Entry mode choice in the internationalisation of the hotel industry: a holistic approach

This paper empirically investigates the entry mode choice in the hotel industry. Based on more than 1,200 entry decisions, which covers practically all operations carried out by the majority of Spanish hotel chains up to 2009, the study attempts to (a) identify the factors that influence the mode choice of incorporating each new hotel within the chain and (b) to reflect the specific nature of the hotel industry with regard to results obtained from samples of other industries. The results suggest the importance of considering a holistic approach that facilitates the understanding of a complex phenomenon which is not always explained just by efficiency considerations. Additionally, the results show that some arguments used in manufacturing firms cannot be directly transferred to the hotel industry because unique characteristics of these special services condition the entry mode choice into international markets.

Keywords: hotel chains, internationalisation, entry modes, services.

Introduction

The choice of entry mode constitutes one of the most critical decisions for international strategy success. It affects all the future decisions and operations of the firm in the new country market. The importance of this choice is also reflected in the considerable amount of research undertaken in this field of study (e.g. Agarwal & Ramaswani, 1992; Anderson & Gatignon, 1986; Brouthers, 2002; Brouthers & Brouthers, 2003; Brouthers & Hennart, 2007; Brouthers et. al., 2008; Herrmann & Datta, 2006).

However, much of the literature about entry mode choice is focused exclusively on the process followed by the manufacturing sector (e.g. Kim & Hwang, 1992; Madhok, 1997; Chang & Rosenzweig, 2001, among others) but the question of whether findings from theses studies are applicable to the service sector has not been widely investigated in an empirical way (Sánchez, Pla-Barber, & Hébert, 2007).

Nowadays services have become a driving force in the global economy, representing the most dynamic sector in international commerce. Although within the service sector we can find a high degree of heterogeneity, a special group identified as soft-services (Erramilli, 1990) such as banking, retail distribution or hotels has increased vigorously their overseas investments in recent years. These services cannot be exported and require major local presence as production and consumption occur simultaneously. In this context, this paper empirically investigates the entry mode choice in the hotel industry and represents an effort to uncover the implications that the specific characteristics of this type of services may have for the processes of international expansion.

Despite the importance of the hotel industry in the world economy and the growth of foreign investments in this sector during the last decade, few studies have been undertaken to analyse from a holistic perspective the influential factors in the entry mode choice (e.g. Contractor & Kundu, 1998a, 1998b; Dev, Brown & Zhou, 2007). We found the hotel industry particularly interesting for this type of study because given the high degree of customer-supplier interaction, internationalisation necessarily implies a physical presence in the targeted country. Moreover there is a wide range of possible modes of entry, each of them implying different degrees of ownership and control (management contracts, franchising, joint ventures, wholly owned foreign subsidiaries). Additionally, the use of cooperative forms of entry is equally or even more important than the use of modes that imply full ownership. In this type of services, capital-intensive assets (such as real estate) can be separated from knowledge-based or managerial expertise-related skills. Hence, control can be equally well achieved through inter-firm cooperation in non-equity agreements such as franchising or management service contracts (Contractor & Kundu, 1998a)

Adopting the perspective of a hotel chain that is internationalising its activities, the key question this study attempts to answer is: ‘What type of entry mode should a firm choose when planning to incorporate a new hotel in a particular foreign location?’ The article proposes a holistic framework in which this choice is influenced by the conditions of the transaction and the specific capabilities of the firm.

Based on more than 1,200 entry decisions, the study covers practically all operations carried out by the majority of Spanish hotel chains up to 2009. Shedding light on this phenomenon involves a better understanding of the development of one of the most competitive Spanish industries at global scale especially in the leisure subsector. Data from UNWTO (2009a) show Spain as the second largest world tourism destination. In this context, hotel chains constitute the main force and the protagonists in the internationalisation of Spanish tourist companies. The late eighties witnessed a progressive saturation of the internal market and the internationalisation became an alternative for the companies achieving dominant positions in the domestic market. The international expansion of leader companies boosted many others to follow their steps as a way of facing domestic competence and the trends of vertical and horizontal integration affecting the world hotel industry.

The remainder of the paper is organised as follows. The second section delimits the classification of entry modes used in the hotel industry. The next section provides the theoretical background and the hypotheses concerning entry mode determinants in the hotel industry. In the subsequent sections, methodological issues and major results and discussion are then provided. Finally, we conclude by pointing out the contributions of this study.

Foreign market entry modes in the hotel industry

Many researchers have suggested that entry modes may be differentiated according to the level of resource commitment and control. The FDI and entry mode literature (Anderson & Gatignon, 1986; Hill, Hwang & Kim, 1990) argue that the ability to control internal production and distribution processes, as well as external economic and political factors, largely determine the particular method of entering foreign markets. Control is defined as the ability of the firm to influence the various management systems of the organisation in order to improve its competitive position and maximise returns on firm-specific assets (Agarwal & Ramaswani, 1992). The level of control is lowest in the case of licensing and highest in the case of a wholly owned subsidiary. In the case of a joint venture, the level of control is dependent on the ownership split and the number of parties involved. Thus, the level of control will fall somewhere between that consistent with licensing and that consistent with a wholly owned subsidiary (Sánchez & Pla-Barber, 2006).

Following this rationale the criterion used to classify entry modes in the hotel industry has been the degree of control exercised over the foreign operation. In the hotel industry, this control operates over four aspects: a) the daily operation of the hotel, b) the physical assets, c) the organisational routines and tacit elements of the company, and d) the codified assets (such as for example the brand or the system of reserves). The responsibility for controlling these elements lies with the international hotel chain or the local hotel depending on the operating mode used (Contractor & Kundu, 1998a).

Generally speaking, the different options can be grouped into three main sets: a) forms that entail direct investment with a degree of total control (acquisitions and green field investments), b) forms that involve direct investment but with a degree of shared control and c) forms that do not involve capital contribution (management contracts and franchising) (Buckley, 1995).

In a wholly owned direct investment (green field and acquisitions[1]), the hotel company retains total control over the four aspects mentioned above, while in direct investment through joint ventures the exclusive control is only over codified assets, but usually the other aspects are shared with the partner.

Table 1. Entry modes and control

	ENTRY MODES			
Extent of control	FDI (Fully owned hotel)	FDI (shared ownership)	Management contracts	Franchise contracts
Strong control	a, b, c, d	d	D	d
Weak control		a, b, c	a, c	c
No control			B	A, b

(a) Daily management and quality control
(b) Control over physical assets.
(c) Control over organisational routines and tacit elements of the firm.
(d) Control over codified strategic assets

Source: Contractor & Kundu, (1998a)

In management contracts, chains are responsible for all hotel operations. The chain implements systems and procedures, selects the hotel manager and imposes their policies on human resources and quality. In short, the hotel is managed as if it were owned by the chain. The only aspect of control that varies in relation to joint ventures is that exerted over the physical assets. In this case, the owner of the hotel can make decisions without involving the hotel chain participation.

Finally, in franchise agreements the chain gives their brand name to the owner of the hotel. This agreement normally includes the sales, marketing and quality control system of the chain. In this case, the chain does not manage the hotel. The hotel owner controls its daily operations and physical assets. The chain only retains control over the codified assets, while the tacit control over assets is shared with the hotel.

Table 1 reflects the previous approach. We will use this framework in the empirical section to define the dependent variable.

Theoretical overview and hypotheses

The literature on international business has developed two relevant theories that explain the choice of entry mode: Transaction Cost Theory (TCT) (Williamson, 1975; Buckley & Casson, 1976; Anderson & Gatignon, 1986) and the Organisational Capabilities Perspective (OCP) (Kogut & Zander, 1993; Madhok, 1997).

The impact of Transaction Cost Variables

TCT has served as the overriding perspective for theorising entry mode choice and, accordingly, transaction cost-related variables have been recognised as major determinants of entry mode choice (Zhao, Luo, & Suh, 2004). Under the assumption of opportunistic behaviour and bounded rationality by economic agents**,** TCT analyses which entry mode minimises the transaction cost associated with the exploitation of an existing competitive advantage in a foreign market. If transaction costs are low, a rational firm will prefer the transaction to be governed by the market (or non-equity modes). However, if transaction costs are too high, the firm will prefer the internalisation of the transaction within the firms' own boundaries (Buckley & Casson, 1976; Anderson & Gatignon, 1986).

In the international business literature, environmental (host country determinants) and behavioural uncertainties (firm determinants) have been overwhelmingly studied as the core attributes of a transaction and the primary determinants of cost efficiency of a governing choice (Zhao et al., 2004). On one hand, environmental uncertainty refers to the inability of an organisation to predict future events, and it often results from the volatile nature of the economic and political conditions of the host country and the lack of knowledge of the local customs and culture (Miller, 1993). Proxies frequently used in measuring this type of uncertainty include market potential, country risk and cultural distance. On the other hand, behavioural uncertainty refers to the risk posed by the opportunistic conduct of a potential partner at the transaction level, affecting the efficient management of the relationship (Miller, 1993). The presence of intangible assets, such as marketing intensity through branding and advertising has frequently been used as an indicator of this type of uncertainty.

Market Potential

Countries characterised by a high market potential can absorb additional productive capacity and, therefore, provide opportunities for companies to achieve economies of scale and efficiency in their activities (Brouthers, 2002). However, in static markets, firms are reluctant to undertake large resource commitments as potential sales are not high enough to absorb a large investment (Agarwal & Ramaswami, 1992; Erramilli, 1991). This relationship is evident in capital intensive service firms (e.g. telecommunications, energy, airlines) in which the establishment of a new subsidiary abroad entails large fixed-investments. Nevertheless, some evidence in the hotel industry suggests the opposite relationship due to the role played by licenses. In the case of the hotel industry, markets with a high potential are the most appropriate for using contractual modes of entry because in those markets: a) although the potential for growth is high, competition is also intense, which dramatically reduces returns on investment, b) the transfer of technical, organisational and commercial knowledge is made easier and adaptation costs are lower, and c) legal protectionism in agreements is high (Contractor & Kundu, 1998a, b; Erramilli, Agarwal & Dev, 2002). Therefore:

H1: In the hotel industry the greater the market potential, the smaller the likelihood of hotel chains choosing full control modes.

Country risk

Host country risk reflects uncertainty about the continuation of current economic and political conditions and government policies that are deemed to be critical to the survival and profitability of a firm's operations in that country (Agarwal & Ramaswami, 1992). By reducing resource commitment in risky environments, firms minimise their financial exposure in cases where they can be adversely affected or forced to cease their activity by unforeseen events (Hill et al., 1990). On this premise, it would be preferable for hotel firms to work with non-equity modes rather than investments that involve complete ownership because the amount of invested funds is usually lower and the flexibility in terms of abandoning the market is greater. Indeed, in the hotel industry, as we have seen previously, management contracts and franchises allow the chain to exert a higher degree of control over the foreign operation without the need to take on the risk of investment. In addition, payment through royalties linked to sales reduces the risk significantly, since sales remain more stable than profits in unstable environments (Contractor & Kundu, 1998b). Therefore:

H2: In the hotel industry the greater the country risk, the smaller the likelihood of hotel chains choosing full control modes.

Cultural distance

One major source of uncertainty is cultural distance. Perceptions of significant cultural distance between the country of origin and the target country have been found to support the use of modes involving smaller resource commitments. In general, information-acquisition costs and, therefore, integration costs, can be expected to increase with the increasing cultural distance (Gatignon & Anderson, 1988, Kogut & Singh, 1988). Under these circumstances, firms often show a tendency to use agreements with local firms to overcome the liability of foreignness. However, the transferability of a service depends on the cultural distance between the country of origin and the target country as well as on the cultural attributes of the service itself (Sánchez et al, 2007). As cultural distance increases, there is a danger that the transfer of this knowledge to local partners may be imperfect since local institutions, norms and routines differ (Fladmoe-Lindquist & Jacque, 1995; Madhok, 1997). There are various aspects underlying effective and efficient service delivery, such as management systems, training methods, etc. In particular, the provision of hotel services requires substantial investments in human resources, since such services depend on the skills, talent and knowledge necessary to satisfy the needs and expectations of the consumers (Domke-Damonte, 2000). In such circumstances, even though local adaptations may be required, hotel firms would need to incur considerable investments, for instance in the transfer of management systems and in training, to train local employees in the firm's know-how and to ensure that the quality of the service provided is not compromised. Such high levels of resource commitments would make it more likely that equity ownership is maintained over the transfer. Therefore:

H3: In the hotel industry the greater the cultural distance, the greater the likelihood of hotel chains choosing full control modes.

Intangibility of the assets

Brand name, reputation, commercial skills, or the firm's ability in sales are key specific assets for international firms. In the hotel industry, these intangible services increase with the number of stars a chain holds (Brown & Dev, 2002). The number of stars becomes an indicator of the hotel service quality and differentiation because of the inability of the consumer to evaluate the quality of most hotel services offered prior to consumption, or even after consumption (Bateson, 1992). Following the TCT rationale, these intangibles assets are difficult to transfer because of market failures (opportunistic tendencies and asymmetrical information). Difficulties in measuring the characteristics of these assets and codifying all possible situations through ex-ante contracts increase transaction costs .The presence of transaction costs in markets provides an incentive to organise international transactions inside the boundaries of the firm through wholly owned subsidiaries (Buckley & Casson, 1976). Therefore, internalisation will prevent these assets being exploited by third parties (protection against opportunistic behaviour by partners or licensees), or ensure that the operation develops in accordance with the standards demanded by the parent company (protection against the local partner's incapacity to execute correctly the routines and procedures required) (Sánchez & Pla-Barber, 2006). Therefore:

H4: In the hotel industry the greater the intangibility of the assets, the greater the likelihood of hotel chains choosing full control modes.

The impact of organisational capabilities

The organisational capabilities (OC) perspective broadens the focus from minimising the transaction costs to also incorporate the managing of value, inherent in a firm's knowledge base (Kogut & Zander, 1993). The key issue in the entry mode choice is the compatibility between the firm's existing capabilities and those needed to be successful in a particular market (Madhok, 1997). According to this theory firm-specific capabilities are commonly linked to firm size, international experience and complexity of know-how (Sánchez et al, 2007). Larger and more experienced firms have the confidence and competence to manage the uncertainties of operating in international markets, and the tacitness/complexity of know-how increases the transaction cost but it also limits the transferability of the know-how to another firm without loss of value (Kogut & Zander, 1993; Luo, 2001). These circumstances increase the efficiency of resource utilisation and the effectiveness of its transfer in-house (Madhok, 1997). In the hotel industry, chains usually obtain specific capabilities through investments in physical, idiosyncratic assets and/or specialised assets (such as software, furniture, reservation and information systems etc.) or in human assets through education and specialised training. Normally, these assets are not easily transferable to other companies without a certain loss of value (Brown et. al, 2000).

Size

Setting up a wholly owned subsidiary, for instance, requires the transfer of people and equipment, the purchase, lease, construction or acquisition of the hotel and the development of networks of suppliers and customers. A hotel chain can obtain the necessary resources for these investments internally through the use of its own cash-flows or externally from the financial market. However, in countries such as Spain, where the system of financing is dominated by large banks, small companies face extra difficulties to achieve the volume of financial resources they would need (Campa & Guillen, 1999). Moreover, while large chains enjoy easier access to information channels, small-sized companies are not able to sustain the high required information cost, and the talent of the entrepreneur and his few collaborators will not always make up for the need to involve competent managers in highly time consuming activities (Mutinelli & Piscitello, 1996). Thus, limits in the availability of financial and managerial resources force small-sized companies to operate through strategies based on the minimisation of risk and commitment. Therefore:

> *H5: In the hotel industry the greater the size of the company, the greater the likelihood of hotel chains choosing full control modes.*

International experience

Internationalisation implies entry into a complex environment where the firm has to confront different factors, some of them specific of the foreign country. The lack of knowledge concerning these conditions is an obstacle in the development of international activities (Johanson & Vahlne, 1977). For instance, the novice investor setting up a wholly owned subsidiary may take inappropriate decisions on matters such as the location of hotels in the foreign country, adaptation of services to local market requirements, management of relations with workforce, suppliers, customers, banks and so on. Consequently, firms prefer to start with methods of entry implying a low level of commitment and risk (licence). Once the international experience increases the perception of uncertainty decreases and the firm assumes the possibility to manage its foreign operations through its own subsidiaries.

However, several studies suggest the opposite, arguing that, in the initial stages of internationalisation, managers have a markedly ethnocentric mentality and prefer to keep a high degree of control of foreign operations. Firms with more international experience tend towards a more polycentric attitude and therefore show more confidence in their possible local partners. Over time, managers establish relationships locally, building relationships of trust and showing a greater willingness to cooperate and delegate to agents in the target country. This relationship appears to be more obvious in firms that offer services (Eramilli, 1991; Erramilli & Rao, 1993), in which start-up costs are usually less than in industrial firms. However, in the case of hotel chains, the sums required to open a hotel are generally higher than in other subsectors of the service industry (consultancies, software companies, travel agents, etc.). Therefore, our hypothesis follows the more conventional argument:

H6: In the hotel industry the greater the international experience, the greater the likelihood of hotel chains choosing full control modes.

Complexity

From the OC perspective the nature of the know-how being transferred is a major determinant of foreign entry decisions. This know-how is often complex in nature. When the know-how needed to sell a service is complex, full control modes are better mechanisms to facilitate the intra-organisational transfer of that know-how by utilising its human capital, drawing upon its organisational memory, and using existing organisational routines to structure the transfer problem (Hill et. al, 1990; Kogut & Zander, 1992).

In the hotel industry organisational complexity grows along with the size of the hotel. Erramilli, Agarwal & Dev (2002) underline these competences together with the intangibility as being the largest contributor in the adoption of a competitive advantage on 'inimitability'. Indeed, some studies on the sector (Brown & Dev, 2000) verify the existence of major benefits and productivity in the biggest hotels and those with the highest numbers of stars. Hotels, and particularly large ones, use a whole system of fairly complex logistical processes, as in the case of dynamic pricing, global reservation systems, stock controls and ratios of occupation per service, etc. These are complex routines and management skills that are difficult to transfer as they are embedded in the human capital of the firm and in informal procedures or routines. Therefore:

H7: In the hotel industry the greater the complexity of the services offered, the greater the likelihood of hotel chains choosing full control modes.

Methodology

Sample and data collection

The population includes the firms that listed at least one property outside Spain as a part of their global group of hotels up to 2009. Following the same methodology as other studies focused on the internationalisation of the hotel industry (Dunning & Kundu, 1995; Contractor & Kundu, 1998a) the hotels associated with Spanish hotel reservation systems have not been included. The database comprises the organisational modes involving knowledge transfer to the foreign property (fully owned, joint venture, management contract and franchises).

Using data sourced by the Spanish Tourism Ministry, the international Spanish hotel chains were identified in late 2008. Internal financial data on hotel chains was gathered from different sources such as Hostelmarket, SABI and Duns 50 000.

Once the population of international hotel chains was identified, the next step was the search for each particular operation through secondary sources, fundamentally the journals *Editur, EditurLatino and Hosteltur* (which cover practically all movements in the sector), complemented by information gathered on-line along with diverse information appearing in the economic press (Expansión, Cinco Días, El País, Actualidad Económica, etc). This information has allowed us to identify the required variables (entry mode, host country, hotel type, size and category, etc.).

The analysed period ranges from the first foreign operation in 1985 (Meliá Bali) to 2009. An overall of 1,218 operations carried out by 51 international chains have been recorded.

Dependent variable measure

The dependent variable, the entry mode, was measured with a multinomial variable coded ‘1’ for franchise contracts, ‘2’ for management contracts, ‘3’ for shared ownership (joint ventures) and ‘4’ for full control modes (greenfield investments and total acquisitions). The following table shows the number of cases for each of the options.

Table 2. Dependent variable: entry modes

	FDI - Fully Ownership	**FDI – Shared Ownership**	**Management Contracts**	**Franchise Contracts**
N.	378,0	50,0	784	61
%	29,5	3,9	61,2	4,8

Independent variables measures

Market Potential (MKPOT)

As a proxy of market potential in the hotel industry, we use the average returns for tourism in the target country between 2000 and 2008. This data was obtained via the UNWTO (2009b).

Country risk (CRISK)

Country risk was derived from the host country risk index published in Euromoney the year before each entry. This publication presents annual ratings of countries based on composite measures of both political and economic risks. The index varies from 0 to 100: the value 0 represents instability of political and economic conditions, while the value 100 represents stability of such conditions. The variable was reverse coded, so high values indicate high country risk. This variable has been used in previous research (e.g. Brouthers et. al, 2008; Delios & Beamish, 1999) as it has some advantages. The Euromoney country risk measure is calculated annually and has been available for a large number of countries for a long period and it is also highly correlated with other potential measures of country institutional environments such as the European Bank for Reconstruction, the World Bank's institutional measures or the Corruption Perception Index (Brouthers et. al., 2008).

Cultural Distance (CULTD)

Cultural distance was calculated according to the composite index used by Kogut and Singh (1988). This index measures the deviation along each of the four cultural dimensions identified by Hofstede (1980) (uncertainty avoidance, individuality, power distance and masculinity-femininity) from the score of a given focal country (in our case Spain) for each target country.

Intangibility (INTG)

The number of stars of the hotel is used as a *proxy* of the intangibility of the services offered by the hotel. This variable is coded '1' for 3-stars hotels (158 cases), '2' for 4-stars hotels (633 cases) and '3' for 5-stars hotels (331 cases)

Size (SIZE)

The size of the firm is measured through the logarithm of the average number of workers employed in the previous three years of the specific foreign operation.

International Experience (IEXP)

Some recent literature (e.g. Padmanabhan & Cho, 1999; López-Duarte & García Canal, 2001) points to the need for controlling the effect of the different types of international experience. Experience is acquired not only through years of operating abroad, but also via the frequency of operations carried out. Thus, using the same methodology as Padmanabhan & Cho (1999), this study combines two variables to generate a new one that takes into account (a) the number of years operating abroad and (b) the previous operations in each country at the moment of incorporating a new hotel. The variable has been introduced in logarithmic form, as time has a decreasing impact in the accumulation of the stock of international experience. This variable is mathematically represented as: $IEXP = \log (N_{it-1} + 1)$, where N_{it-1} is the number of years the firm is operating abroad and the number of operations carried out by the firm in that country in the year before the entry being analysed. By definition, the variable is equal to zero at the moment of the company's first entry.

Complexity (COMP)

The number of rooms is used as a proxy of the complexity of the processes developed by the hotel. Given the variability of the number of rooms in the sample (minimum: 16, maximum: 1036), this study classifies hotels according to the standards used by the sector (PKF Consulting, 1997): small hotels (1-125 rooms); medium-sized hotels (126-200 rooms), large hotels (more than 200 rooms). The variable is coded ‘1’ for small hotels (358 cases), ‘2’ for medium-sized hotels (192 cases) and ‘3’ for large hotels (578 cases)

Control variables

We introduced two control variables the type of hotel (leisure or urban) (TYPE) and whether the hotels belong to an integrated group (GROUP). On one hand, in urban locations, there could be a greater tendency to use contracts, given the limitations of some locations for constructing new buildings and the availability of hotels with the need for restructuring. On the other hand, chains that form part of an integrated group could enjoy greater financial resources for investing abroad with full control.

Statistical analysis and discussion of the results

Prior to running the statistical analyses, the correlation matrix was examined. Most of the correlations among the variables were small. Further, the variance-inflation factor (VIF) reveals that most of these were close to 1 (Table 3). The largest VIF value is 1.94 which is well below the cut-off of 10 (Hair et al., 1999). This evidence reduces concerns about multicollinearity problems.

Table 3: Correlation matrix

Variables	M	SD	VIF	*Correlations*								
				1	2	3	4	5	6	7	8	9
MKPOT	661,31	258,76	1,26	1,00								
CRISK	-62,30	23,70	1,70	-0,139**	1,00							
CULTD	0,94	0,58	1,10	0,209**	-0,01	1,00						
INTG	4,16	0,64	1,20	-0,123**	0,202**	0,139**	1,00					
COMP	248,02	184,25	1,39	-0,166**	0,350**	0,089**	0,379**	1,00				
SIZE	3,72	0,77	1,54	0,01	-0,137**	-,057*	-0,03	0,01	1,00			
IEXP	1,35	0,23	1,46	0,187**	-0,139**	-0,01	-0,03	-0,04	0,573**	1,00		
TYPE	0,57	0,49	1,94	-,311**	0,598**	-0,04	,169**	0,429**	-0,103**	-0,134**	1,00	
GROUP	0,94	0,23	1,29	0,03	-0,116**	-0,03	0,01	-0,01	0,450**	,336**	-0,089**	1,00

* p <0,01 **p <0,05

The analysis was carried out using an ordinal logistic regression whose dependent variable, the entry mode, represents an ordinal scale of the degree of control. We analysed the sign of the coefficients that were significant. A positive coefficient indicates that the independent variable increases the probability of choosing full-ownership control, while a negative sign suggests a preference for shared control modes. One-tailed tests were used because they are more appropriate to assess directionality. However, we also used a multinomial regression in order to confirm the results obtained from the logistic regression and to assess the consistency of the results by means of different statistical methods, which enhances the robustness of the conclusions. In this case, a positive (negative) coefficient indicates that the probability of adopting an entry mode rather than full-ownership control (reference category) increases (decreases) as increments of the independent variables occur.

In general, the models present satisfactory indicators of significance (chi-squared values with levels of significance of less than 0.001) and with classification percentages of 63.6% and 66%. The results confirm the majority of the predictions formulated and are consistent in both types of analysis.

H1 (market potential) is not significant. Therefore we cannot confirm the preference of using shared control modes when the market potential is high as has been shown in the worldwide hotel industry (Contractor & Kundu, 1998). This lack of significance could be reflecting the specific difficulties faced by the Spanish hotel chains in obtaining management contracts or hotel franchises in the most interesting markets for tourism given the lack of knowledge of their brand names, the late process of internationalization and the extreme competition from the large international chains. Indeed, the figures are highly significant: while the top Spanish chain in the ranking of 300 of the world's most important chains comes fifteenth in the list with 301 hotels, the top French chain has 3,871 hotels, its British counterpart has 3,949 and the largest U.S. chain has 6,544 establishments (Hotels, 2008).

Table 4: Ordinal and Multinomial regression models

	Variables	**Ordinal Logistic Model**	**Multinomial Logistic Model**		
			Franchise Contracts	*Management Contracts*	*Shared Ownership*
Transaction Cost Variables	Market Potential (MKPOT)	0,000 (0,000)	**-0,001*** (0,001)	0,000 (0,000)	-0,001 (0,001)
	Country Risk (CRISK)	**-0,010**** (0,004)	-0,020 (0,014)	**0,019***** (0,004)	**0,038 ***** (0,009)
	Cultural Distance (CULTD)	**0,426 ***** (0,118)	**-1,967 ***** (0,471)	**-0,276 **** (0,127)	-0,032 (0,304)
	Intangibility (INTG)	**0,672***** (0,117)	**-1,389 ***** (0,290)	**-0,547***** (0,133)	-0,306 (0,299)
	Complexity (COMP)	**0,002***** (0,000)	**-0,003**** (0,001)	**-0,002 ***** (0,000)	-0,001 (0,001)
OC Variables	Number of employees (SIZE)	**-0,286**** (0,114)	**0,996*** (0,594)	**0,288 **** (0,124)	-0,073 (0,266)
	International Experience (IEXP)	**-2,009***** (0,383)	**4,149 ***** (1,180)	**2,121***** (0,432)	0,953 (1,087)
Control Variables	Urban hotel (dummy) (TYPE)	0,116 (0,185)	**-1,604**** (0,512)	0,183 (0,212)	0,469 (0,471)
	Integrated Group (dummy) (GROUP)	-0,629 (0,378)	-16,524 (0,000)	0,812 (0,424)	0,188 (0,864)
Chi ^{2}		176,881***		255,708 ***	
-2 Log Likelihood		1738,752		1,660	
Pseudo R^2		0,186		0,259	
% Clas.		63,6%		66,0%	
N.		1281		1281	
*** p <0,01 **p <0,05 *p<0,1					
Standard errors in brackets					

Regarding H2, full control modes are preferred to enter into stable countries (p<0.01). These results confirm H2 and coincide with those found in the majority of studies carried out on manufacturing firm samples. Hotel chains lead to a greater preference for adopting more flexible and less risky methods of expansion in environments where there are high levels of political and economic instability.

However, concerning the cultural distance, our results confirm H3 and suggest a pattern of behaviour different than in manufacturing companies. We can observe that the higher cultural distance increases their preference for strict methods of control ($p<0.01$) given the difficulties in transferring their know-how to local firms employing very different business practices. This can be explained by the specific nature of the hotel services as such services depend on the skills of the workers and special management systems and processes. When the cultural distance is very high the transfer of those assets to local partners becomes a hard task. This rationale is reinforced if we analyse H4 and H7. In the hotel industry, with the increasing value of the intangible assets (brand, reputation, service orientation etc) ($p<0.001$) or business systems and routines (complexity) ($p<0.001$), chains, when expanding internationally, tend to protect those assets and processes from being wrongfully used by third parties so as to avoid damaging their international image.

Regarding the H5 and H6, both variables size ($p<0.05$) and experience ($p<0.001$) are significant but with an opposite sign to the one that was hypothesized. Contrary to the case of manufacturing firms, these results appear to be a generalized pattern for this sector (Contractor & Kundu, 1998a). Larger and more experienced chains have a greater capacity to generate the necessary conditions and know-how that allow them to opt for management contracts or to franchise their brand names.

Lastly, with respect to control variables, none of them presents statistically significant coefficients.

Conclusions

Our study is an in-depth examination of firms' international strategy, focusing on the particular aspect of the choice of entry mode by hotel chains. In this paper we draw on the entry mode literature, based on transaction cost analysis and the organisational capabilities perspective. Collectively, these approaches offer greater explanatory power and add new insights into the complex phenomenon that entry mode choice is. In this sense, the study provides guidelines for management about how to match control requirements with host country conditions and firms' existing capabilities.

The paper suggests that determinant factors of entry mode choice in manufacturing firms cannot be directly transferred to service firms, and therefore propositions originated in TCT and OCP perspectives are not universally applicable. Some variables which were generally analysed as determinant factors of control decisions in the manufacturing sector are not significant or present different results in the hotel industry.

In the hotel industry, the necessity for close and personal interaction enhances the importance of cultural distance. To overcome cultural distance in service offers, firms need to place greater emphasis on effective communication skills and workforce training to provide high quality services according to the preferences and needs of the clients in foreign markets. Therefore, hotel chains show a higher tendency to enter into culturally distant markets through high control entry modes in order to control the quality standards of customized services and the performance of employees. This tight control increases with the increase of the complexity and intangibility of the services being offered by the foreign hotel.

Regarding the specific characteristics of the Spanish Hotel industry in comparison with the hotel industry worldwide, although we can consider it as one of the most competitive Spanish industry at a global level accounting for five chains in the top 30 of the world's most important chains (Hotels, 2008), the article shows a certain ethnocentric tendency in the initial stages of international operations, through full-control modes, and some difficulties encountered by these chains in markets with a high potential in the segment of licences. As the study shows, larger firms with more international experience have a great tendency in using contractual agreements. This interesting evidence shows the growing importance that contractual agreements are acquiring in sectors that offer services as a way of attaining a global dimension.

Despite the contributions outlined here, this work does have certain limitations. We should be cautious when generalizing the results because the study is focused on the Spanish hotel industry. Therefore, future research could provide insight into the applicability of our results in different settings. The research could be complemented by obtaining information directly from the chains in order to incorporate variables related to corporate strategy, or to aspects of internal management. The study could also be made more complete by including new entry modes (e.g. renting, reservation systems, etc.), new factors, or even by carrying out more partial analyses of each of the possibilities of the dependent variable. Finally, future studies should analyze the link between determinant factors and firm performance in order to provide insights into whether the proper alignment of entry modes with such factors actually leads to better results.

Notes

1. In this work, we analyze partial acquisitions as joint ventures, given that control over the foreign operation is shared. This same argument has been used, among others, by Chang and Rosenzweig (2001).

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