of the host country.

The Entry Mode Choice

Boddewyn et al. (1986) discussed the entry mode choices of multinational service firms. They argued that, unlike manufacturing firms with more foreign direct investment, multinational service firms utilize more licensing and management contracts. The international service firms just fit into the UN's (1984) new definition: A MNC as an enterprise, a) comprising entities in two or three countries, b) operating under a system of decision-making, c) being linked by ownership or otherwise being able to exercise a significant influence over the activities of the others, and, in particular, to share knowledge, resources and responsibilities. The new definition apparently realizes the new forms of international business involvement as licensing and management contract.

Dunning and McQueen (1982) used the eclectic model to analyze international lodging chains. They used ownership, location, and internalization advantages to explain the foreign involvement of the lodging industry. Because the lodging industry provides high quality "experience goods", a set of intangible assets and logistic skills, brand name, knowledge, managerial expertise, and know-how are ownership advantages. Tourist destination, government policy, infrastructure, air transportation, and quality local staff are important location advantages. The ability to internalize the market is an important internalization advantage. Dunning and McQueen argued that international lodging chains prefer to use non-equity forms of involvement in their overseas expansion. They identified four categories of involvement: equity interest, leasing management, management contract, and franchise or some form of marketing agreement (referral or reservation system). They also identified multiple forms of involvement of the lodging industry: small equity plus management contracts, majority equity with managerial arrangement with multinational lodging chains, etc. They realized the international lodging chains do have some intangible assets of competitive or ownership advantages: knowledge know-how and expertise, brand image, and logistical skills. They argued that international lodging chains can internalize the target market through equity capital and contracts. These target markets are the locations with attractive resources. Several researchers have studied entry modes: Slattery and Roper (1986) classified the U.K. lodging groups with a continuum of affiliations: owner/operator, leasehold operator, management contractor, franchisor, multiple franchisee, cooperative, marketing and purchasing consortium, marketing consortium and personnel and training consortium. This continuum indicates how the U.K. lodging companies have been involved in the industry from wholly owned, to cooperative (joint venture) and then to non-equity participation. Tse and Olsen (1990), Olsen, Crawford-Welch and Tse (1990) conceptually discussed all the possible entry modes: direct investment, joint venture, strategic alliance, franchise, management contract and acquisition; Go and Christensen (1989), based on Walker's (1988) comprehensive study of the U.S. franchise system, discussed "going global" with franchising method; and Crawford-Welch and Tse (1990) studied mergers and acquisitions in the European hospitality industry.

Dev and Klein (1993) discussed strategic alliances in the lodging industry. They categorized three types of alliances based on the timeframe of the relationship: short-term opportunistic relationship (cross-advertising and joint coupons); medium-term tactical sharing relationship (marketing service agreement); and long-term strategic relationship (equity cross-investments). They argued that only the long-term strategic alliance can help companies stand up to global competition. They expected strategic alliances to be the choice of marketing expansion strategies. In order to be successful in strategic alliances, partner selection is very important. Bell (1993) discussed the management contract and franchise issues from a historical point of view and pointed out that the contents of both the management contracts and franchise agreements are changing because of the depressed lodging business climate, heavy turnover of lodging ownership, increasing involvement of decision making by the owners, and intensified competition in negotiating a contract or agreement among the companies. (Table 2.9 summarizes the major studies on hospitality research.)

Table 2.9 Major Studies on Hospitality Industry

Authors (Year)	Major contribution
Dunning & McQueen (1982)	Analyze advantages of international lodging chains, the ownership and control in the industry
Slattery & Roper (1986)	Classify U.K. lodging groups into a continuum of nine affiliations
Leonard (1987)	Give easons and motivations for lodging expansion overseas, and ownership structure
Go & Christensen (1989)	Explain hotel and restaurant franchise overseas, factors, methods, benefit and drawbacks
Tse & Olsen (1990)	Apply strategies into hospitality industry, give five expansion strategies: strategic alliance, franchise, management contracts, J.V. and acquisition
Tse & Crawford-Welch (1990)	Analyze merger and acquisition: horizontal, forward and backward integrations; and concentric, horizontal and conglomerate diversifications
Crawford-Welch & Tse (1990)	Analyze merger, acquisition and alliance activities in the European hospitality industry
Olsen, Crawford-Welch & Tse (1990)	Explain seven new directions: asset evolution, technology, non-conventional marketing, physical environment, economic power, labor shortage and unpredictable changes, and the expansion strategies.
Kim (1992)	Show framework of political environment of multinational lodging chains
Dev & Klein (1993)	Discuss strategic alliance in the industry
Bell (1993)	Explain management contract and franchising issues

SUMMARY

This chapter reviews the body of literature related to the evolution of globalization, international environment and environmental scanning, generic international strategies, and the entry mode choices; the citations are from strategic management research and studies of international business. The evolution of globalization shows the changing methods of overseas expansion by multinational companies from the traditional or "old forms" (Hennart 1989, Contractor 1990) of direct investment of highly controlled wholly-owned subsidiaries (Stanford and Wells 1972) to the "new forms" (Hennart 1989) of shared-controlled, partially-owned joint ventures, and the least controlled, non equity-involving agreements.

Both research in strategic management and studies of international business stress the importance of the analysis of the external and internal environments and the generic international strategies which influence a company's strategic decisions, such as entry modes choices to foreign markets. However, the terminology, theories, and concepts vary.

Researchers of international strategic management have analyzed the external environment on the basis of five dimensions: political, economic, socio-cultural, technological, and ecological (Sethi 1982, Pearce and Robinson 1988, Preble et al. 1989); researchers such as Yapark and Sheldon (1984), Howard and Hashmi (1991), Fatehi-Sedeh and Safizadeh (1989) have focused more on the political stability of a host country, while Stoever (1985), Ehrman and Hamburg (1986), and Globerman (1988) were interested in the host country's policies and regulations as well as monetary/financial factors for foreign investments. Aguilar (1967), O'Connell and Zimmerman, Preble et al. (1989), Kobin et al. (1980) and Kennedy (1984) urged top management of multinational companies to use a systematic process to scan the trends of the environment. The researchers of international business have analyzed the external environment in terms of location advantage (Dunning 1980), investment risk (Contractor 1990), country risk (Hill et al. 1990), and country's needs and expectation (Beamish 1987). In comparison with the studies of international business, the research of strategic management is more systematic and has broadly studied the external environment and scientifically categorized the external environment into dimensions.

For the internal environment, the researchers of strategic management have analyzed competitive advantages of the industrial structure through competitors, customers, suppliers, substitutions (Porter 1980), the internal resources, skills, strengths and weaknesses (Pearce and Robinson, 1988), and intangible resources (Hall, 1992); while the researchers of international business have looked at ownership advantages (which probably could be interpreted in the strategic management terms as better resources than its competitor, better products and services for its customers and better than the substitutions, and ability to attract suppliers).

Generic international strategies may be an important factor that influences the entry mode choices. Hill et al. (1990) and Kim and Hwang (1992) used global strategic variables as one of the key factors in the entry mode choices. However, they selected only a few of the strategies, such as multidomestic versus global, global motivation, etc. There are still many more strategies that may affect the entry mode choices, such as standardization (Levitt 1983), adaptation to local and regional conditions (Douglas and Wind 1989), flexibility (Kogut 1985b), national niche (Leontiades 1986), and broad production portfolio (Hamel and Prahalad, 1985).

The studies of international business use many theories and concepts to analyze the conditions of the host country and investment. Transaction cost (Jones and Hill 1988, Anderson and Gatigon 1986, Hennart 1988, 1989) has been utilized to analyze the entry mode choices. However, there has been some criticism of the imperfection of the model (Gomes-Casseres 1990). Several researchers (Agarwal and Ramaswami 1992, Gugler 1992, Boddewyn et al. 1986) adopted Dunning's (1980) eclectic model to analyze the choice of entry modes through identifying the ownership, location, and internalization advantages of multinational firms. However, Macharzina and Engelhard (1991) challenged the model. The review of the literature suggests that the studies of needs and expectations, partner selection and bargaining powers share the commonality in identifying the same set of influential factors of the entry mode choices. The variables used have not been categorized--some could be in the external environment, others could be in the internal environment. Few attempts have been to combine the theories and concepts to analyze the entry mode choices (Hill et al. 1990, Contractor, 1990, Kim and Hwang 1992). Moreover, the research has focused on the manufacturing sector.

Entry mode choices, although there can be many categories, are mainly divided into three categories: wholly owned subsidiary, joint venture and non-equity contractual agreements (Hill et al. 1990, Contractor, 1990, Kim and Hwang 1992). This chapter has reviewed the research in wholly owned, joint venture and franchising modes. The literature review clearly shows that a multinational firm selects its entry mode choice based on careful analysis of the environment as well as its generic international strategies. In order to do a systematic analysis of the relationship among environment, generic international strategies and entry mode choices, a broadly categorized set of influential factors should be established so that the key factors can be better explored, and then used to further analyze the entry mode choices. The best categories for key factors seem to be the external and internal environments and generic international strategies. In terms of the dependent variables, previous studies clearly indicate that wholly owned, joint venture and non-equity involvement are the logical categories.

This literature review suggests that no set of propositions have been developed, and little investigation has made to describe the relationships of the constructs of environment, strategy and the entry mode choices in the world's lodging industry. The literature review also suggests some of the theories and concepts in the previous research of the international business share the commonality in identifying the influential factors. Thus, there is sufficient need to develop a new framework which suggests the relationships among the environment, strategy, and the entry mode choices in the world's lodging industry.

CHAPTER THREE

METHODOLOGY

INTRODUCTION

Parkhe (1993) discussed two approaches to research methodology with four phases for the theoretical development of international business management. He believed that at different phases of the research different research methods should be applied.

The two approaches are:

Subjective-idiographic-qualitative-insider; and

Objective-nomothetic-quantitative-outsider.

The four phases are:

Phase 1:	Concept Development and Inductive Theory Generation through the Case Study Method;
Phase 2 & 3:	Literal and Theoretical Replication through Multiple-Case Method;
Phase 4:	Raising the Theoretical Level through Combination Approaches (qualitative and quantitative empirical method)

According to Parkhe (1993), the subjective-idiographic-qualitative-insider approach requires the researcher to use qualitative methods to reveal the rich, dynamic and complex insights into phenomena and reality under individual centered and naturalistic environmental contexts. The approach will take the view of the organizational participants in research. The approach emphasizes the understanding of the importance of processes and their relationships. Marshall and Rossman (1989) argued that the qualitative approach is best for questions or problems that need to make a case for "thick description" and detailed analysis which yield valuable explanations of processes. The approach is "exploratory or descriptive and stresses the importance of context, setting and subjects' frame of reference".

The objective-nomothetic-quantitative-outsider approach is where the researcher uses quantitative methods to search for a concrete structure and precise facts about social phenomena in group centered and controlled environmental contexts. The approach seeks more objective, replicable and reliable findings through "nonparticipant scientific researcher's view".

Parkhe (1993) believed the study of international management is still in the stage of Phases 1 to 3, the theory-building stages. The research method should be a single-case or multiple-case method. Researchers should broadly analyze the phenomena, obtain deeper insight into the organizations the researchers study, and explore and explain all the variables possibly relevant to the phenomena. However, at the present, theory-building remains in isolated conceptual boxes or noncumulatively and differently focused dimensions. Methodologically, there is a weakness in theory development because of "the convergence of hard empirical methodological approaches with soft behavioral variables". The research works are believed to be "theory thin and method driven" (Bedeian, 1989, cited by Parkhe, 1993)

To better understand a phenomenon in the theory development stage, researchers should break through the isolated conceptual boxes, join the different dimensions and broadly view the whole phenomenon. The methodological approaches should lean more toward qualitative methods than to "hard" quantitative methods in this stage of theory development.

The study of multinational service firms is also in its early theory building stage. Boddewyn et al. (1986) argued that "the application of MNC definitions, measures and theories to international services is still in its infancy". Dev and Klein (1993) believed that at the present, little systematic analysis of strategic alliances and no assessment of the characteristics of such an alliance in the lodging industry has been done so far. Moreover, most of the previous research in globalization of the world hospitality industry has been of a conceptual nature (mentioned in Chapter Two) except for the descriptive analysis by Dunning and McQueen (1982), and the Delphi technique by Kim (1992). Hoffman and Schniederjans (1990) tried to use a single case to analyze their program model. However, they did not discuss the research design of their case study in their paper, nor did they discuss at all the hospitality firm they studied.

THE CASE STUDY METHODOLOGY

Yin (1989) argued that when a researcher needs to find an answer to "how or why" questions about a contemporary set of little or no control events, the appropriate approach is a case study method. He believed the case method is an empirical inquiry, which

> investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

Yin (1989) believed organizational and management studies are some of the many settings in which the case study method should be used. Marshall and Rossman (1989) argued "Case studies could include everything from economy and political structure... to personal attitude...," and "Case studies allow general questions leading to a 'total analysis' and generate rich description". A cross-case comparison will "evoke a complete explanation of differences... a list of explanatory factors and a rating of the relative factors".

Anyansi-Archibong's (1987) argument is even more relevant to this study. He argued that the case method appears to be the most appropriate technique in strategic management and policy studies. With the case method, the researcher can study the significance and influence of the environment, corporate culture and personal characteristics, and "the case method yields much data which may be tested for significance and relationship while not losing the nuances and understanding of each firms's environmental context."

There are some examples of successful case studies in the research of strategic management and international management, such as: a multiple-case study of 10 companies in three industries by Lawrence and Lorsch (1967); three single-case studies of global strategies by Hout, Porter and Rudden (1982); a case study of implementation strategy of three restaurant firms by Schmelzer (1992).

THE OBJECTIVE OF THIS STUDY

The objectives of this study are to:

1. identify the antecedent factors that affect the entry mode choices of multinational lodging firms in terms of the external environment of the host country, such as political, economic, socio-cultural, technological and ecological factors;
2. identify the antecedent factors that affect the entry mode choices in the internal environment of the lodging firms in terms of competitors, customers, suppliers, substitutions, strengths and weaknesses, and other competitive advantages;
3. assess how generic international strategies of a multinational lodging firm affect its choice of entry modes in overseas expansion; and
4. better understand to what degree the "match" between the external and internal environments may affect the entry mode choice applied by multinational lodging

firms such as wholly owned subsidiaries, joint ventures, and non-equity involvement methods (franchising, management contract, and consortia).

THE RESEARCH METHODOLOGY OF THIS STUDY

As the research of multinational lodging companies is at its early theory building stage, this study is conducted by using a qualitative research methodology. The qualitative approach is the best to explore, describe, and explain the research objectives. The approach helps to investigate and identify the key variables that influence the entry mode choices applied by multinational lodging companies when they expand overseas.

The Case Study Research Method

The case study method is the most appropriate when a researcher is seeking the answers to "how" and "why" questions (Yin, 1989). This research is trying to find the answers to questions, such as: how do the external and internal environment and generic strategies influence the entry mode choices? why does a firm select one mode over other modes? The case study method also helps the researcher to identify the antecedent variables and obtain the rich insights into the complex entry mode decision making.

RESEARCH DESIGN

The components of the research design are as follows:

1. Research questions;
2. Proposed basic framework;
3. Variable definitions;
4. Selection of cases;
5. Units of analysis;
6. Data collection;
7. Method of analysis;
8. Propositions and new framework development;
9. Tests for design quality.

The components of the design are explained below.

Research Questions

To identify the key variables that influence the entry mode choices in terms of wholly-owned, joint venture or non-equity involvement (franchising, management contract, or other contractual agreement), the following areas need to be analyzed:

A. The external environment of political, economic, socio-cultural, technological and ecological dimensions of the host country/countries that may influence the decision choice of entry modes:

1. What are the factors in the political dimension: stability, government roles or regulations (incentives, tax, investment restrictions, the risk of converting and repatriating the income)?
2. What are the factors in the economic dimension: GNP, level of economic development, tourism development, or disposable income?
3. What are the socio-cultural factors: language barriers, cultural differences, local people's attitude, values, nationalism?
4. What are the factors in the technological dimension?
5. What the ecological factors may affect the company's decision?
6. Does the company try to understand what the host countries needs and expectations from the company are? If yes, what are the needs and expectations?
7. How are these factors related to the entry mode choices?

B. The internal environment of the industry structure and the company's internal strengths and weaknesses which will also affect the entry mode choices:

8. What are the strengths of the company regarding overseas expansion: financial assets, or intangible assets (reputation, brand name, management know-how, technical and know-how)?
9. Does the company prefer to keep the management skills and technological

advantage within or prefer to share the knowledge with its partner/partners?

10. What are the weaknesses of the company regarding overseas expansion? What are the firm's perspectives on the competition? In what specific areas will competition be the most difficult?

11. Does the company expect the partner/partners' contributions to complement its weaknesses? What are the expectations or needs of the partner? Is the criteria the same or different in different host country conditions?

12. How does the company analyze the cost of entering into a host country, and the supply and demand situations? Who are the customers?

13. How are these factors related to the entry mode choices?

C. International generic strategies which may affect the entry mode choices--the specific expansion strategies:

14. What are the international strategies of the company? Will the company try to use a specific typology?

15. Does the company concentrate in specific country/countries or region/regions of the world?

16. Does the company prefer standardization of the product or adaptation of local conditions or a combination of the two?

17. Does the company prefer a broad portfolio of brand names?

18. What are the global strategic motivations and reasons of the company (market potential and growth potential)?

19. How are the chosen strategies related to the entry mode choice?

D. The Entry Modes

20. What are the choice of entry modes that the company is using for international expansion?

    * Non-equity? what are the methods: management contract, franchising (individual or master), membership, or other agreement?

    * Joint venture? what are the commitments: financial, equipment, personnel or other?

    * Wholly owned subsidiary? what are the commitments?

    * Any combinations?

21. What are the key factors that make the company choose one mode over others? To what degree does a "match" between the internal environment of a multinational lodging firm and the external environment of the prospective country exist in order for the multinational lodging firm to make one entry mode choice over other modes?

Proposed Basic Framework

The proposed basic framework illustrates the propositional relationships among the antecedent factors such as the external and internal environments, generic international strategies, and the entry mode choices such as wholly owned subsidiary, joint venture and non-equity involvement. (illustrated in Figure 3.1). It serves as a guiding framework which summarizes the relationships among the variables identified in the literature review. This research is designed to provisionally verify the existence of the propositional relationships in the contest of the multinational lodging industry.

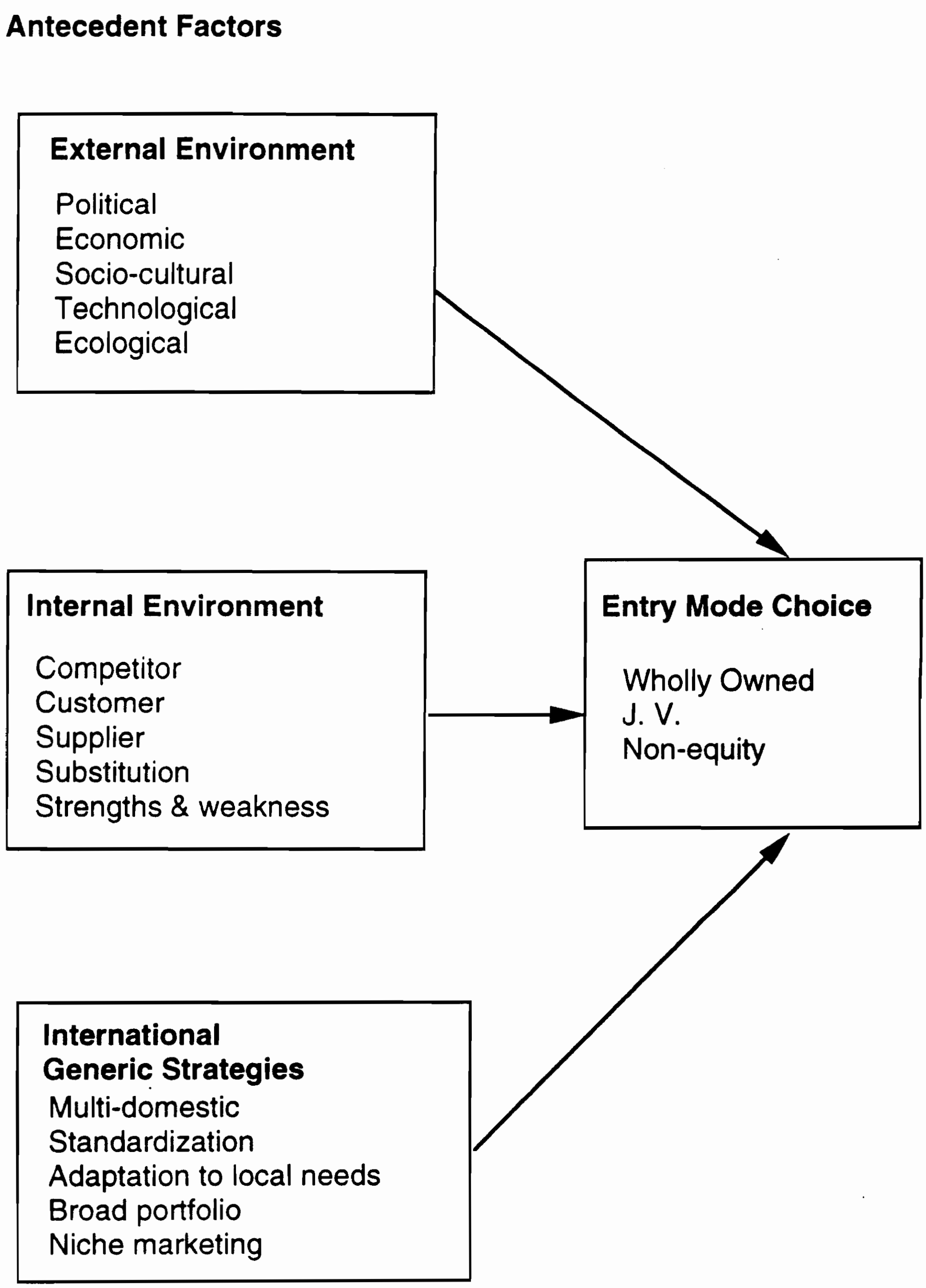

Figure: 3.1 Basic Framework of Antecedent Factors Affecting Entry Mode

Variable Definitions

The Proposed Independent Variables:

External Environment: the environmental conditions of the prospective country in terms of the political, economic, socio-cultural, technological and ecological dimensions.

Internal Environment: the competitors, customers, suppliers, substitutions, the strengths and weaknesses.

Generic International Strategies: the strategies defined by previous research in the global and international strategic management theory, such as standardization, adaptation to local condition, niche strategy and broad portfolio strategy and multi-domestic strategy.

The Proposed Non-Equivalent Dependent Variables:

The Entry Mode Choices:

* **wholly owned subsidiary**: a form of entry mode where a multinational lodging company directly invests into the host countries' lodging development and provides all the financial commitment, personnel

arrangement, and technology and in most cases has direct control of the overseas subsidiaries.

* **joint venture**: a form of entry mode where a multinational lodging company provides partial equity involvement; such an equity involvement varies from one agreement to another in terms of financial commitment, personnel arrangement, and technology.
* **non-equity involvement**: a form of entry mode where a multinational lodging company provides no equity involvement but a contractual agreement with its overseas partner; such a venture can be a management contract, franchising, membership consortium or other contractual agreement.

Selection of Cases

The research uses the case study method. Five multinational lodging companies were chosen to participate in the research. The criteria for the selection of each participating company are:

1. It must be one of the world's major lodging companies in terms of number of units and hotel rooms;
2. It must have properties in at least three countries of the world, preferably with some of the properties in developing countries;

3. It must be a publicly traded company, so that the researcher can investigate the company from multiple sources.

The CEOs and/or development officers of each participating company were interviewed face to face at the Annual Congress of the International Hotel Association between October 29 and November 4, 1993, in Seville, Spain, or at each corporate headquarters.

Unit of Analysis

The unit of analysis was the corporate multinational lodging firm. The firms are some of the world's major lodging companies with respect to the number of lodging units and rooms, and the coverage of the countries. Within each firm the target unit was the offices of development.

Data Collection

The data collection was through multiple sources of evidence, such as personal interviews, company documentation research and other secondary sources:

1. The primary source of the data was collected through an hour-and-half semi-structured personal interview with the CEO and/or officers of

international development of each multinational company. The semi-structured interview consisted of questions related to all the variables in the research. The entire questionnaire is in Appendix I. The interviews were taped and later transcribed. The researcher assured each interviewee of confidentiality.

2. The secondary source of the data was collected through company documents and records such as: 10K reports, Kleinwort Benson Securities' Annual Reviews; computer CD-ROM databases: ABI/INFORM, Predicast F&S Index Plus Text, Hospitality Index, Infotrac; and other available sources such as trade journals and newspaper articles. The data was compared and analyzed in conjunction with the interviews.

   The data from each source was collected and categorized according to the proposed basic framework (Figure 3.1) and with each participating company as the unit basis. The data collected was found supportive and complementary to the primary source of interview (see the discussion in Chapter Four).

Method of Analysis

Marshall and Rossman (1989) categorized the analytic procedure into five modes: organizing data; generating categories, themes, and patterns; testing hypotheses; searching alternative explanations and writing the report. At each phase of the analytical procedure the data collected needs data reduction, so that the collected data can be reduced to "manageable chunks and interpretation". Yin (1989) suggested three dominant modes of analysis: pattern matching, explanation-building and time-series analysis. The pattern match and explanation building modes explain the patterns of casual links of dependent and independent variables. Miles and Huberman (1984) suggested several data analysis techniques, such as: information arrays, matrix, flow charts, tabulations, chronological sequence. Schmelzer (1992) used conceptual maps, flow charts, summary statements, and matrix analysis for her research.

The data collected in this research was analyzed through summary tables and matrix analysis techniques. A new framework was developed to illustrate the relationships of antecedent factors and entry modes.

Summary Table

A summary table was used as the basic data reduction technique at the early phase of the data analysis. The strength of the summary table is that it is possible to bring the enormous amount of data into a manageable manner, and not miss some of the important and unique elements of the rich insights from the organizational participants (you may delete and lose some of the important and unique elements if you try to force the information into narrow categories at the beginning). The summary tables were on a company basis.

The procedure for the summary tables was:

1. summary of the CEO's and or development officer's perceptions of all proposed independent and dependent variables based on the interview questions (Table 3.1);

2. summary of the data from documentation, and other secondary sources of information; the data collected from company reports, annual reviews, CD-ROM data bases, journals and newspapers was consolidated on each company basis. The consolidated information was used to support and complement the data collected from personal interviews. The data collected from the secondary sources was added to the content of discussion where appropriate in Chapter Four.

3. The summary tables followed the proposed basic framework: external environment, internal environment and strategy. Each was sub-categorized based on the nature of the content (e.g. the external environment was divided into political, economic, socio-cultural, technological and ecological categories).

Table 3.1 Summary of CEO's Perception of All Variables

External Environment
Internal Environment
Generic International Strategies
Choice of Entry modes

* all the perceptions of five CEOs and/or development officers will be summarized in this format.

Matrix

The matrix is a logical analysis approach, which cross-classifies the variables, generates themes and patterns and illustrates interrelationships. This research was designed to explore and explain the relationships between the antecedent factors (environments and strategies) and entry mode choices. The matrices developed from the data provided the illustrations of the relationships.

The procedure of matrix development was:

1. a 3 x 3 matrix was developed for each participating company with three proposed independent variables: external environment, internal environment and generic international strategies versus the non equivalent dependent variables-the three categories of entry mode choices: non-equity involvement, joint venture and wholly owned subsidiary. The matrix illustrated the relationships of environments, strategies, and entry modes in one company (Figure 3.3).
2. a 5 x 5 matrix was developed to cross-compare the perceptions of the five participating companies against the external environment variables: political, economic, soico-cultural, technological and ecological dimensions.
3. a 5 x 6 matrix was developed to cross-compare the perceptions of each company against the internal environment variables: competitors,

customers, supplier (needs and expectations a company hopes the host country can provide), strength/weakness of the companies, property location and other internal factors.

4. a 5 x 1 matrix displays the participating company against generic international strategies.

5. a 5 x 3 matrix compares the three different entry modes applied by the companies.

Choice ------------------------- Antecedents	Wholly Owned Subsidiary	Joint Venture	Non-Equity Involvement
External Environment			
Internal Environment			
Generic International Strategies			

* Each firm will have a matrix like this one

Figure 3.2 Company A Antecedents versus the Choice of Entry Modes *

Propositions and Framework Development

Based on the above analyses of summary tables and matrices, a group of key antecedent factors and entry mode choices were developed. The newly defined key factors were compared with the literature reviewed in Chapter Two, and some propositions were developed. The research propositions help to explain the relationship between the antecedent factors and the entry mode choices, and to further understand the "match" between the internal environment of a multinational lodging firm and the external environment of the prospective country, and the entry choice decisions (wholly owned, joint venture and non-equity involvement) made by the multinational lodging firm.

A new framework was developed to plug all the identified key antecedent factors into a stream to illustrate the relationships between the antecedent factors and the entry mode choices.

Test for Design Quality

The quality of a case study design is mostly judged by its construct validity. Kidder (1981) defined construct validity as establishing correct operational measures for the concepts being studied. In order to strengthen the quality of the research design, the researcher took the following steps for construct validity:

1) Selected all the variables for the operation from the theory and concepts

presented in the literature;

2) Invited three professors from the Business School of Western Carolina University to review the interview questionnaire;.

3) Did a pilot study with the V.P and General Manager of a regional well-known hotel and resort, which helped to refine the content of the questionnaire and rehearse the procedure for the formal interviews with participating companies;

4) Used multiple sources of data to analyze all the variables in the research;

5) Provided a chain of evidence, and quoted from the evidence when needed.

For external validity, according to Yin (1989), the case study method emphasizes its analytical generalization. The researcher is trying to generalize a particular set of results to some broader theory. He suggested using a multiple-case method to strengthen analytical generalization. Thus, this research chose five multinational lodging companies for the investigation.

SUMMARY

This chapter discussed the reason why a case study is used as the methodology for this research. It also discussed every step of the research design with respect to the research objectives and questions, a proposed basic framework, definitions of variables, case selection, data collection, data analysis, propositions and framework development and the validity issue of the research design.

CHAPTER FOUR

RESEARCH RESULTS

INTRODUCTION

The previous chapter introduced the methodology of the research in terms of research questions, data collection and data analysis. This chapter reports the results of the research of the relationship between the antecedent factors and the entry mode choices utilized by five multinational lodging companies in their efforts of international expansion.

This chapter, firstly, briefs the pilot study, which rehearsed the formal procedure for the interviews with the five multinational lodging companies. Secondly, it describes the demographics of the five companies. Thirdly, it explains how the secondary data were used. Fourthly, it discusses the findings based on each individual company. A summary table is used to summarize each company's interview. An individual company's matrix is used to illustrate all the variables involved in the unit analysis. Lastly, it compares the findings of the five companies. There are four cross-company matrices that help to compare the perceptions of the external and internal environments, generic international strategies and the entry mode choices of the five companies.

PILOT STUDY

In order to test the structure, content, timeframe, and clarity of the questionnaire, a pilot study was conducted utilizing a face to face interview with a vice president and general manager of a well-known regional hotel and resort. The interview confirmed the structure, content, and clarity of the questionnaire, and suggested that formal interviews with each of the selected multinational lodging chains could be conducted in a hour and one half timeframe.

THE DEMOGRAPHICS OF THE SELECTED COMPANIES

To honor the confidentiality of each firm, the companies will be identified as Company A, B, C, D and E. The demographics of the companies are as follows:

1. all the companies are publicly-traded multinational lodging chains located in U.S. and Europe;
2. each of them conducts business in at least 20 countries and all have hotels in developing countries;
3. the entry modes applied by the companies are various: some are more interested in using master franchising, some are focused on management contract, and joint venture; there are some wholly owned entities and long-term leases as well; there is an increasing practice of a combination of entry modes among the chains;

4. Seven interviews were conducted in five multinational chains by the same two interviewers at the firms' corporate headquarters or during the 31~~th~~st International Hotel Association Annual Congress, October 31 to November 4, in Seville, Spain. Two CEOs and five vice presidents or directors in charge of international development and administration participated in the interviews. Six of the seven interviews were taped, five were transcribed and one was not due to the quality of the tape, Company D provided written answers to the research questionnaire. The interview with Company D was used to follow up and enforce the written answers.

The Secondary Sources for the Research

To support and complement the primary data collection resulting from the face to face interviews, secondary sources of information were collected through company documents and industrial records such as 10K reports, Kleinwort Benson Securities' Annual Reviews; computer CD-ROM databases: ABI/INFORM, Predicasts F&S Index Plus Text, Hospitality Index, Infotrac; and other available sources: trade journals and newspaper articles. All the secondary data was classified and consolidated into the same sequence (as the summary of the interview) of the external and internal environments, strategies, and entry mode choices on each company basis. The secondary data then was compared and contrasted with the summary of the interviews. The secondary data was found to contribute to the final findings in three ways: 1) It supported the data collected from the interviews, for example: the interviews indicated that companies share their technologies with local partners; the secondary data reports how the companies train the local staff with the latest technology. 2) It complemented the data collected from the interviews; for instance: While several companies only mentioned their major entry mode choices such as the management contract and franchise agreement, the secondary data found those companies have also utilized wholly owned, long-terms leases or joint ventures. Such complementary data were added to the content of the unit analysis where appropriate. 3) When the secondary data was found to disagree with the interviews, the information was fairly presented in the content of the unit analysis. For an example: Company C, in the interview, expressed that it was not interested in analyzing the macro economic factors; however, the secondary data reported that it complained about high inflation rate, and poor quality of labor and product it encountered in the countries where it has lodging operations. This information was reported in the content of the unit analysis.

UNITS OF ANALYSIS

The way of monitoring and analyzing the external and internal environments is various among the companies in terms of the antecedent factors they consider, the amount of information they analyze, and the sources of information they seek. Therefore, their perceptions of the environment are not unified. However, there is something in common among the five companies -- they analyze their external and internal environments based on their pre-set entry modes (much of the same way they do business at home-- management contract and franchise, etc.). The analysis of the environment is dependent on the amount of equity involvement in each project of a company in its international operations. Ideally, all companies would prefer non-equity or the least equity involvement, such as a management contract and franchising. In this case, as they do not invest or have financial risk in the operation, they believe that they do not have to understand much of the external environment of the host countries. However, in some cases, the requirement of equity participation from the partners of the host countries changes the entry mode choice for a non-equity involvement to a partial equity participation. This forces the multinational company to understand more about the situations in the host countries. Moreover, the characteristics of the lodging business and the customers a multinational company is seeking to serve all have an impact on the companies' analysis of the environment.

In this section, the results are reported in the sequence of Company A,B,C,D, and E. Each company's report discusses, first, the external environment: political, economic, socio-cultural, technological and ecological factors; secondly, the internal environment: competitors, customers, property location (where the service will be to its customer), supplier (expectation and contributions from the host partner), strength/weakness of the company; thirdly, the generic international strategies utilized by the company; and finally, the entry modes used by the company and the relationship between the factors and entry mode choices of the company. After the discussion of each company, a table summarizes the major points of the face to face interview with the leaders of the company. And an individual company matrix displays the relationship between the antecedent factors (external and internal environments and strategy) and the entry mode choices. The contents in the matrix are drawn from both the interview summary and consolidated secondary data. The company matrix is illustrated right after the summary table of the company.

Company A

External Environment

Company A treats the external environment based on the financial contribution it must make or the entry mode it uses in each of its projects. That is, there is a distinction made in the level of analysis of the external environment depending upon whether a 100% equity owned subsidiary, long-term lease, or management contract is chosen as the entry mode. If the company invests 100% equity in a foreign project, the company will thoroughly examine every aspect of the political, economic, technological and social dimensions, and its responsibility for environmental and ecological aspects of the hotel development.

In a long-term leased property, the company is very much concerned with the economic, political, and social aspects because it is going to be a long-term operator, underwriting the hotel in a form of paying a rent. This is almost like owning a property, except instead of paying at the beginning, it pays out in incremental sums as it goes.

Although it likes to utilize non-equity management contracts, presently there are few pure management contracts, so it operates hotel contracts with a minority equity involvement. That is to take a 5-20% minority position, which is actually the cost of buying a management contract. It prefers the minority investment to be a liquid investment. If the company enters a new territory, has committed to equity involvement, and perceives the project with higher risk, the company will do an external environment study. In the non-equity or minority position, the company cares little about the environment factors when it enters into a host country, as the company is not the major investor of the project. The investor should do the external analysis, but not the management company.

When it operates the property after its entry, Company A collects the information of the operation as well as the environment which may influence the operation. It collects the information from three levels of the organization: local (the operating unit), regional (regional office), international (corporate strategic planning department). Then the unit and regional office provide a monthly report on economic impacts, political activities, local legislation impact, and local commercial activities to the headquarters. However, the top management perceives that the quality of such a report is somewhat questionable. The top management also perceives that the management at certain levels is unable to see the change of the environment and has lower marketing, perspective, analytical, and valuative skills.

Political Dimension

In whatever scenario it may be, the company will look closely at the tax, repatriation, and current regulations of the host country. It believes the political system will not affect the decision of the entry to the country as long as the system is stable. As the lodging industry follows its customers and serves them wherever they go, the company even believes that as long as the host country has good commercial centers, political instability may not mean so much to the lodging operations, and it will try to negotiate a management contract with preference of non-equity participation with the host country.

Economic Dimension

Generally, Company A looks for a country which has economic stability, a low inflation rate, and areas where capital investment can grow. They watch carefully the fluctuations of the world currency and the recession of the world economy.

Socio-cultural Dimension

The company tries to develop a hotel with the host country's social and cultural characteristics in mind and designs services, especially, for local customers.

Technological and Ecological Dimensions

The company invests heavily in new technology such as communication and reservation systems. The company shares the technology with the partner through intensive training to the local employees. The company tries to be the best neighbor in terms of taking care of the natural environment, for instance in creating recycling programs.

Internal Environment

In the internal environment, Company A perceives that:

1) the real competition in the host country is from the competitors of the lodging companies of the host country and the companies of the region where the host country is located; 2) its primary customers are international business travelers, as well as the local customers. 3) it distributes its service to its customers through its properties at gateway cities of the world commercial centers, historical sites, and the areas where help

the company to build its network. 4) it has the strengths in such tangible assets as finance and intangible assets such as a well-known brand name, high standards of operation, and well-run management training programs, which help the company to attract deals with its host counterparts. 5) the company has higher expectations from its supplier -- the partner. The criteria of evaluating a partner is: the partner should be stable and reliable for at least over a 3-5 year period, carry out commitments, have corporate control, good bank references and business experience. The partner should make Company A feel safe and have certain level of the operation control. The amount of information needed for evaluating a partner depends on the company's involvement in the deal: the structure of the deal and the size of the share of equity involvement. If the partner has a big impact on the company's investment, the company will pull the balance sheet of the partner and audit it.

Strategies and Motivation

Highly motivated by the image of the company and the growth of overseas operations, the company prefers a single brand strategy, and carries out the multi-domestic strategy by treating each entry on an individual basis and adapting to the local customers' needs and expectations. It also uses acquisition strategy to take over local existing companies to facilitate the pace of its foreign operations.

Entry Modes

Company A has a good range of entry mode choices to meet international and domestic demand. The major vehicle of its overseas expansion is the management contract. It prefers to sign non-equity involvement management contracts. The company believes no financial contribution is the least dangerous in foreign operations. If the company is required by its partner to commit to equity participation, it will use a limited liquid investment, which allows the company to easily withdraw from the project if it has to do so.

It does not prefer joint venture. However, if the partner requires, it will put 5 - 20% equity solely for obtaining the management contract. It believes that a joint venture partner may not have the same priority as the lodging company does, so the lodging company has to do the project at the pace of the partner. Moreover, it thinks that it is very difficult to find a good joint venture partner.

The company has some wholly-owned subsidiaries in foreign countries, most of them in Western Europe and the U.S., as the company perceives political and economic stability in those countries. Long-term leased management contract is another method the company utilizes in foreign properties.

The company is reluctant to use franchising as its expansion method because it believes that franchise offers no mechanism for profit, and it has problems with quality control of products and services, and operational control of the properties.

The company indicates that there are a lot of human factors, such as personal relationship, trust and references, and individual influence in the entry mode decision. Table 4.1 summarizes the interview with the company's CEO and V.P. on corporate development. Figure 4.1-1 uses a matrix to illustrate the major environmental factors and the entry modes of Company A. The three top row cells illustrate the three major categories of entry modes: wholly owned subsidiaries and leasing (a long-term lease is viewed much like owning the property); joint venture with minority (liquid) equity participation solely for gaining the management contract; and pure management contract with non-equity involvement. The three cells in the second row express how the entry mode is interrelated with the external environment. In the case of using wholly owned subsidiary as the entry mode, the company would examined all the political, economic, technological, socio-cultural and ecological factors. For joint venture (truly management contract) with minority equity participation, the company will analyze the external environment to a lesser extent. For management contract with non-equity involvement, as long as the host country provides bearable tax rules and allows the management fees to be repatriated to the home headquarters, the company cares little about the external environment. The cells of the third row illustrate the company considerations regarding entry modes versus the internal environment. The three entry modes share mostly concerns such as **competition** (local and regional competitors), **customer** (mainly international business travelers), **strengths** (brand name, high standard, and training). **Property Location** explains where it will distribute its service to its customer. The company uses a wholly owned entry mode only in the West Europe and the U.S. It uses a management contract to enter other world commercial centers and gateway cities. When it uses a management contract with partial equity participation, it will examine the host partner, indicated by **Partner criteria** in the matrix. The company uses the same generic strategies: multi-domestic, acquisition of existing companies, standardization and single brand in the three categories of entry modes. The individual matrices of Companies B,C,D, and E are expressed in the same way. However, the contents could be different as the entry modes are chosen variously and the perceptions of the environment are different among the companies. The author will mainly point out the differences for the rest of individual company matrices at the end of discussion of each company.

Table 4.1 Summary of the Interview with Company A

External Environment

Political Dimension

Taxation and Repatriation
Consistency of the current regulations
Political system does not matter but should be stable

Economic Dimension

Stable economy
Capital growth areas
Inflation rate

Socio-cultural Dimension

Development of national characteristics
Taking a local lodging company approach

Technological Dimension

Sharing technology
Heavy investment

Ecological Dimension

Be the best neighbor

Internal Environment

Competitor

Local & regional hotel companies

Customer

International business travelers
Local customers

Property Location

International centers of commerce
City center property
The strategic areas where help to build network
Historical location

Strengths

Brand name, first class hotels
High standard
Internal training of management team

Partner Criteria

The structure and size of the company
High corporate control
Stable and reliable entity
Carry out commitments
Good bank references
Business experience

Strategies

Single brand strategy
Multi-domestic strategy
Acquisition of existing local company

Motivation

Growth and the image of the company

Entry Modes

Wholly owned lodgings in Western Europe and U.S.
Lease contracts
Management contract with partial equity
Pure management contract with no investment
No franchising

Choice ---------- Factors	Wholly Owned Subsidiary /Leasing (SOME)	Management Contract with Minority & liquid equity (Minority J.V.)	Non-Equity Involvement (MGT Contract)
External Environment	**political** **economic** **technological** **socio-cultural** **ecological**	**political** **economic** **financial**	**political:** repatriation & taxation **No investment, not much concern about the environment**
Internal Environment	**competitor:** regional & local firms **customer:** int'l business & local **location:** Europe & U.S. **strength:** brand, standard training	**competitor:** SAME **customer:** SAME **location:** world centers & cities, **strength:** SAME **partner selection**	SAME
Generic Int'l Strategies	multi-domestic acquisition standardization single brand	SAME	SAME

Figure 4.1-1 Company A Antecedent Factors versus the Entry Mode Choices

Company B

External Environment

Company B does not have a standardized checklist for the external environment. In general, the information about the environment gathered by the top management is simply from reading and traveling. It perceives the information as something given, but which can not be accurately measured. If the company pursues some equity involvement in a foreign project, the company's feasibility study team will do a thorough investigation of the project in the host country, where they collect information from local financial organizations, foreign banks, even competing lodging companies in that country. It also examines some of the issues of the environment in the host country.

Political Dimension

Repatriation, extraction and tax regimes of the host country are the major concerns of the company. The company also is interested in how the host country regulates the ownership transfer and liquidity of the investment. For any investment in a foreign country, it expects to generate return back to its home country. The company uses management contracts as the major entry mode, so that it can avoid development risks and invests as little equity as possible in the foreign hotels. In such a scenario, it believes that political instability and making a profit are not directly correlated. The company argues that a well-established and operated first class hotel could be a very good shelter if there were to be a political riot and the hotel could make a lot of money out of it.

Economic Dimension

Top management perceives that the macro factors such as GNP, or the development of a middle class in the host country might be not useful variables for the company to make decisions. The reasons are: 1) the company's target market is the international business traveler, so how well the middle class develops in the host country does not mean a lot to lodging operations; 2) it argues that some of the European countries do have sound macro economic factors such as good GNP and higher level of middle class population, but those countries do not allow multinational lodging companies to make money there. However, the company looks closely at the capital and real estate markets of the host country and is concerned with how well the infrastructure, such as air transportation, is established in the host country.

Technological and Ecological Dimensions

The company pays a great deal of attention to the advancement of the service technology. It prefers to share the new technology with its host country and provide intensive training programs for its overseas properties. The company believes there are few secrets in the service industry. It perceives that telecommunication is not a problem nowadays with the help of Internal Back System (which sends all information from overseas properties back to its headquarters) through satellite communication. It believes ecological correctness is a rising concern for the company. It is concerned with the site selection, lodging design, construction, and hotel safety issues.

Internal Environment

Company B considers the international business traveler as its target market. It concentrates in the world's largest gateway cities, pursuing an internal feasibility study of its property locations. It boasts its competitiveness regarding its strengths such as capital for tangible assets, well-known brand name, the standard and quality of its intangible assets. Partner selection is a major concern: The ability and inability to find a good partner is very important. The company thinks that a company must understand the real needs and expectations of a host partner, if it wants to establish a better partnership. The company thinks that the partnership should be cooperative, sharing of resources, and complementary to each other.

Strategies

To fulfill its overseas growth, the company acquires existing companies, uses multidomestic strategy and maintains tough standards for its products. But its primary focus is on its domestic market. "Go global" is a strategy only used in recent years.

Entry Modes

The company utilizes multiple entry modes for its foreign expansion. Its major vehicle is the management contract, with a preference for a non-equity involvement contract. If it needs to invest, it prefers other forms of contribution rather than equity, or liquidity of the investment. It also has involvement of joint venture and franchising. The study also indicates what the CEO thinks and believes plays a key role in making an entry decision to a foreign country.

Table 4.2 summarizes the interview with the V.P. of International Development. The contents are described in the text. Figure 4.1-2 illustrates the antecedent factors and entry modes of Company B in an individual company matrix. The matrix summarizes the previous discussion and points, and that the company mainly uses the management contract with minority or liquid equity participation and non-equity management contracts and franchise agreements as modes of entries. To facilitate the entry modes, Company B is concerned about repatriation, extraction and taxation in the political dimension (with, however, no direct relationship between political instability and lodging profit), capital and real estate markets and infrastructure in the economic dimension. The company realizes that ecological concerns are a rising issue. The company shares technology with its host country. In the internal environment, the company uses its feasibility study team to analyze the property location if it is going to invest into the property.

Table 4.2 Summary of the Interview with Company B

External Environment

Political Dimension

Repatriation, extraction and taxation
Regulations on ownership transferring
Regulatory treatment to liquidity

Economic Dimension

Access to the capital market
General health of the real estate market
Infrastructure

Socio-cultural Dimension

Not an important factor

Technological Dimension

Sharing technology
Technology Investment

Ecological Dimension

An issue of increasing importance

Internal Environment

Competitor

Not mentioned

Customer

International business travelers

Property Location

World large city centers
Competitive study of location

Strengths

Capital
Standardization and quality of product
Dominated position of a market

Partner Criteria

Cooperative, sharing of resources and complement each other

Strategies

Acquisition of existing lodgings
Standardization of product

Entry Modes

Management contract
Management contract with minority liquid equity
Franchise agreement

Choice ---------- Factors	Wholly Owned Subsidiary (NO) /Leasing (FEW)	Management Contract with Minority & liquid equity (Minority J.V.)	Non-Equity Involvement (MGT Contract or Franchise)
External Environment	SAME	**Political:** repatriation extraction & tax **Economic:** capital MKT real estate MKT infrastructure **Socio-cultural:** not an issue **Technological:** investment sharing, training **Ecological:** rising issue	**Political instability & profit do not directly correlated in hotel operation** SAME
Internal Environment	SAME	**Competitor:** not mentioned **customer:** Int'l business travelers **Location:** world largest city center, Feasibility study **Strength:** capital, standard & quality **partner selection**	SAME
Generic Int'l Strategies	SAME	Acquisition Standardization Multidomestic	SAME

Figure 4.1-2 Company B Antecedent Factors versus the Choice of Entry Modes

Company C

Company C views environmental issues based on the experience of top management. They believe they know how to do business and the trade-offs of doing business. However, the company has some particular concerns in the external and internal environment.

External Environment

Political Dimension

The company has been aware of the effect of the Gulf war. It does not want to have any exposure in a war country. Taxation, and government regulations in some countries are of concerned to the company, because of the unfair treatment to the company by those countries. However, the company does not normally care about the internal political issues (such as human rights, political system) of the host country, as long as the regime has a lot of money to spend for the lodging business. It also believes that a frequently changing government does not mean political instability.

Economic Dimension

The company believes the lodging industry is too complex to be related to the macro-economy. In fact the linkage between the industry and the macro-economy is not very clearly understood in the hospitality industry. Hotels are income-elastic and will be in the places where there is the most money. The company tends more to look at the economic drivers and attractiveness rather than GDP, the population, demographic, or income per capita. However, the company has come across problems with the trading environment among regions. Inflationary prices, poor handiwork, unschooled personnel, poor quality of the local product of some host countries have been problems (though the interview did not reveal these problems, secondary data did).

Technological and Ecological Dimensions

The company pays much attention to the human capital and spends a lot of money on staff training. It believes human capital is tremendously important, and expects staff to have certain skills. It also invests money in upgrading its computer network. It prefers to share the technology with its host partner, which in turn renders a successful operation. The company believes the ecological issue is not a major one, but it tries to follow the local zoning laws and regulations regarding property planning and waste disposal, and to be a good neighbor of the local community.

Internal Environment

The company expects that the market it plans to enter has a certain size customer base. It searches for niche markets, preferring to have less competition. The company also analyzes the cyclical characteristics of the business, relying upon a sharp emphasis on sales, marketing and distribution. The company restructured its organization in order to be more efficient and claims its strengths as a strong brand name and business know-how. In terms of partner selection, the company will analyze a privately-held company and public-held company with different criteria.

Strategies

The company has a strong domestic lodging coverage and has expanded into foreign markets in recent years. The company practices strategies of multidomestic, multiple brand portfolio, niche marketing, and acquisition of existing lodging companies.

Entry Modes

The company utilizes all the entry modes that the industry currently uses: wholly owned subsidiaries, leased properties, joint ventures, management contracts and franchising (although the interview only mentioned management contract and partnership, secondary data complemented with other entry modes). (Table 4.3 summarizes the interview with the directors of strategy, planning and development of the Company C, and Figure 4.1-3 illustrates antecedent factors and entry modes in a matrix.) Company C uses all the entry modes for its overseas expansion. However, there is no supporting data that indicates the company has distinct differences in viewing the environment when it utilizes different entry modes. (The author simply puts the identified factors into one column.)

Table 4.3 Summary of the Interview with Company C

External Environment

Political Dimension

No entry of a war country
Changes of government do not necessarily mean political instability
Political system does not matter
Importance of tax regulations

Economic Dimension

Difficult trading environment among the regions
Considering economic attractiveness and drivers

Socio-Cultural Dimension

Not mentioned

Technological Dimension

Sharing technology
Importance of human capital

Ecological Dimension

Not a major issue
Following local zoning laws and regulations
Be a good neighbor

Internal Environment

Competitor

Less intensive competition

Customer

Certain size of the market

Strengths

Brand name
Business know-how

Strategies

Acquisition of existing lodging companies

Entry Modes

Management contract in risky countries
Partnership

Choice ---------- Factors	Wholly Owned Subsidiary /Leasing (FEW)	Joint Venture (Partnership)	Non-Equity Involvement (MGT Contract Franchise)
External Environment	SAME	**Political:** not in war countries taxation internal issues don't matter **Economic:** attractiveness inflations poor labor quality **Socio-cultural:** not mentioned **Technological:** Sharing, invest **Ecological:** not major issue	SAME
Internal Environment	SAME	**Competitor:** less competition **Customer:** certain size **Location:** niche marketing **Strength:** brand name know how to do business **Partner selection** Not mentioned	SAME
Generic Int'l Strategies	SAME	Acquisition Portfolio Multidomestic	SAME

Figure 4.1-3 Company C Antecedent Factors versus the Entry Mode Choices

Company D

Company D could be regarded as a veteran in its efforts of world expansion in the lodging industry. It looks more closely at the external environment and analyzes its internal environment because of its broad coverage of operations in most parts of the world and also because of its strong commitment to serve the domestic customers of the host countries. The company understands that it is difficult to enter into a country and serve the local customers without having sufficient knowledge about the country's environment. The company has found that it is difficult to obtain solid and available information such as the size and nature of hotel stock in a country for its internal marketing research, and difficult to analyze the supply and demand for overseas expansion.

External Environment

Political Dimension

It cares about the stability of the host government, the government policy and attitude toward multinational lodging chains. It prefers to be free in conducting the firm's business in the host country. It will be more encouraged to enter the market if the foreign government provides some kind of inducements.

Economic Dimension

As the company tries to serve both the host country's domestic market and international travelers, it examines the economic development of the country, the growth of the middle-class population, GNP, the inflation rate, the development of the tourism industry and infrastructure, travel expenditures, the availability of capital, and the local labor market, and how the country can effectively convert itself to a free market economy, in the case of any East European country.

Socio-Cultural Dimension

The company is aware of the language barriers and cultural differences of the country where it has operations. It makes aggressive global marketing efforts and tailors the marketing message to regional and local market needs as well as the needs of international business and leisure travelers.

Technological and Ecological Dimensions

Company D has made commitment to the modern technology development in the lodging industry. It has invested heavily in a communication network. It prefers to share its management and technological advantages with its partner and use the latest technology to train the local employees. The ecological environment is one of the major concerns of the company. It strives to provide its guests with a better natural environment in which to stay and its employees a safe and pleasurable place to work.

Internal Environment

Company D analyzes its internal environment based upon the competition, customer, property location, its strengths and partner selection criteria. The company sees its competitors as the local lodging companies of the host country, the regional lodging firms and other aggressive multinational lodging chains. It targets both the domestic customers of the host country and international travelers. In terms of property locations, the company would first like to enter the international gateway cities, then branch out to other potential growth areas. When it enters into a country, it will try to expand into the potential developing area and to become a domestic market leader in the country. It concentrates on North America, Western Europe, the Middle East, South Africa and Asia. It boasts of its many intangible assets, such as strong and familiar brand name, highly sophisticated technological and training infrastructure, its expertise in marketing, sales and operation and its support of its franchisees. However, the company feels it is weak in obtaining the information from the host country, such as competitive actions, and travel characteristics: arrivals and departure, domestic travel information, capital and labor markets, acceptance of operating and franchising local hotels. So the company often looks for partners who can be complementary in terms of strengths and weakness and provide all the above mentioned information it needs.

Strategies and Motivation

Highly motivated by the worldwide growth and development and the delivery of values to its shareholders, Company D practices a multiple-brand portfolio strategy. It has brands across all the levels of services of lodging operations. It adapts to the multi-domestic strategy as the company executes its strategy differently from one country to another. It combines the strategies of standardization and adaptation to the different preferences of the host countries. The company is aware of the needs and expectations of the local government and considers the local government as a friend and ally.

Entry Modes

The company uses all the major entry modes for its expansion. However, it concentrates on franchise agreements in a mature lodging market, and management contracts for a newly developing area, which needs ongoing assistance so as to safeguard the quality of the service and the brand name. It has few company owned subsidiaries and leased operations. It will use joint ventures when host partners request financial commitments or it may put some in investment to show its faith and attract local investment. (Table 4.4 summarizes the written answers and interview with CEO of Company D, and Figure 4.1-4, the company matrix, illustrates the antecedent factors and entry modes of Company D.) Company D has a strong interest in host country' environment, because it commits to serve the host country's domestic market and tries to become a domestic leader of the lodging business in that country. It cares about almost all the external and internal factors and mainly utilizes management contracts, franchising and joint ventures. Sometimes it invests in projects in a host country in order to attract local investors, which maybe another reason for its interest in the host country's environment. (The author puts the identified factors into the columns of J.V. and non-equity involvement.)

Table 4.4 Summary of the Interview with Company D

External Environment

Political Dimension

Stability of the host government
Government attitudes and policies
Availability of certain inducements

Economic Dimension

Economic development
Growing middle class population
High growth rate of GDP
Tourism development, travel expenditures
Development of infrastructure
Local labor market
Availability of capital

Socio-cultural Dimension

Language barriers, cultural differences, local attitude
Meeting the needs of local customers

Technological Dimension

Technological development
Investment of network
Sharing management skill and technological advantages

Ecological Dimension

Striving to improve the quality of guests' stay
A safe and pleasurable work place for the employees

Internal Environment

Competitor

Large domestic player
Regional players
Aggressive multinational lodging firms

Customer

Domestic and international travelers

Property Location

Major international cities first
Significant growth potential areas
Domestic market leadership
Coverage of most parts of the world

Strengths

Strong and familiar brand name
Technological and training infrastructure
Expertise in marketing, sales and operation
Support of the local operators and franchisees

Partner Criteria

Complement each other
Knowledge and expertise in local environment

Strategies

Multi-domestic strategy
Combination strategy of standardization and
Adaption to local needs and preferences

Motivation

Worldwide growth and development
Delivering value to the shareholders

Entry Modes

Various entry modes tailored to the local market
Management contract for newly developing area
Franchising for mature markets
Joint venture
Few wholly owned subsidiaries

Choice --------------- Factors	Wholly Owned Subsidiary/ Leasing (FEW)	Joint Venture	Non-Equity Involvement (MGT Contract, Franchise)
External Environment	SAME	**Political:** stability, attitude & policy, inducements **Economic:** growth of economy, GDP, mid-class, tourism, infrastructure labor, capital MKT **Socio-cultural:** local needs, language & cultural difference, attitude **Technological:** investment sharing **Ecological:** major concern	SAME
Internal Environment	SAME	**Competitor,** domestic, regional. & int'l **Customer:** domestic & int'l **Location:** cities and potential areas **Strength:** brand, training, technology expertise, support **Partner selection** complementary & sharing	SAME
Generic Int'l Strategies	SAME	Multi-domestic, Combination of standard & local needs	SAME

Figure 4.1-4 Company D Antecedent Factors versus the Entry Mode Choices

Company E

Company E decided to use franchising, especially the master franchise, when it started to go overseas in the 1980s. As the company did not have to commit equity involvement in a franchise agreement, in general top management simply read and learned about the business environment from newspapers or other public media. The company does not systematically analyze the environment. However, as there have been more and more requirements from the master franchisees and the company needs to invest in newly established franchise agreements, the top management begins to realize that they need to learn more about the country in which they have to put some investment. The top management collects information of the environment through newspapers, and goes to legal and tax partners (international firms) for regulations in a country. As more investment commitment is involved, more information is needed, especially financial analysis of the agreement and the political stability of the country.

External Environment

Political Dimension

As the company enters into a country only with its logo or brand name, the company believes that it does not have to be involved directly in the political issues in the country, and it is really up to the master franchisee to deal with those issues. The company learns from the master franchisee about the political situations in the country. However, the company is concerned with the legal and tax regulations, and repatriation. It does want to get its franchise fee back to its headquarters. As the company begins to put money in some of the agreements, it wants to know more about the stability of the country it is going into.

Economic Dimension

The company is more interested in a country's economic factors which have direct impact on its lodging expansion, including infrastructure-factors such as: airport, frequency of flights; travel patterns, volume, potential traffic, local travel market; and the inventory of the hotel stock of the country.

Socio-Cultural Dimension

The company is aware of the differences of the cultures and tries to adapt to the local culture and expectations. Its hotel designs focus on local characteristics. It is concerned with the quality of local labor force, and it faces some language barriers, especially the translation of the franchise agreement.

Technological and Ecological Dimensions

The company is concerned with the quality of telecommunications. It prefers to share the technology with its franchisees and offer products and services to its franchisees. Ecologically it relies on the franchisees' adherence to local rules and restrictions.

Internal Environment

The company wants to provide services for both international traveler and the host country's domestic markets. It focuses on the middle market segment. Its sophisticated reservation system is the key strength of overseas expansion. It believes that it provides its franchisees with quality services. However, the brand name of the company is not as well known as many other brand names, so it perceives the well known brand companies as its competitors. Since it can't provide a management team for the lodging operation at the present time, it understands the importance of aligning itself with a strong partner for the success of the franchise system. It expects its partner to have financial stability, sound infrastructure in terms of the ability for further development, marketing and sales, and services. It requires the partner to have a reservation center, possession of hotels and experience of operation and management. And the partner should really understand the basic concept of franchising and have a good written development plan.

Strategies and Motivation

Motivated by the future and growth, and its forward looking leadership, the company prefers to form strategic alliances with local partners. It also acquires local existing companies, adapts to the local conditions, and applying a multi-domestic strategy.

Entry Modes

Company E uses the master franchise as its major development vehicle overseas. However, the company has increasingly received requests from its franchisees to invest in the projects. It has responded to these requests with minority equity involvement. It has begun to understand that some degree of the corporate investment can be a fast track for growth. As the company begins to invest in overseas master franchises, the company has created a position of Vice President of finance, who plays a more important role in the entry mode choice. (Table 4.5 summarizes the interview with V.P. of international development, and Figure 4.1-5 presents a matrix of the antecedent factors and entry modes of Company E.) As the company mostly uses the non-equity franchise entry mode, it cares little about the external environment. Its perception of the environment is almost identical to the other companies. The big difference is that the company has a clear guideline for choosing its partner, as it solely depends on its master franchisee to develop the company's brand name in the host country.

Table 4.5 Summary of the Interview with Company E

External Environment

Political Dimension

Repatriation
Legal and tax regulations
Not directly dealing with government and political issues

Economic Dimension

Infrastructure: airport, frequency of flights
Travel patterns and local travel market
Inventory of lodging stock

Socio-cultural Dimension

Language barriers
Quality of labor force
Lodging design in local characteristics

Technological Dimension

Quality of communication
Sharing technology
Offering products and services

Ecological Dimension

Relying on franchisee's adherence to local rules and restrictions

Internal Environment

Competitor

All well-known brand companies

Customer

Host domestic and international travelers

Strengths

Quality service
Middle market segment focus
Sophisticated reservation system

Weaknesses

Brand recognition
Management know-how

Partner Criteria

Financial stability
Having hotels
Marketing capability
Operation and management experience
Control of the lodging operations of the local town or city

Strategies

Build strategic alliances
Acquisition

Motivation

Future and growth
Leadership

Entry modes

Master franchise
Joint venture with minority equity

Choice ---------------- Factors	Wholly Owned Subsidiary (NO)	Joint Venture (FEW)	Non-Equity Involvement (Franchise)
External Environment		SAME	**Political:** repatriation & taxation rely on master franchisee **Economic:** infrastructure tourism related information **Socio-cultural:** language, labor, local character **Technological:** sharing & offering **Ecological:** rely on local rules
Internal Environment		SAME	**Competitor:** any strong brand name companies **Customer:** Domestic & int'l, Mid-mkt focus **Location:** anywhere needs of its service **Strength:** Reservation system **Weakness:** brand name management know-how **Partner Selection** clear guideline
Generic Int'l Strategies		SAME	Strategic alliance Acquisition Multidomestic

Figure 4.1-5 Company E Antecedent Factors versus the Entry Mode Choices

COMPARATIVE ANALYSIS

The results of each individual company analysis discussed in the previous section indicate that the analysis and evaluation of the external and internal environment are complex in international lodging operations. The results show that each of the five participating lodging companies employs the same business practices used at home, mostly management contract and franchise, when it enters into overseas markets. As the company enters a country using a non-equity involvement mode or least equity involvement mode, it does not care much about the environment. However, if the company enters the country with the modes of wholly owned property and leasing contract, the company will seriously study the host country environment because of its financial commitment to the project in the host country. In the case of a strong interest in serving the host country's domestic market, the company will also seek more information about the host country. There are some common concerns that all the companies look into as well. In this section, the differences and similarities of their perceptions of the external and internal environments are compared in relation to the strategies and entry modes of the five participating companies. There is a cross-company matrix illustrating the differences and similarities of the companies at the end of each part of the discussion in terms of the external environment, internal environment, strategies and the entry mode choices.

External Environment

Political Dimension

Although the companies treat political factors differently based on the financial involvement in the foreign projects, Companies A, B, C, and E express clearly that repatriation and tax regulation are very important factors. They have different perspectives of the political stability of the host countries. Company A perceives that as long as the country is a world commercial center, the political uncertainty should not be a major factor. Company B argues that political instability is not directly correlated with making profit in the hotel business. A well-known brand lodging company can make money even in the case of a political riot in a country, because a well-managed hotel can be viewed as a shelter for the international business traveler. The world's most profitable hotels can be ranked very low in terms of political stability of the countries where the hotels are located. Though the companies may be less willing to take on the full risk of the shareholders' equity to invest in an unstable country, they will use the management contract or franchise agreement for such an operation. However, Company A will consider the stability issue when it is going to wholly own or long lease the property. Company D is also concerned with the issue as it wants to serve the domestic customers of the host country. Company C, however, will never risk exposure in a war country. It believes that the political system should not be a factor in an entry mode choice. Company E relies on its master franchisee to deal with the political issues of the host country. In sum, except for taxation and repatriation issues, political stability is not very important when a company uses non-equity modes and its customers are international business travelers.

Economic Dimension

Unless companies like Company A are investing 100% equity or engaging in long-term leasing of properties, or having majority involvement in a foreign project, or like Company D targeting the domestic travelers of the host countries, the companies seem to care little about the economic factors such as: economic development, GNP, population, demographics and inflation rate of the countries. Company B argues that even some countries with good economic indicators do not allow the lodging companies to make money there. However, Companies B, D and E tend to be more interested in tourism industry related factors such as: infrastructure-transportation, airline, travel volume and patterns. Companies A and B are interested in the capital and real estate markets of the host countries.

Socio-Cultural Dimension

Companies A, D and E are aware of the language barrier and cultural differences with the host countries. They adapt to the local cultural characteristics in their services and the hotel architectural designs. But Companies B and C do not seem to consider socio-cultural factors important when they enter a country.

Technological Dimension

Unlike the manufacturing industry, the five multinational lodging companies all believe that there are few secrets in hotel technology. They all invest heavily to up-date their communication and reservation systems. They all share the technology with their host country partners and utilize new technology to train the local employees. They believe that only by sharing modern service technology can they succeed in world lodging operations.

Ecological Dimension

Most companies realize that ecological issues are becoming more and more important in hotel operations. Companies A, C, and E would like to follow the local regulations on environmental protection. Company A has created recycling programs. Company B believes ecological issues are on the rise and thinks of environmental protection when it selects sites, design, and construction of hotel projects. Company D strives for a better environment for its guests to stay and for its employees to work. Figure 4.2-1 compares the perceptions of the external environment among the five companies.

Dimension ----------- Company	Political	Economic	Socio-Cultural	Technolo-gical	Ecological
Company A	**taxation; repatriation;** regulations; polit. system doesn't matter; instability	stability; low inflation; capital growth	adapt to local characteri-stics	**investment sharing**	best neighbor
Company B	**taxation; repatriation;** ownership transfer and liquidity; no direct relations	capital & real estate MKT; **Infrastruct. not macro factors**	N/A	**investment sharing**	rising issue considera-tion in site selection, design, construct.
Company C	**taxation regulations;** not in war country; internal political issues don't matter	inflation; labor quality; attractive -ness	N/A	**investment sharing**	not major issue; be good neighbor; follow rules
Company D	stability; policy & attitude; inducement	development middle class; GNP, **tourism; infrastruct.** labor MKT;	language barriers; cultural differences; adaption	**investment sharing**	a major issue
Company E	**taxation; repatriation;** no direct involvement	**infrastruct. tourism** related factors;	language barriers; cultural diff. adaptation	**investment sharing**	rely on local rules

Figure 4.2-1 The Perceptions of External Environment among the Five Companies

Internal Environment

The research focuses upon analyzing the competitors, customers, property locations, strengths and weaknesses of tangible and intangible assets, and partner selection regarding the internal environment of the five multinational lodging companies. No interviews yielded a discussion on substitutions although this was a proposed key factor, as illustrated in the proposed basic framework. Secondary data did report some teleconference, which could be a substitution, but it seems that substitution was not a major concern of the five companies.

Competitors

Companies A and D believe that the real competition in the countries they enter is from the local and regional hotel companies. Company D feels that the competition is not only from the local and regional but also aggressive multinational lodging companies. Company C wants to search for niche markets to avoid severe head to head competition. Company B believes it offers high quality and standard first class hotel products and services which make it difficult for local and regional players to compete with the company. Company E seems to have to compete with all established brand companies.

Customers

The analysis of the environment is different in terms of the customers a company is going to serve. If the customers are mainly international business travelers, such as targeted by Company B, the company would not seek much information regarding the well-being of the middle class of the host country. However, if the company, like Company D, heavily focuses on the domestic market of the host country, then the company will analyze the well-being of middle class of the host country, as does Company E, which is also interested in serving the middle market segment of the host country. Most of the companies serve both the international and local travelers of the host countries.

Property Location

All the companies first look for the world gateway cities, and commercial centers for operational locations, and then branch out into other provincial centers and industrial centers. Those companies such as B, C, D and E, which utilize a multiple-brand portfolio strategy, could easily spread out when they have solid footing in a country.

Strengths

All the five participating lodging companies have some strengths in tangible and intangible assets. The intangible assets of brand names, reputation, management know-how, quality and standard, and training programs are claimed to be strengths by most companies. Sophisticated communication technology and reservations systems are also common tangible assets of all companies in the research. Company A and B seem to have the advantage of sufficient capital--tangible assets, -- to support their expansion. Company D strongly boasts that it has the advantage of managerial and operational expertise.

Partner Selection

The research indicates that the building of a partnership with a trusting local partner is the key to the success of international expansion. A good partner can be regarded as a **supplier**, because its contribution will complement a multinational company's needs and expectations. A multinational chain needs a local partner's help to fully understand the true picture of the host environment. It has to build a strategic alliance or joint venture with local or regional partners so that it can be successful in the host country's lodging operations. A good partnership helps to coordinate and co-operate the lodging operation. Moreover, today it is quite hard to have a pure management contract or franchise agreement without some equity involvement. The criterion of partner selection becomes a key issue for all companies. The multinational lodging chains expect their partners to be reliable and stable entities with corporate control, to complement each other, to have management and operation experience, and have knowledge of the local environment.

Human Factors

The vice presidents or officers of Companies A, B, and E who participated in the interview stated that the CEOs of the companies play important roles in the entry mode decision. The vice president of Company E believes that the V.P. of finance of his company is going to play a very important role as the company is increasingly involved in partial equity participation in its foreign projects. (Figure 4.2-2 summarizes the internal environment among the five companies.)

Factor ------------ Company	Competitor	Customer	Property Location	Strength /Weakness	Partner Selection	Human Factor
Company A	regional; local companies	int'l business; local	world comm. ctr.; gateway	finance; brand; standard; training	stable & reliable; reference; control; commit- ment; experience	CEO- decision maker
Company B	N/A	int'l business	world largest gateway city	capital; brand; standard	cooperativ. sharing; comple- mentary	CEO- decision maker
Company C	avoid competition	size	niche mkt	brand; know-how	different analysis	N/A
Company D	local; regional; multinat'l companies	local & int'l traveler	gateway city & other city	brand; training; expertise; support; lack of host inf.	comple- ment; inform. provider	N/A
Company E	well-known brand companies	local & int'l middle mkt.	where needed	reserv. system; no know- how; less known brand	stability; develop- ment; service; have hotel; experience	V.P of finance- decision maker

Figure 4.2-2 The Internal Environment of the Five Companies

Strategies

Most of the multinational lodging companies began to enter the world market in the 1970s and 1980s. In general, they have just borrowed strategies and competitive methods from the manufacturing industry.

The strategy that these companies have commonly applied is the multi-domestic strategy defined by Porter (1985). They have to evaluate and treat each market on an individual basis. They have to adapt to the local needs and expectations. Companies A and B prefer to standardize their product. Except for Company A, using a single brand strategy, the companies investigated are also using a multi-brand portfolio strategy for their overseas expansion. In this case, they can meet different needs and expectations of the host country. However, all the companies lean toward acquiring developed local or regional existing companies for expansion. Company E prefers to build a strategic alliance. The companies believe that it is much cheaper to buy existing properties than to build new ones. That is why the acquisition of existing companies is a very common practice of the lodging industry. The research did not yield sufficient evidence to illustrate the relationship between generic international strategies and entry modes. The entry modes applied were various among the companies, but the generic international strategies are used identically among them. (Figure 4.2-3 displays the generic international strategies utilized by the five companies.)

Strategy -------------- Company	Strategies
Company A	single brand, multi-domestic, adaptation & standardization, acquisition
Company B	standardization, multiple brand portfolio, acquisition multi-domestic
Company C	multiple brand portfolio, niche market, acquisition multi-domestic
Company D	multiple brand portfolio, multi-domestic, standardization & adaptation
Company E	strategic alliance, acquisition, multi-domestic, adaptation, multiple brand portfolio

Figure 4.2-3 Generic International Strategies of the Five Companies

Entry modes

All the companies practice multiple entry modes. However, they focus on different entry mode choices, with Company A at one end of the extreme and Company E at the other end. Company A has more equity-involvement (wholly-owned, long-term lease) in its overseas operations. Though it would like to use a pure management contract, it sometimes has to invest in a minority equity involvement to obtain management contracts in the foreign countries. At the other end, Company E expands overseas with a non-equity entry mode: franchising, especially a master franchise entry mode. However, it also has to put up some investment capital at the request of some of the countries in which it has recently entered, and such partial investments are increasing. Companies B, C, and D, are in the middle. They more or less have investment in different foreign projects, although they all are mainly involved with management contracts and franchising. Companies B and C have more management contracts than franchise agreements, while Company D leans toward having more franchise agreements than management contracts.

Whether or not the lodging market in a certain country is mature could also influence the entry mode choice. If the market of the host country is mature, Company D will use a franchise agreement. If it is a relatively new market it will use the management contract to have better control of the operation and retain the image of the brand name.

The investigation of the five multinational companies indicates that now it is difficult to obtain a pure management contract and pure franchise agreement from a host country. There has to be some kind of minority equity participation of the multinational lodging chains if they ever intend to enter into a host country for management contracts or franchise agreements. So, based on this study, the classification of the entry modes would be better classified as wholly-owned, long term leasing, minority joint venture of management contract, and minority joint venture of franchising and non-equity involvement of management contract and franchise. (Figure 4.2-4 illustrates the entry mode choices of the participating companies.)

SUMMARY

This chapter reports the results of this research. First, it reports each company in terms of the relationship between the external, internal environment, generic international strategies and entry modes; the findings of each company present the antecedent factors drawn from the external environment, such as political, economic, socio-cultural, technological, ecological factors; from the internal environment, such factors as competitor, customer, property location, supplier (the host partner), strength/weakness, and other factors, as well as from the generic international strategies and the entry mode choices.

Secondly, it compares the companies in terms of the relationships to each other. The results indicate that instead of analyzing both the external and internal environment before deciding on the entry mode choice, the companies all pre-decide their entry modes (which are identical to their home based practices) and search for favorable conditions fitting their entry modes. The results do not show how generic international strategies are related to the entry mode choice. The report was drawn from the face to face interviews with the five multinational lodging companies. The report was also supported and complemented by consolidated secondary resources. Summary tables and matrices are utilized to illustrate the results of the research.

Entry Mode ------------- Company	Wholly Owned & Long-term Leasing	Joint Venture	Non-equity Involvement
Company A	some	minority equity of management contracts	management contracts
Company B	few leasing	minority equity of management contracts	management contracts franchise
Company C	few	partnership	management contract franchise
Company D	few	joint venture	management contract franchise
Company E	none	minority equity of franchise	franchise

Figure 4.2-4 The Entry Mode Choices of the Five Companies

CHAPTER FIVE

PROPOSITION AND FRAMEWORK DEVELOPMENT AND CONCLUSION

INTRODUCTION

Chapter Four described the results of the relationship between the external and internal environments, and entry mode choices of the five participating multinational lodging companies. It also discussed the generic international strategies employed by the five companies but did not find sufficient evidence that could illustrate the relationship between generic international strategies and the entry mode choices. In this chapter, sixteen propositions which emerged from the data analysis are presented. The propositions are compared and contrasted with the literature review in Chapter Two, where appropriate. The propositions in this chapter provide a basis for a new framework, which will be presented in the chapter, with conclusions drawn at the end of the chapter.

PROPOSITIONS DEVELOPMENT

Brewer and Hunter (1989) discussed the function of propositions. They stated that "the propositions tell how and under what general conditions those conceptually defined phenomena are thought to be related". In Chapter One, a proposed basic framework illustrated in Figure 1-2 was formulated after the review of the underpinning theories and concepts. The basic framework proposed that the entry mode choice is dependent on a group of antecedent factors in the external environment, internal environment and generic international strategies. The framework consists of three proposed independent variables: external environment, internal environment and generic international strategies, and several non-equivalent dependent variables: the entry mode choices. Among the antecedent factors in the external environment are political, economic, socio-cultural, technological, and ecological factors. In the internal environment, there are factors such as competitors, customers, suppliers, substitutions, and strengths and weaknesses of the companies. The generic international strategies include a multi-domestic strategy, standardization, adaptation to local needs, broad portfolio approach and niche marketing. The entry modes were classified into wholly owned subsidiaries, joint venture, and non-equity involvement such as management contracts and franchise agreements. The literature review of Chapter Two supported the framework underlying the relationships among the above mentioned factors and entry modes. It indicated that a company chooses its entry modes to a foreign country based on a thorough analysis of the external and internal environments and that generic international strategies may also affect the entry mode choice.

Based on the proposed basic framework, five multinational lodging companies were selected and investigated in order to understand the relationships mentioned above. The analysis and comparison of the collected data in Chapter Four help to derive sixteen propositions. These propositions suggest how the proposed variables in the basic framework are related under the conditions of multinational lodging operations. The propositions are compared and contrasted with the literature review in Chapter Two.

In the literature review, Contractor (1990), Hill et al. (1990) and Kim and Hwang (1992) all argued that the entry mode decision of a company is dependent on the analysis of country risk, location, demand, competition, organizational factors, and strategic variables. Their studies were based on the manufacturing industry. However, the results of this research indicate that the participating multinational lodging companies have done differently. The participating lodging companies basically extend their current ways of doing business at home, such as wholly owned subsidiaries, long-term leases, management contracts, or franchise agreements to their overseas markets. They search for potential countries where they can expand their service and practices and search for information fitting their pre-decided entry modes. This suggests the first proposition:

P.1 It is not so much that the multinational lodging chains make their entry mode decision based on the study of the host country conditions, but rather that they use pre-set entry modes based on the home practices and then search for information they need in order to enter a host country.

In the study of multinational environment scanning, Preble et al. (1989) raised a further research question: Do different entry modes require different criteria and level of need for environmental scanning? The results of this research respond to this question, and the following propositions address their concerns.

External Environment

This research indicates that the participating lodging companies search and analyze the environment differently based on how much investment they put into the foreign lodging projects. If a company such as Company A puts 100% equity in its newly built foreign properties, it will seek information of political, economic, socio-cultural, technological and ecological dimensions of the host countries to safe-guard against possible investment risks. However, the major entry modes used by the five multinational lodging chains are franchising and management contract, or non-equity involvement, so some of them believe that they do not need to know much about the host countries' environment, because they do not invest in the projects and have little or no investment risks.

P.2: The effort of the companies in analyzing the environment of the host countries is closely associated with the level of investment that the companies commit to a foreign project. The more equity involvement the companies have, the more information they seek about the host countries and the more analysis of the host countries' environment.

However, the companies have been increasingly required by their partners to invest in their foreign operations, whether they use management contracts and/or franchise agreements. So they realize that they need to know more about the countries they are going into.

In the review of literature of the external environment and environmental scanning, Fayerweather (1981), Sethi (1982), Pearce and Robinson (1988), Preble et al. (1988) all suggested that a company should analyze the political, economic, socio-cultural and technological dimensions. Preble et al. (1988) added the ecological dimension for the environmental scanning.

The results of this research generally support those studies. All the companies in this research analyze the environment to some extent. However, when coming to particular factors in those dimensions, the analysis of the important factors by the multinational lodging companies may differ because of the various entry modes utilized and the different markets targeted. And their choice of important factors may also be different from that of manufacturing companies, which the previous studies were based on.

The political dimension of the external environment was one of the major issues discussed in the literature. Blodgett (1991), Stoever (1985), and Kobrin et al. (1980) studied the host country regulations and policies toward foreign entries and investment.

Stoever (1985) and Kobrin et al. (1980) especially stressed the importance of tax, currency convertibility, repatriation of dividends and capital, and profit remittances when a multinational company considers entering into a country. This research shows strong support for these previous studies. Four out of five lodging companies studied believe that taxation and repatriation regulations are major factors for consideration in the political dimension.

In the literature review, Fathehi-Sedeh and Sefizadeh (1989), Yapark and Sheldon (1984), and Kennedy (1984) all pointed out political stability or political risk of the host countries as one of the major considerations for the multinational companies before they move to the country and allocate their funds to foreign projects. This is true in the case of Company A when it plans to own a foreign subsidiary or long-term lease of the foreign property. It is also true in the case of Company D when it focuses on the host country's domestic travel market. However, political stability is not very important in many other cases. This is because most of the companies practice non-equity involvement of management contracts and franchise agreements or minority equity participation in foreign projects. Company B argued that there is no direct correlation between political stability and making profit in the hotel business. The company suggests that the world's most profitable hotels may be located in the countries with lower political stability.

P.3: Taxation and repatriation regulations are commonly recognized political factors in world lodging operations. Political instability is a major factor for wholly-owned subsidiaries and long-term leasing contracts. But it may not be a major factor for non-equity entry modes such as the management contract and franchise. (This is illustrated in Box 1 in Figure 5.1.)

When researchers such as Pearce and Robinson (1988) looked at the economic dimension, they suggested that companies should analyze all the economic issues, such as GNP, economic development, inflation, middle-income population, the levels and system of the economy, etc. This research indicates that the participating lodging companies look more narrowly at economic factors such as: infrastructure-transportation, travel and tourism related factors, such as travel patterns, expenditure and volume, which are more directly related to lodging operations. Company B argued that a country with sound macro-economic indicators does not necessarily provide opportunity for multinational lodging companies to do business there. Company D will study the development of the middle-income population because it focuses on the domestic travelers of the host country.

P.4: Multinational lodging companies tend to analyze the economic factors closely related to the lodging operations such as infrastructure--transportation, travel and tourism-related factors--rather than macro-economic indicators. (This is illustrated in Box 2 in Figure 5.1.)

When considering the socio-cultural dimension, language barriers, local cultural characteristics, social changes and nationalism are often cited in the literature. The results of this research show that those companies such as Companies A, D, and E are aware of the language barriers and cultural differences. Though Company A may wholly own a property in a foreign country, it still needs to interact with the local community and culture in order to run a proper operation. Companies D and E may not directly contact the local community if they enter the country with a franchise agreement, but these companies that are penetrating the local middle-class segment of the traveling market need to adapt to local cultural characteristics in their products and designs. However, Since Company B focuses on the international business traveler, it does not perceive the socio-cultural issues are major factors.

P.5: In order to provide the services and products appealing to the local travel market, multinational lodging chains look more closely at socio-cultural issues. However, when appealing to international markets such considerations receive very little attention. (This is illustrated in Box 3 in Figure 5.1.)

Modern technology in communication and transportation accelerates the globalization of the world economy. The literature in the technological dimension truly takes two stands. On one hand, Dunning (1980) argued for the internalization advantages in his eclectic theory. That is to keep the technological advantage within the company itself so as to be competitive in the world market, for a company will lose its competitiveness if it shares technological advantage with others, because the company has to pay the transaction cost (William 1975). On other hand, sharing the technological advantage and information technology is the rule of game in the world economy through joint venture, strategic alliances, and partnerships, according to Beamish (1987), Bolodgett (1991), Harrigan (1987), and Henderson (1990). They believe sharing resources is a "win-win match" and mutually beneficial.

The lodging industry seems to take the middle stand. On one hand, every multinational lodging company investigated invests heavily to advance the computer reservation system and other technology for their lodging operations to stay competitive. On the other hand, each company shares the technology with its franchisees, management contract partners, and strategic alliances, as they clearly understand that there are few secrets in the lodging industry. By sharing technology and training local employees, the companies can improve their overseas operations and be successful in the world's lodging operations.

P.6: Multinational lodging companies heavily invest in modern technology in order to stay competitive. They share the technology with their host partners through training of local employees to improve the quality of the service and stay competitive despite the relative ease with which such advantages are copied. (This is illustrated in Box 4 in Figure 5.1.)

Krobin et al. (1980) added the ecological dimension to the external environment. The results from this research show that most of the companies in this research have begun to realize that the protection of the natural environment is becoming an important factor. Company A has created some recycling programs and wants to be a good neighbor in its operational environment. Company B considers environmental issues in its site selection and construction of new properties. Company D strives for a better environment for its guests and employees, believing that environmental protection is very important also because of its commitment to the local domestic market. Companies C and E merely try to follow the local rules and regulations regarding the environment.

P.7: Multinational lodging companies begin to consider environmental issues in their efforts of overseas expansion but pay more attention when targeting a domestic market. (This is illustrated in Box 5 in Figure 5.1.)

Internal Environment

In terms of the internal environment, Porter (1980) defined four forces: competitors, customers, suppliers, and substitutions. Dunning (1980) discussed ownership advantage, such as capital, technology, knowledge, multinational experience and skills, brand names, and marketing expertise as part of the overall internal environment. Pearce and Robinson (1988) in the same fashion discussed internal strengths and weaknesses with respect to resources and capital, etc. Hall (1992) focused his attention on the intangible assets of a company, such as: company and product reputations, know-how, licenses and contracts, etc. Awadzi et al. (1988) and Beamish (1987) discussed partner's contributions to joint ventures or partnerships. Local partners can be regarded as suppliers of local resources, knowledge and market information, etc. This research explores the internal environment of multinational lodging companies with respect to competitors, customers, property location (product distribution), strengths and weaknesses, and partner selection (to obtain a good local supplier).

In order to win worldwide competition, a multinational company must understand who its real competitors are and do a competitive analysis, selecting the best strategy to compete with its competitors (Porter 1980, Pearce and Robinson 1988). (The results of the study suggest that the multinational lodging companies are concerned most with the competition). Both Companies A and D believe that their real competitors are the local and regional lodging companies. Company D also regards the most aggressive multinational lodging companies as its competitors. Company C avoids head to head competitions and searches for niche markets. Company E sees all well-known brand companies as its competitors.

P.8: The multinational lodging companies all realize the competition in the world lodging industry. However, they see their key competitors variously. Some companies regard their key competitors as the local and regional lodging companies within or around the host country; some company may avoid head to head competition; other companies may regard all the strong brand companies as competitors. (This is illustrated in Box 9 in Figure 5.1)

The lodging business is service in its nature and it needs to provide services and products where its customers want to be (Douglas and Craig, 1989). It needs to transplant a domestic product and style to other countries and serve the client in overseas destinations (Leonard 1987). The five multinational lodging companies studied have transplanted their brand names and services throughout the world. They serve both international and domestic customers in their host countries. However, their target markets may not be universal. Companies A and B lean more toward serving the international business traveler, while Companies D and E may be more interested in the domestic middle segment market along with the international traveler. The different target markets may affect the entry mode choice. In order to guarantee a high standard and equity of services for its international markets, a multinational lodging firm may choose a wholly owned subsidiary, a long-term lease, or at least the management contract so that the company can have better control of the foreign operation. To serve the local domestic customers with a worldwide recognized brand name and reservation system, franchising may be more appealing to the local market.

P.9: Most of the multinational lodging companies serve both international and domestic markets. They may have different focuses, and if so, their entry modes could be different. If they focus on the international travel market, they properly choose a wholly owned, long-term lease or management contract in order to maintain the quality and standard of the service. If they focus on the domestic market, they may utilize a franchise agreement with a worldwide brand name and reservation system to attract the local market. (This is illustrated in Box 10 in Figure 5.1.)

Property location is a unique feature in the service industry. It implies how effectively the service and product can be easily distributed to its customers. Gateway cities and the world's largest commercial centers are always the primary property locations for multinational lodging companies for the distribution of services to international travelers. It is especially important for the first-class upper scale hotel brands. However, if a lodging company only limits itself with a single upper scale brand hotel, it may slow down the pace of its overseas expansion. If a company uses a multiple brand portfolio strategy, it can easily branch out to other cities and industry centers when it achieves a solid footing in the host country. Company D has gained a great deal of coverage in host countries with its multiple brand portfolio strategy. Company C, however, often searches for niche markets to avoid head to head competition.

P.10: Multinational lodging companies often first try to enter the gateway cities and then branch out to cover other cities of a host country. A multiple brand portfolio strategy can help a multinational company to expand quickly into a host country. (This is illustrated in Box 11 in Figure 5.1.)

The analysis of the strengths of tangible and intangible assets of a multinational company helps a firm to realize its own competitive advantages and seize expansion opportunities. The tangible assets can be capital, equipment and raw materials (Pearce and Robinson, 1988). The intangible assets can be brand name, company reputation, knowledge, expertise, know-how and competence (Hall 1992). Boddewyn et al. (1986) analyzed the ownership advantage of multinational service firms. They argued that intangibility of offerings is the focus of the multinational service firms. Dunning and McQueen (1982) argued that the lodging industry provides high quality "experience goods", a set of intangible assets and logistic skills. This research suggests that it is the intangible rather than tangible assets which most affect the entry mode choice.

The multinational lodging companies participating in this research all possess various tangible and intangible assets. They also offer more intangible assets than tangible assets to their foreign operations. All the companies try to serve the host country with intangible assets of well-known brand names, marketing expertise, management know-how, and training infrastructures. They all have advanced computer reservation systems which help them to gain management contracts and franchise agreements from the host countries. Company A has tangible assets of capital which help the company to wholly own some of its world-class properties.

> P.11: The strengths of intangible and tangible assets of multinational lodging companies help them win entries into the host countries' lodging industry with management contracts and franchise agreements as well as wholly owned or long-term leased lodging properties. However, multinational lodging companies rely mostly upon their intangible assets to win the entries rather than tangible assets (with one exception--reservation systems). (This is illustrated in Box 12 in Figure 5.1.)

As the world economy becomes more and more interdependent, forms of joint activities by a multinational company and its host country partner play a very important role in world business. Cooperative alliances, linkages, partnerships, and joint ventures become "new forms" of international business involvement (Crouse 1991, Hollingsworth 1988, Harrigan 1987).

This research indicates that all five of the companies have some forms of joint efforts with their host countries. Though Company A is reluctant to have any joint venture with a host partner, it still needs to invest 5-20% equity in some of its foreign projects in order to gain a management contract. Thus, such a transaction turns out to be a joint venture with minority equity participation. Today it is difficult to obtain a pure management contract or franchise agreement. Company E prefers a non-equity involvement franchise; however, it is ending up with more and more requirements for equity participation from host country partners. The biggest issue after discussion on joint effort is how to find a trustful partner. Blodgett (1991) studied partner contributions. Awadzi et al. (1988) argued that a partner's contribution is one of the important factors for partner selection. Geringer (1991) argued that a right selection of a partner has impact on the performance of a joint venture. Every participating lodging company understands the importance of building a trustful partnership. Each multinational lodging company has its criteria for partner selection. They expect the partner to be reliable and stable, to contribute knowledge and experience, and to complement the needs and expectations of the lodging company.

P.12: Today it is very difficult to obtain a management contract or franchise agreement with non-equity involvement for a multinational lodging chain as the host partner requires the chain to take a partial equity participation. The pure management contract or pure franchise agreement without equity participation turns out to be a form of minority equity joint venture of management contract or franchise agreement. (This is illustrated in Box 7 and 8 in Figure 5.1.)

P.13: Partner selection becomes very important for the multinational lodging operation. Multinational lodging companies expect the host partners to be reliable and stable, to share and complement each other, and to contribute experience and knowledge in the joint operation. (This is illustrated in Box 13 in Figure 5.1.)

The literature review did not bring up a very interesting factor discovered in this research--the human factor--which emerged during the interviews of the five multinational lodging companies. The Vice Presidents of Company A and B expressed the important role that the CEOs play in the entry mode choice to a host country. The trust and personal relationship between the CEO and the host partner will make any choice of entry modes a lot easier. The Vice President of Company E believes the newly hired V.P. of finance will be one of the key decision makers because the company is beginning to increasingly invest partially in its overseas master franchise agreements. The V.P. of finance has the responsibility of preventing the company any financial risk from such investments for the company.

P.14: Human factors in the multinational lodging companies play an important role in the entry mode decision. The trust and personal relationship between the CEO and the host partner may be a key factor for an entry decision. V.P. of finance may also have individual influence in an entry decision. (This is illustrated in Box 14 in Figure 5.1.)

Generic International Strategies

The literature review discussed the role of generic international strategies and their possible impact on the entry mode choices. Levitt (1983) suggested the strategy of standardization of product; Douglas and Wind (1987) argued for a global adaptation perspective; Hamel and Prahalad (1985) discussed the broad portfolio strategy; Leontiades (1986) presented global and national niche strategies; Porter (1986) offered multidomestic and global strategies; Porter (1991) argued that in services, many industries are very multidomestic, a strategy which treats each target country individually because of its unique environment, and Olsen, Crawford and Tse (1991) discussed acquisition strategy in the multinational hotel industry.

This study shows that the five multinational lodging companies have utilized most of the above mentioned strategies. All the companies apply a multidomestic strategy because they have to be country specific and treat each country they enter differently as each country has unique conditions. Companies A and D use the combination strategy of standardization and adaptation. They have to keep the standard of services and products; in the meantime, they also have to adapt to the local needs and expectations. While Companies B, C, D, and E all use a broad portfolio strategy for their expansion, Company A prefers a single brand strategy. All companies also have tried very hard to use an acquisition strategy. The literature review also discussed the possibility of tying the generic international strategies to the entry modes. Hill et al. (1990) and Kim and Hwang

(1992) put strategic variables into their entry mode decision framework. However, the results of this research did not find enough evidence to show the direct connection between entry modes and generic international strategies.

P.15: Multinational lodging chains have employed many generic international strategies, such as multidomestic, broad portfolio, combination of standardization and adaptation to local needs and acquisition strategies. However, there is not enough evidence to illustrate the direct relationship between generic international strategies and the entry mode choices.

Entry Modes

Entry modes utilized by multinational companies can be categorized into as many as nine groups (Erramilli and Rao, 1990). However, under the unified theory created by Contractor (1990), Hill et al. (1990) and Kim and Hwang (1992), the entry modes are grouped into three categories and there is a continuum among the groups with wholly owned subsidiary at one extreme, non-equity involvement of management contract or franchise at the other, and joint venture in the middle. Dunning and McQueen (1982) identified four categories of entry modes in the international lodging industry: equity interest, leasing management, management contract, and franchise or some form of marketing agreement. They found there are some forms of combination involvement:

small equity plus management contract and majority equity with management contract by international lodging companies. Boddewyn et al. (1986) argued that multinational service firms account for "non-equity" FDI (foreign direct investment). Olsen et al. (1990) predicted a trend of "equity liquidity" in the world lodging industry.

The results of this study support the previous research. The study found that the entry modes used by the five participating lodging companies can be grouped into three categories: wholly owned and long-term leasing, minority equity involvement of management contract or franchise agreement (some form of joint venture), and non-equity involvement of management contract or franchise. Non-equity and minority involvement of management contract and franchise are the major stream of entry modes. All the companies prefer a non-equity involvement management contract or franchise agreement with the host countries. However, host countries are increasingly demanding equity participation. In this case, the lodging companies try to put in a minimum equity investment in order to gain the contract or agreement. They prefer to be as liquid as possible. Except for Company E, all companies have some majority equity participation in U.S. and Western European countries. Company A has many wholly owned properties and long term leases (a form of rent to own) in those areas. Company B has some long-term leasing properties, while Companies C and D each have some wholly owned and long-term leasing properties in the Western Europe and the U.S. (There is an entry mode of debt-for-equity swap used in South America. However, no multinational hotel companies ever mentioned that in the investigation).

P.16: The commonly used entry modes are: non-equity involvement through management contracts or franchise agreements, or minority equity involvement agreements by multinational lodging companies. Wholly owned subsidiaries and long-term leases are utilized mainly in Western Europe and the U.S.A. (This is illustrated in Boxes 6, 7 and 8 in Figure 5.1.)

The sixteen propositions suggest that there are relationships among the external, internal environments, and the entry mode choices of multinational lodging companies. However, they suggest that it is not clear how generic international strategies relate to entry mode choices. The propositions indicate that not all the factors selected from the literature review (mostly derived from research of the manufacturing industry) and then utilized in the research questionnaire are employed when the multinational lodging companies make their entry mode choices. But they refine some of the antecedent factors that are uniquely related to the entry mode choices of multinational lodging companies, such as: infrastructure, tourism related factors, sharing technology, gateway and commercial center locations of the properties, and more intangible assets. If the multinational companies target the local domestic traveler, they pay attention to the needs and expectations of the local markets. Political stability may not be an important issue when the companies use non-equity involvement management contracts and franchising agreements. These propositions may help future researchers to further study the entry activities of multinational lodging companies.

The development of the sixteen propositions also suggests that synthesizing and combining of the multinational strategic management perspectives and international business perspectives are workable. The proposed basic framework in Chapter One is the combination of the two approaches with the external and internal environments and generic international strategies from the multinational strategic management literature as the proposed independent variables, with the three categories of entry modes from the international business perspective as the non-equivalent dependent variables. The sixteen propositions indicate that there are relationships among the external and internal environments and entry mode choices. Although the relationships between generic international strategies and entry mode choices are not clearly indicated, this research does indicate that multinational lodging companies have employed some commonly used generic international strategies from the strategic management literature in their multinational lodging operations. Moreover, some of the commonly utilized variables of the external and internal environments of multinational strategic management perspective share the similarity of variables in the international business perspective. For example: sharing technology in the technological dimension is a very important concept of need and expectation in the international business perspective; the supplier in the internal environment shares the commonality of contribution and supply with the concept of partner selection of the international business perspective; and strengths and weakness analysis in the internal environment is similar to the analysis of ownership advantage concept in the international business perspective. This research also suggests that a systematic set of procedures should be used to develop an inductively derived grounded theory, and all the related theories and concepts should be explored and allowed to emerge when studying a phenomenon (Strauss and Corbin, 1990; Parkhe 1993).

FRAMEWORK DEVELOPMENT

By comparing and contrasting the literature review of Chapter Two, the results of this study formulated sixteen propositions. Based on these propositions, a supportive framework of the entry mode choices for multinational lodging firms' expansion has been developed. (Figure 5.1 illustrates the antecedent factors that support the entry mode decision for multinational lodging companies. The antecedent factors on the chart should be considered in any entry mode chosen.) However, there is a different degree or level of requirement for analyzing the factors among the displayed entry modes. This will be explained in the later section.

The newly developed framework has some differences from the basic proposed framework in Chapter One. First, the antecedent factors in the basic framework were broadly categorized and based on the manufacturing industry, and the antecedent factors in the new framework are more narrowly defined with the lodging industry as the specific field. Secondly, the arrows in the basic framework indicated that an entry mode choice is determined by the independent factors. The new framework is without the arrows to reflect the reality that multinational lodging companies may have pre-set entry modes and then search for suitable information to match the modes. That is also why the word "antecedent" was chosen to illustrate that there is a logical relationship among the external and internal environments and entry mode choices. However, these "antecedent" factors do not necessarily mean that they function to determine the entry mode choices. That is, there is a logical relationship but not necessarily causal relationship between the antecedent factors and entry modes, because the companies pre-decide the entry modes and then search for useful information fitting the entry mode choice. Thirdly, the new framework deletes the generic international strategies as one of the factors because this research does not have sufficient support for the relationship between generic international strategies and entry mode choices.

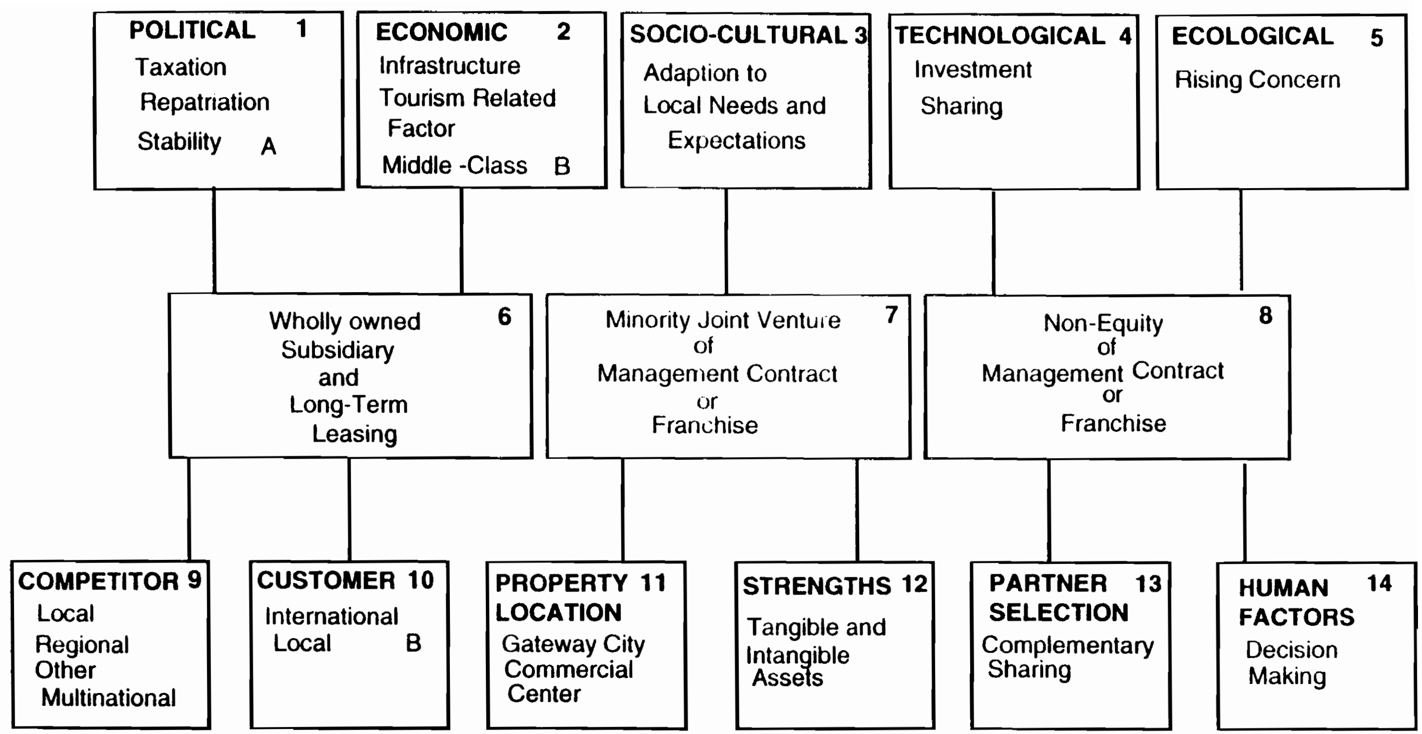

Figure 5.1 **Key Factors Affecting The Choice Of Entry Mode**

Footnote:
A. Stability is concerned when using wholly owned or long-term leasing entry modes.
B. When targeting local customer, the development of middle class population is a concern.

The new framework is described as follows:

When a lodging company looks for overseas expansion, it needs to analyze the external and internal environments, even in the case that a company pre-decides what entry mode it is going to use. It should examine the host country's political, economic, socio-cultural, technological and ecological dimensions of the external environment with the focus on taxation and repatriation, infrastructure and travel and tourism related factors, such as: air transportation, travel patterns and volumes, local cultural issues, technological advancement, and ecological concerns. It should prepare to adapt to local cultural characteristics, to share new technology, and follow the rules and regulations for protection for the natural environment.

In the internal environment, competitors, customers, property locations, strengths and weakness of the company, partner selection issues and human factors are selected as the antecedent factors for a company to consider. Substitutions and suppliers from the proposed basic framework are not used in the new framework. This is because 1) because there was little evidence that substitutions served as an antecedent factor in the analysis of the internal environment of the five companies; 2) Partner selection has replaced the suppliers as an antecedent factor to express that the nature of supply is complementary and sharing the resources from two sides--the multinational company and the host country. The new framework includes property location and human variables as antecedent factors for their importance discussed in the findings. Competitors, customers, strengths and weakness are kept in the new framework supported by the findings. A multinational lodging company must be aware of who the competitors may be: local, regional or other multinational companies; who will be the company's target market-international, local or both; where the company wants its property to be so as to easily reach its customers. The company must analyze its own strengths and weakness: what it can provide to its host partners--tangible or intangible assets or both--in order to gain competitive advantages and opportunities. In the same vein, the company should also analyze the host partners so as to select a trustworthy, stable, and competent partner to work with, and to share and complement each other in resources, knowledge and technology. The company should also be aware of the important role of human factors when making entry decisions.

In the case of entry mode choices, non-equity or minority involvement management contracts or franchises are the common practices and faster methods for expansion in the lodging business. A wholly owned subsidiary or long-term lease should be used in a country with political stability (Footnote "1" on Figure 5.1 explains this). A wholly-owned subsidiary or long-term lease has the advantage of ownership and control, consistent quality, and standard of products; but it may be very costly and slow down the pace of growth. A non-equity management contract has the advantage of operation control, quality, and standardization; but there is always a danger of losing a profitable contract because of no equity participation. So some form of equity participation may help to gain a contract or agreement. Franchise has the advantage of fast expansion but it risks a lack of quality control. If a company is, especially, interested in servicing the local domestic traveler, the middle-class population (Footnote "2" on Figure 5.1 explains this) should be analyzed. In sum, the scale and degree of the analysis of the environment is associated with financial commitment or the degree of equity participation in foreign projects. A wholly owned subsidiary and long-term leasing mode require more information and analysis than partial or non-equity entry modes. Non-equity franchising demands the least analysis of the environment. A company, even with pre-set entry mode still needs to analyze the external and internal environments when it is going to expand overseas.

In summary, this section presents sixteen propositions based on the results of the research and contrasts the literature review of Chapter Two. The development of the propositions permits the emergence of a supportive framework for entry mode decisions. The framework consists of the antecedent factors derived from the results of the research. The antecedent factors in the framework may help a company to analyze the external and internal environments when it plans to "go global".

CONCLUSIONS

This section draws conclusions for this research. It discusses future research questions. Finally, it summarizes the research process of this study.

At the beginning of Chapter One, the researcher raised four questions about the relationships among the external and internal environments, generic international strategies and entry mode choices. At the conclusion of this research, it is time to revisit the research questions.

The first research question involved the identification of the external environmental factors that could influence the entry mode choice of a multinational lodging firm. This research found nine antecedent factors in this category that may influence the entry mode choice of a multinational lodging company. These antecedent factors include taxation and repatriation in the political dimension; infrastructure and tourism related factors in the economic dimension; adaptation to local cultural differences in the socio-cultural dimension; investment in technology and sharing technology in the technological dimension, and rising concern in the ecological dimension. These factors are perceived to have impact on any entry mode choice. Even if the companies have pre-set entry modes such as minority equity or non-equity involvement management contracts and franchising agreements-the most commonly used entry mode choices, they still need to analyze these antecedent factors. In the cases where few multinational lodging companies use a wholly-owned or long-term lease entry mode or heavy financial commitment, political stability is an important factor for consideration; If a company's target market is the host country's domestic traveler, the development of middle income population is important to consider in the economic dimension.

The second research question in Chapter One involved identifying antecedent factors of the internal environment that may be related to entry mode choices. The researcher found that local and regional lodging companies are regarded as competitors for some of the multinational lodging companies. Multinational lodging companies may have different focuses on the target market. Some of the companies focus more on the international traveler, others focus more on the domestic market of host countries. When the focus is on the international traveler, lodging companies may choose an entry mode such as wholly owned or long-term lease, in either case they will have higher control in order to maintain the quality of the service. All companies prefer to have their properties located in gateway cities or commercial centers of the host countries, which help to distribute their services to the customers. All companies possess various tangible and intangible assets but mostly intangible assets such as brand names, management know-how, and training programs. These intangible assets fit especially well with non-equity or minority involvement entry modes, such as management contracts and franchise agreements. In entry modes of joint activities with the host partners, partner selection is the key consideration and a clear criteria for partner selections should be established. Human issues are revealed as an important factor in the entry mode decision.

The third question in Chapter One involved generic international strategies and they role they play in entry mode decisions. The research found several generic international strategies employed by the multinational lodging companies, such as: multi-domestic strategy, broad portfolio strategy, combination of standardization and adaptation to local needs and expectations, niche marketing and acquisition strategy. However, there is not enough evidence to indicate the direct relationship between generic international strategies and entry mode choices.

. The fourth question in Chapter One asked if a certain degree of match between the external and internal environments may influence the entry mode choice decision. The research found some matches between the external and internal environment that may affect the entry mode decision: in the case where a multinational company has strong tangible assets such as capital and the host country is politically stable, the company may choose a wholly owned or long-term lease entry mode. Most multinational lodging companies are equipped with intangible assets and prefer to use the similar business methods used at home, such as the management contract and franchising, where the host countries expect the company to share those intangible assets, such as brand names, training and management know-how. In such a scenario, the management contract or franchising may be the mode choice of entering into the host countries. However, there are increasing requests from the host countries for more equity (tangible assets) involvement. To match these requests from the host countries, multinational lodging companies have to modify their non-equity involvement into minority equity involvement management contracts and franchise agreements.

In summary, globalization is a major trend of the world lodging industry. Multinational lodging companies have expanded to many countries of the world. The entry modes they utilize are identical to their practices in their own home countries, such as non-equity management contracts or franchise agreements. Minority equity involvement contracts and agreements are increasing at the requests of host countries. There are also some wholly owned subsidiaries and long terms leasing entries. To facilitate their overseas entries, multinational lodging companies need to analyze the host country's environment and the internal environment of the industry. However, their analysis of the environment is dependent upon the entry mode or the financial commitment the companies are going to use or have. There seems to be no consistent pattern of analyzing the antecedent factors in the external and internal environments when the hotel companies decide to go overseas. The newly developed framework may help the multinational lodging companies analyze those antecedent factors when they make their entry mode decisions and further expand overseas.

Contributions

As mentioned in Chapter One, this study contributes to the body of literature of world lodging industry in the following ways:

1. It provides in-depth information about how the five multinational lodging companies analyze the external and internal environments when they plan to expand to host countries.
2. It provides sixteen propositions about the relationship between the external and internal environments and entry mode choices for further research.
3. It develops a supportive framework with antecedent factors from both the external and internal environments for a multinational lodging company when it needs to analyze the environments when making entry mode decisions.

4. It explores the possibility of synthesizing and combining the international strategic management theory and international business perspectives for the research in multinational lodging companies.

Future Research Questions

1. This research explores the antecedent factors in the external and internal environments which may affect the entry mode choices of multinational lodging companies in their effort of the global expansion. However, there is still a need to explore how the decision is processed. What are the steps for the formulation of the entry mode choices?

2. This research suggests that human factors play an important role in the entry choice decision. Who is key decision maker? How important is the role he/she plays? to what degree are the human factors affecting the decision making?

3. After the entry decision is formulated, how is the decision implemented. How are the structure, information, resource allocation, and control systems to support the entry mode decided by multinational lodging companies? This research indicates that Company A has a three-level structure to collect information of the operation and the host country's environment after it enters the host country. How do other

multinational companies do in terms of information collection?

4. How can the overseas expansion efforts by the multinational companies be correctly evaluated? The number of countries covered, number of foreign properties and hotel rooms are good indicators of the expansion efforts. But how can the performance of the foreign properties be evaluated?

5. This research explores the possibility of synthesizing the theories and concepts of multinational company. It will be a very challenging and rewarding opportunity to continue such an effort. Is it possible to further synthesize the grounded theory of multinational lodging companies? And how can be further synthesized?

Limitations

Because of the nature of this exploratory qualitative study and the enormous amount of data collected from both primary and secondary sources needed to interpret in limited period of time, there might introduce bias. Moreover, the results of the study can only analytically generalized through "replication logic" rather than "sample logic".

SUMMARY

This study was an exploratory research of the relationships between antecedent factors and entry modes of five multinational lodging companies. A group of antecedent factors were derived from the analysis of the results of the investigation. Sixteen propositions were generated for further study of multinational lodging companies in their overseas expansion. A new supportive framework was established to help multinational companies to analyze the environment and facilitate their entry mode decision making.

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Appendix I **Questionnaire**

Interviewee:

Interviewer:

Time:

Interview Procedure and Questions

Procedure:

1. Introduction -- the interviewer himself and the purpose.
2. General questions about the interviewee and the company.
3. Specific questions related to the variables to be studied.
4. Explanation to the interviewees that the interviews are being taped, and assurance of confidentiality.

A. The external environment of political, economical, socio-cultural, technological and ecological dimensions of the host country/countries that may influence the decision choice of entry modes:

1. What are the factors in the political dimension: stability, government roles or regulations (incentives, tax, investment restrictions, the risk of converting and repatriating your income)?

2. What are the factors in the economic dimension: GNP, level of economic development, tourism development, or disposable income?

3. What are the socio-cultural factors: language barriers, cultural differences, local people's attitude, values, nationalism?

4. What are the factors in the technological dimension?

5. What ecological factors may affect the company's decision?

6. Does the company try to understand what the host countries needs and expectations from the company are? If yes, what are the needs and expectations?

7. How are these factors related to the choice of entry modes?

B. The internal environment of the industry structure and the company's internal strengths and weaknesses which will also affect the choice of entry modes:

8. What are the strengths of the company regarding overseas expansion: financial assets, or intangible assets (reputation, brand name, management know-how, technical and know-how)?

9. Does the company prefer to keep the management skills and technological advantage within or prefer to share the knowledge with its partner/partners?

10. What are the weaknesses of the company regarding overseas expansion? What are the firm's perspectives on the competition? In what specific areas will competition be the most difficult?

11. Does the company expect the partner/partners' contributions to complement its weaknesses? What are the expectation or needs of the partner? Is the criteria the same or different in different host country conditions?

12. How does the company analyze the cost of entering into a host country, and the supply and demand situations? Who are the customers?

13. How are these factors related to the choice of entry modes?

C. International generic strategies which may affect the choice of the entry modes--the specific expansion strategies:

14. What are the international strategies of the company? Will the company try to use a specific typology?

15. Does the company concentrate in specific country/ countries or region/regions of the world?

16. Does the company prefer standardization of the product or adaptation of local conditions or a combination of the two?

17. Does the company prefer a broad portfolio of brand names?

18. What are the global strategic motivations and reasons of the company (market potential and growth potential)?

19. How are the chosen strategies related to the choice of entry modes?

D. The Entry Modes

20. What are the choice of entry modes that the company is using for international expansion?

   * Non-equity? what are the methods: management contract, franchising (individual or master), membership, or other agreement?

   * Joint venture? what are the commitments: financial, equipment, personnel or other?
   * Wholly owned subsidiary? what are the commitments?
   * Any combinations? explain in detail.

21. What are the key factors that make the company choose one mode over others? To what degree does a "match" between the internal environment of a multinational lodging firm and the external environment of the prospective country exist in order for the multinational lodging firm to make one entry mode choice over others?

VITA

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