Incumbent Firms' Strategic Responses to Foreign Direct Investment: The Case of the Hotel Industry in Macao

INTRODUCTION

FDI by multinational enterprises (MNEs) is associated with many types of changes to firms. The changes experienced in organisations upon the arrival of FDI at a country level are investigated in the empirical literature on spillover effects. Firms' productivities, absorptive capacities, technology and knowledge transfer have all been areas of research for three decades or more (Caves 1974, Globerman 1979, Blomström 1986, Kathuria 2000, Görg and Greenaway 2004, Duanmu and Fai 2007, Tang and Koveos 2008, Barbosa and Eiriz 2009, Ben Hamida and Gugler 2009, Fu 2012).

Many studies concentrate on the aggregate directions of the changes that have occurred at a country level, namely positive or negative effects, linked to levels, or changes, in FDI activity. In the field of international business, FDI effects are usually investigated at a country or industry level (e.g.Meyer, Estrin et al. 2009, Anwar and Nguyen 2011), while in the field of strategic management, research attention has mostly spanned a firm's strategy to internationalise and decision to enter the host economy (Buckley, Wang et al. 2007, Bontempi and Prodi 2009). However, neither field has elucidated particularly an incumbent firm's strategy to manage the impacts caused by FDI. In addition, research on spillovers and linkages is designed around the contrast between ex ante and ex post metrics (Aitken and Harrison 1999, Buckley, Wang et al. 2007, Haskel, Pereira et al. 2007, Zhang, Li et al. 2010), yet the construction and mediation of the processes and pathways that lead to these changes, which is just as much an outcome of FDI, have been neglected. This paper thus provides the first attempt to analyse the mechanism of how firms react to the input of FDI and the output of spillover effects.

The findings present an opportunity to revitalise our understanding of FDI impacts on firms and form the foundation of two contributions. First, the findings demonstrate that incumbent firms are actively reacting to FDI presence. It entirely depends on the reaction of the firms. In addition, incumbent firms, especially those with foreign nationality, actively form strategies to manage the impacts caused by FDI. This paper builds theory that illustrates how incumbent firms actively manage the impacts caused by FDI, particularly how they mitigate the negative impacts that result from the effect of fierce competition on human resources and how they reformulate and adapt strategy to reap the potential benefit of positive FDI impacts, such as demonstration effects, market access effects and promotional spillover effect. Second, the paper describes the important organisational antecedents that affect the types and magnitudes of FDI impacts at the firm level. The contribution complements and extends the existing literature on FDI impacts to broaden our understanding of the context, process and outcome of FDI impacts at the firm level.

THEORETICAL BACKGROUND

MNEs create linkages when they are directly involved with other firms in a host economy (within or across industries) and have a direct influence on these firms, whereas spillover effects result from the (indirect) externalities of MNE activities such as demonstration effects in related or unrelated firms, the mobility of trained employees, competition effects, market access effects and enterprise spin-offs (Blomström and Kokko 1998, Buckley, Clegg et al. 2007, Giroud 2007, Miozzo and Grimshaw 2008, Giroud and Scott-Kennel 2009). Previous studies have mainly aimed to examine the occurrence of the types and amounts of effects when FDI is present.

Studies of horizontal (e.g. Caves 1974, Blomström 1986, Gershenberg 1987, Blomström and Kokko 1998, Fosfuri, Motta et al. 2001) and vertical spillovers (e.g. Blomström and Kokko 1996,

Duanmu and Fai 2007, Miozzo and Grimshaw 2008) have described various types of FDI impacts on firms' productivity, human capital movement, industry structure, backward linkages between MNEs and local suppliers and forward linkages between incumbent firms and overseas markets through MNEs. The existing literature has informed us that different kinds of FDI effects take place; however, the cause and effect relationship of those effects, which involves incumbent firms reacting, mitigating or learning from MNEs (Zhang, Li et al. 2010), is rarely detected.

The existing literature has provided a comprehensive macro-view of FDI impacts, whereas firm-level investigation on how firms react to FDI presence is missing. FDI presence always intervenes in the host country market environment. MNEs entering the host market usually possess more sophisticated technological and better managerial capabilities than incumbent firms (Cantwell 1989); MNEs' technological superiority and advanced management capabilities can thus be transferred to or imitated by incumbent firms in emerging markets (Fu 2012). In fact, the organisational form of cross-border activities in international hotels is different from the same grouping in service industries, for instance market research firms. Low ownership but high control is a common form in international hotel operation (Dunning and McQueen 1982). It is prominent in hotels where the capital-intensive elements can be separated from the knowledge-based or managerial expertise elements of competitiveness (Contractor and Kundu 1998, p. 326). MNEs' ownership advantage can be achieved by contract-based internalisation in the hotel industry. Thus management contracts are often employed to ensure quality management and sufficient supply of professional management staff.

Insights into why and how FDI effects vary across industries, particularly in the service industry (Kundu and Merchant 2008) and countries are scant. In an attempt to understand the process or plausible mechanism of how FDI effects take place, many international business scholars have turned to the

literature on process, for example Giroud (2007), Duanmu and Fai (2007), Giroud and Scott-Kennel (2009) and the various studies by Millington, Eberhardt et al. (2005). Nevertheless, a holistic picture of the FDI phenomenon is unclear. In order to add further knowledge to the FDI theory, the process of how FDI effects take place and the cause of those effects when FDI arrives is important to be recognised.

As pointed out by Buckley and Lessard (2005), recognising context rather than abstract general theories is important to advance international business research. Context down to the firm level is important to recognise, especially when researching a firm's strategic response to FDI impacts. However, studies of incumbent firms' strategies and processes for reacting to FDI impacts are scarce. Kumaraswamy, Mudambi et al. (2012) shed light on the strategic responses of incumbent firms in the Indian automotive industry upon market liberalisation. Catch-up strategies were explored and these described incumbent firms undertaking a dynamic process. This provides an important managerial lesson to incumbent firms upon market liberalisation: they can catch up with MNEs operating in emerging markets in which the incumbents are not entirely passive but can react to new FDI presence. Along this line of investigation, this paper aims to examine the process of incumbent firms responding to FDI impacts and illustrates a compelling mechanism of FDI effects.

Previous studies of FDI impacts from economic-based and management-based approaches provide a robust theoretical background to form this study. Empirical studies have predominantly used statistical approaches and almost invariably offered mixed results on country- and industry-level measurement. To investigate beyond the known FDI impacts, we argue that FDI initiates a continuous process for firms to reformulate strategy, making changes to their organisational structures, operational practices, systems or technologies to cope with the changing environment caused by FDI and even

forming strategic alliances (Prashantham 2008) to maintain competitiveness (Mintzberg and Waters 1985).

Increasingly, research is suggesting that in order to understand the mechanism or relationship developed between MNEs and incumbent firms (Duanmu and Fai 2007, Giroud and Scott-Kennel 2009, Hallin and Holmström Lind 2012), process research is a viable option because of its ability to generate sound knowledge not only of processes and outcomes but also of why and how outcomes are differentially shaped by processes (Pettigrew 1997). To investigate a plausible mechanism of FDI impacts and its outcome on firms' strategic responses, we adopt a process approach to investigate the phenomenon. The current study is built on four important process components, namely context (FDI presence), content (FDI impacts on firms), process (organisational and FDI impacts) and outcome (firm response to FDI impacts). We locate our focus on how, why and what a firm's strategic responses are in order to establish linkages between process to outcome (Pettigrew 1992). Research question is why and how FDI impacts vary across firms and what determines the strategic responses firms adopt when FDI presence causes in order to mitigate or benefit from either negative or positive impacts.

METHOD

The research approach used in this study was a process approach, specifically to build theory from multiple cases (Pettigrew 1987, Eisenhardt 1989, Pettigrew 2012). We chose this research strategy because we sought to develop a theoretical explanation regarding the process and strategic responses of firms upon FDI presence, especially in managing the negative impacts caused by FDI. A multiple-case design was adopted as replication, counter replication and theory extension are possible (Yin 2003). Theoretical sampling was applied to select the case companies, which offers theoretical insights (Eisenhardt and Graebner 2007). Buckley, Clegg et al. (2002) showed that FDI by developed countries

and overseas Chinese firms imposes different impacts on collectively owned or state-owned Chinese enterprises. Thus, firms of different nationality, degree of multinationality, size and foreign or incumbent management are important criteria for selecting sample cases in which polar types were selected to increase the likelihood of finding unusual phenomena.

Research Setting and Cases Selection

The liberalisation of the gaming industry in 2002 had resulted in an inflow of FDI from US$3,223 million to 18,910 million by the end of 2012 (DSEC 2014). In particular, FDI in the Macao hotel industry has increased dramatically due to the construction of gaming halls often combined with hotels. By the end of 2013, 100 hotels were in service, and hotel room availability increased from 8,869 to 26,069 between 2002 and 2012, an overall increase of 17,200 rooms. In addition, Macao has a highly homogeneous economic structure, where 93.6% of the industrial sector structure is from the tertiary sector in which hotels and gaming occupies 60%. As a result, Macao was selected as the test bed to tackle the research questions.

Star rating, Casino Ownership, Degree of Internationalisation (Venzin, Kumar et al. 2008), and Hotels Nationality are the stipulated criteria based when selecting hotels. Inward FDI is mostly concentrated building 5-star hotels (DSEC 2010, DSEC 2011, DSEC 2013, DSEC 2014). Upscale and luxurious markets are the target of foreign investor hotels as well as existing locally-owned 5-star hotels. Thus, 5-star hotels competing for the same market as foreign investors were selected. Most of the hotels built and to be built in Macao are casino related because of the gaming industry liberalisation. Distinct features between hotels owning a casino and hotels having no casino are indicated by the pilot interviews. Therefore, three types of hotels are identified in the case selection, they are: (1) Hotels with their own casino, (2) Hotels with no casino, and (3) Hotels renting space for a casino as a tenant.

Among the existing 5-star hotels in Macao, some are managed by international hotel management companies, which are much internalised and internationalised. On the other hand, others are managed by Hong Kong, Macao and mainland Chinese investors whose degree of internationalisation is comparatively low. It is important to include hotels of different degrees of multinationality in the research sample in order to study FDI effects extensively. Besides, nationality of investors is used to identify the nationality of hotels in Macao, such as investors from Hong Kong, joint-ventures between international hotel management companies and investors from Hong Kong, mainland China or Macao local entrepreneurs. Invitation letters were sent to 13 five-star hotels in operation, and seven hotels met the stipulated criteria, five cases were selected and one was a new entrant hotel as presented in Table I. In order to preserve the confidentiality promised to all interviewees, all case companies are represented by flower names, Lily, Magnolia, Rose, Sunflower and Wisteria, and interview data are anonymous.

Insert Table I about here

Data Collection

This study collected data from five hotels through 40 in-depth interviews with managers and directors at different managerial levels. These key informants help minimise data bias (Eisenhardt and Graebner 2007). One (Sunflower) of the five hotels was established by a foreign investor, while the other four have been in operation since before the gaming sector liberalisation in 2002. Interviews with different levels of managers and directors were iteratively linked to help optimise the context of the case. Field notes were collected and observations were recorded. Interviews and various types of internal documents, such as the productivity measure template, key performance indicators, human resource management-related documents, secondary data on Macao FDI, economy and tourism statistics, were

collected in order to triangulate (Stake 1995) and augment (Yin 2003) the primary data to improve the firm-level contextualisation of the study.

All interviews were semi-structured, conversational in style (Marshall and Rossman 2006) and was recorded digitally. Three languages, namely English, Mandarin and Cantonese, were used for the 40 interviews. The researchers collectively are fluent in English, Mandarin and Cantonese to native standard ensuring that all questions asked were interpreted with the same meaning in each of the interviews, regardless of the language used (Piekkari 2006, Welch and Piekkari 2006). A topic guide, which showed the subjects to be covered and served as an interview agenda (Ritchie and Lewis 2003), was developed and was requested by some interviewees before or after the confirmation of the interviews. Interviews lasted between 50 minutes and two hours and they were mostly conducted on the interviewee's premises, either in hotel lobbies or in the coffee shops of the hotels.

Data Analysis

The qualitative data analysis in this study consists of data reduction, data display and conclusion drawing or verification (Huberman and Miles 2002) . In addition, the nine steps of content analysis of Berg (2004) are adopted in order to make inferences systematically and identify the special characteristics of a message objectively (Holsti 1968). The 40 interviews generated 533 pages of transcript. All interviews were transcribed verbatim. The data analysis consists of three stages: (1) data coding of all interviews; (2) data reduction to transform codes into categories; and (3) cross-case comparison to identify similarities and differences in the patterns and processes. An inductive coding approach (Strauss 1987) was used to conduct the first round of data coding – open coding. After the first round of coding, a list of 71 codes had been generated. A second round of data coding – analytical coding – was conducted. This resulted in a second list of 47 codes. By scrutinising the interview

transcripts and examining the analytical codes, memos were written up for each important theme (NVivo nodes). These memos contained information about organisational differences and types of effects that had occurred. The write-ups of these two types of memos are similar to the development of a case study narrative (Patton 1990, p.388), which provides a readable and descriptive picture of a case company. The third stage of the analysis involved cross-case comparative analysis to examine the mechanism and process of effects taking place. More importantly, constant comparisons among cases were iterated to identify differences and similarities (Pettigrew and Whipp 1991). Sorted materials were examined to identify and isolate meaningful patterns and processes (Berg 2004) and those identified were considered in the context of previous research and theories. The analysis of multiple cases followed the working principles of Huberman and Miles (2002). Finally, the cross-case analysis among the five companies drew on the earlier written memos. In the findings section that follows, a small number of representative quotations and other data are incorporated to explain the study findings.

FINDINGS

Data reveals significant variation of strategic reaction to inward FDI and FDI impacts on organisations. In particular, Magnolia and Wisteria, the contract-based, foreign managed incumbents implemented mitigation strategy in a relatively timely manner to combat fierce human resource competition, yet demonstration effect from FDI was not obvious. In contrast, Lily and Rose, the ownership-based, indigenous managed incumbents implemented mainly adaptation strategy in general and demonstration effect and promotional spillover effect were obvious.

Strategic Response

Mitigation Strategy

FDI has intensified competition on human resources due to the labour intensiveness of hotel industry that new entrants demanding thousands of workers, and the restricted import labour scheme imposed by the government. The four case companies all experienced serious staff turnover, which ranged from 28% to 60% annually. Magnolia had experienced 28% staff turnover, 38% for Wisteria, 50% for Lily and 60% for Rose respectively. Table V summaries the main strategies implemented by the four incumbent companies; the executed strategies are supported with exemplar quotations. Mitigation and adaptation strategies are common across the four case companies except Rose not implementing any mitigation strategy. Strategy adaptation is common when an organisation has to cope with changes caused by competitors, environment or regulations changes (e.g. Volberda and Lewin 2003, McKinley 2011); yet, mitigation strategy to lessen negative impacts brought in by inward FDI has not been revealed previously in the literature.

Insert Table II about here

Wisteria and Magnolia have implemented mitigation strategies, specifically focused on human resource management. *Succession Planning* (Magnolia) and an *Executive Development Training Programme* (Wisteria) were introduced at the beginning of FDI entry. The senior executives of Magnolia are responsible for identifying potential candidates for the *Succession Planning* programme, which is designed to help staff achieve their full potential and specify a targeted position for promotion. The selected staff are assured that, after successfully completing the programme, they will be promoted within 12 months. However, if a promotion is not available, the staff receive additional benefits or incentives until it is (e.g. salary increment). Selected staff are required to sign a two-year *training bond agreement*, which indicates that they will repay the total training cost incurred if they resign during the

programme period. The implementation of *Succession Planning* together with the *training bond agreement* is a very effective human resource strategy to mitigate the poaching staff effect and serious staff turnover imposed by new entrants. With the availability of *Succession Planning*, staff are more cautious about their long-term career development and career prospects before moving to new entrant firms or a company offering a higher salary.

As for Wisteria, an *Executive Development Training Programme* has been introduced at the beginning of FDI entry. Wisteria also provides full subsidies to management staff who enrol in *eCornell*, an online Ivy League classroom concentrating on the area of hospitality and foodservice management. Management staff taking up *eCornell* commit to staying with the company for at least one year. In addition, the training offered to staff at Wisteria is the most comprehensive among the four case companies. Given the human resource shortage, staff training becomes a big challenge. Wisteria follows the international standard set by its American headquarter in conducting proper and formal training as usual even encountering human resource shortage. For example, all new front office staff must go through a two-month training programme, which includes one-and-a-half months' off-the-job training and half-a-month on-the-job training with a supervisor.

Lily has also implemented a mitigation strategy for human resources; however, the company did not execute the strategy in a timely manner. Senior management started to plan and develop a *Career Plan* for senior staff only after they experienced staff turnover of 50%. Nonetheless, the mitigation strategy has retained staff, particularly senior staff in this company, which has the longest operating history among the four case companies in the industry. The management of Lily explained that staff turnover mainly happened among junior staff. In regards training, Lily offers only on-the-job training, in which senior staff train new staff in the front office or restaurant.

Adaptation Strategy

In addition to a mitigation strategy which is generally putting about emergency and immediate action, an adaptation strategy is another longer-term response adopted by all four case companies including Rose. The four case companies are well aware of their own competencies and service areas, and fixtures and facilities refreshment or replacement are required in order to cope with the increased market competition. The four case companies concentrated on target market refreshment and fixtures improvement or replacement. Wisteria and Magnolia serve pronounced target market segments, namely international leisure and business travellers. Wisteria and Magnolia both have subsidiaries in different parts of the world. To accommodate the changes imposed by FDI inflows, particularly on market competition, Magnolia further exploits its brand recognition in countries where its subsidiaries are present, for example, Japan and Hong Kong to recruit customers and synergise its target market effort.

Moreover, the remarkable efforts spent on staff retention and keeping a relatively low staff turnover rate have enabled Magnolia to provide stable service quality compared with the other industry incumbents. Indeed, stable service quality is fundamental to maintaining competitiveness when the entire industry has been experiencing a human resource shortage. The senior management of Magnolia strongly believed that service quality maintenance is a key success factor for adapting to the fierce market competition caused by new entry firms. To this end, a mitigation strategy on human resources is vital not only for staff retention but also for service quality maintenance. It also serves as a prerequisite to implement a successful adaptation strategy. Wisteria has refreshed the main company's service attributes, for example, guestrooms and added new facilities to strengthen its positioning in the market and to match the escalating competition. Meanwhile, the adaptation strategies executed by Lily and Rose are similar. The two companies have opted to adapt to the changing market environment by

refreshing their fixtures and facilities, for example they have renovated their properties to further exploit their assets and have enhanced service level by offering free Wi-Fi and free minibars in guestrooms. Lily has implemented not only an adaptation strategy but also an exploration strategy in order to strategically renew the company's business profile and competitiveness. The owner of Lily has invested capital to build a new hotel, which aims to enhance the company's business portfolio in serving the luxury market and compete with new entrants that have flashy new facilities. The strategic response made by Lily is directly associated with the firm's structure in terms of nationality, management style and ownership. These will be discussed in detail in the next section.

DISCUSSION

Our study on incumbent firms' strategic response to FDI effects shows that resource and capabilities of incumbent firms are crucial and whether there is an adjustment or not due to inward FDI, is determined by the resources and capabilities of incumbent firms. Secondly, exactly what that initial FDI caused adjustment is depends on the resources and capabilities of the incumbent firms, and thirdly, the steady-state and the strength of the adjustment of the incumbent firms depends also on the resources and the capabilities. In addition, The findings provides a process view of how FDI effect take place across organisations, in particular, how incumbent firms actively react to FDI effect and mitigate the negative ones. Figure I summaries the subsequent discussion in an Ishikawa diagram, also called a causal diagram) (Ishikawa 1976) which is widely adopted to present cause and effect relationship in quality management and business process management (Ahmed and Hassan 2003, Gupta, McDaniel et al. 2005, Kitcher, McCarthy et al. 2013).

Mitigating Negative FDI Effects

Previous research on FDI impacts has reported inconclusive findings on how FDI affects, for example, a firm's productivity (Aitken and Harrison 1999, Haskel, Pereira et al. 2007). The mechanism through which firms react to FDI impacts is rarely researched. Furthermore, previous research has mostly collected aggregated industry-level data in the manufacturing industry. Scrutinising firm-level impacts has not taken precedence over the macro-level impacts on an industry. The first contribution of our study lies in the extension of FDI effect mechanism. In the past, focus on FDI bringing positive and negative impacts on country level (e.g. Buckley, Clegg et al. 2004) brought researchers to examine FDI phenomenon in different countries (Damijan, Knell et al. 2003, Lipsey and Sjöholm 2004, Sinani and Meyer 2004); however, we found that firms enacted different strategies to react to negative impacts resulted from FDI, for example, serious human resource competition. Our study revealed that incumbent firms are actively reacting to FDI effects, specially the negative one imposed on human resource competition; we also see that different incumbent firms implement mitigation strategy in a different time manner.

As illustrated in Figure I, managers' who are from contract-based organizations (Magnolia and Wisteria), where international connection exists between the subsidiaries and the headquarters, are able to source the best practice from their headquarters and subsidiaries throughout the world. Thus, managers are knowledgeable and able to anticipate impacts resulted from FDI in order to implement timely mitigation strategy to deal with negative FDI impacts. Managers are important asset to location-bound service FDI (Dunning and Lundan 2008), in particular to hotel, where aspects of hotel management and hotel service delivery are people-based. In contrast, ownership-based organisation (Lily and Rose) are indigenously owned and have no international link carrying out less timely strategy

and experienced serious negative FDI impact of staff turnover. As a result, managers' knowledge to deal with competition is important to form timely mitigation strategy. Though strategic adaptation and renewal are common when firms encounter market environment changes (McKinley 2011) and government deregulation (Chang and Xu 2008), such a mitigation strategy describes new theoretical insights into how firms deal with negative FDI impacts and what cause the ability to deal with negative FDI impacts. The causes of these different time line to implement mitigation strategy are mainly due to the organisational structure, contract-based versus ownership-based, in which preparing managers with different levels of knowledge and anticipation to deal with impacts brought-in by FDI. In this respect, our study makes a distinctive and substantive contribution by employing cross-case analysis (Welch, Piekkari et al. 2011, Tsang 2013) to examine how a firm reacts to FDI impacts and how FDI impacts vary across firms in the same industry. The finding on incumbent firms' mitigation strategy lends support to the proposition that incumbent firms of foreign nationality are more likely able to react to negative FDI impacts in a timely manner than incumbent firms of indigenous nationality.

Mechanism of FDI Effects

Early research on firms' strategies of FDI are focus mostly on entry choices (e.g. Buck, Liu et al. 2010, Brouthers 2013), in particular from the new entrants' point of view. Over the last decade, inward FDI to BRICS (Brazil, the Russian Federation, India, China and South Africa) countries have more than tripled and BRICS countries have emerged as major recipients of FDI since 2000 (UNCTAD 2013), new entrants of a decade ago have become incumbents nowadays and the new wave of new FDI entry in BRICS countries will result FDI impacts to incumbents not limited to indigenous firms but firms with foreign nationalities. As a result, it is important to understand incumbent firms' reaction to FDI impacts, in particular, the determinants of their reactions. Our study complements this line of FDI firms'

strategies inquiry by highlighting how firms' resources and capabilities determine firms' reaction on FDI impacts, how the chain of sequences determines FDI outcome on firm's level as illustrated in Figure I. In particular, our study finds that the types of FDI impacts arisen vary from firm to firm and that they are clearly associated with the firm's organisational structure, resources and capabilities. More importantly, the data show significant variations in the types of FDI impacts and intensity received by the case companies.

The study describes mixed findings on the demonstration effect taking place between foreign and indigenous firms. Wisteria (foreign) and Lily (indigenous) receive a high demonstration effect compared with Magnolia (foreign) and Rose (indigenous). Despite the nationality of the firms, the more open to changes and new ideas the management are, the higher is the level of the demonstration effect. Thus, management openness works as a base to grasp the demonstration effect. To conclude, managers dealing with FDI presence must possess the best possible knowledge of the organisational structures of incumbents and new entry firms and stay open-minded to new ideas and changes in order to formulate a strategy to maximise the potential positive demonstration effect taking place. As regard to the market access effect, although previous studies have found an insignificant effect (Havranek and Irsova 2011), this study finds that indigenous firms tend to have more market access than international firms. Foreign firms usually possess extensive international distribution networks and upper-hand overseas market access as previous research has suggested (Kamiński and Javorcik 2001). Our study augments the market access effect from the perspective of service firms, in which promotional spillover effect is revealed as more prominent than market access effect, particularly for indigenous firms who have scant international recognition and linkage. In addition, foreign firms, Magnolia and Wisteria, are international brand name holders, while Lily and Rose are local brand, the formers receive less promotional spillover effects and the latter receive more promotional spillover effects brought in by the

FDI new entrants. Given the potential market access brought in by new entry firms, incumbent foreign firms should secure the exclusivity of any particular channels crucial to the firm's business, for example, travel agency; meanwhile, indigenous firms should nevertheless proactively cultivate distribution channels before and after FDI inflow and especially grip the positive market access effect caused by FDI.

CONCLUSION

This paper sought to demystify the mechanism of how FDI effects take that affect the types and magnitudes of FDI impacts at the firm level. The theoretical contribution of this paper is that FDI spillover effect is no sense of automatic; they are determined by the reaction of the incumbent firms. It has been argued in previous research that incumbent firms often have fewer choices to react to the impacts of FDI (Chang and Xu 2008, Kumaraswamy, Mudambi et al. 2012). This study suggests that incumbent firms are not only actively responding to changes that result from FDI, but also vigorously forming a strategy to mitigate the negative impacts caused by FDI. By examining incumbent firms' responses and strategies formulated to manage FDI impacts, this study attempted to "open the black box" (Doz 2011) of FDI impacts, offered a novel insight into the process of how FDI effects take place and had the opportunity to revitalise FDI impact research.

Limitations

This study was developed through comparative case studies of FDI impacts and the responses of five corporations in the hotel industry. This study has its limitations. The research findings are applicable to other industries with some boundary conditions, such as the nature and competitive environment of an industry. The findings of this research are based on hotel companies where labour-intensiveness is a prominent industrial feature and the competition effect on human resources is a fierce phenomenon in

the industry. In other contexts, industrial nature and competitive environment are to be considered carefully before any application takes place.

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Table I: Case Companies

Company Name	*Star Rating*	*Casino Ownership*	*Degree of Internationalisation*	*Hotels Nationality*	*Size (rooms)*
Lily	5	Yes	International	Chinese Hong Kong	1071
Wisteria	5	No	International	International	208
Magnolia	5	Tenant*	International	International	407
Rose	5	Tenant*	Macao	Chinese Macao	380
Sunflower	5	Yes	U.S.A and Macao	American	600

Remarks: *Tenant refers to the company owning no casino but renting space for casino operation.

Table II: Strategic Response and Exemplar Quotations

Case	*Management*	*Strategies Implemented*	*Exemplar Quotation*
Lily	Indigenous	Mitigation	It's impossible (to compete with salary). Therefore we have to consider the management part. For example, we think about how to outline the career plan and the development for them. We hope that this will draw their attention, telling them not to be so shortsighted and focus on the short-term. They need to have a concrete base if they want to have good prospect in the hotel industry. We are now providing lots of training program. Every department here is offering on-the-job training. Our staffs can learn through practicing. We also give extra knowledge to our staffs, like cross-department training. [Human Resource Manager, Lily]
		Adaptation	rything (rooms' renovations) last year, the end of last year. Moreover, for our deluxe room, we use hand-stitched carpet, all in one-piece, and it's tailor-made for the room. The wallpaper that we use, well, it's difficult to describe, but it's very expensive. They are three-dimensional corridor paper and in all the deluxe room. Those are the things that we did to improve our hardware. [General Manager, Lily] The new front office system they brought in is another example. They are all having OPERA now. It's popular in America or in other countries. The system can link up the Vega's one and the one here. They also have a reservation system but we haven't got one yet. We will get one soon. [Front Office Manager, Lily]
		Exploration	I am responsible for the new hotel development. You will see soon that there are many examples of western management. We are going to bring in western management style for the new hotel. This project has to be a western one...a western operation style. I hope I can manage. I want to deliver this message and information to my colleagues who will help with the development. [Executive Housekeeper, Lily] General Manager: They can bring in lots of things, the hardware part. Software part, they also bring in something. However, they (non-casino hotels) will not be able to afford it (expensive hardware). A pure hotel cannot afford a lot of things which we, the casino hotel, can afford. A casino hotel, like us, can afford a lot of thing, which a normal or pure hotel cannot afford. [General Manager, Lily]

Table II: Strategic Response and Exemplar Quotations (Continued)

Case	*Management*	*Strategies Implemented*	*Exemplar Quotation*
Rose	Indigenous	Exploitation	General Manager: We cannot compete all aspects of services and customers with those investors. We put our resources on aspects accordingly to our priority. It's because our resources are limited. At this stage, we put more resources on human resources and marketing. We tried hard to offer better HR compensation, e.g. better medical benefit to our staff. For marketing, we mainly focus on leisure and business guests.
		Adaptation	We found out that we have to provide value to our guests. That's why we renovated our hotel. We had confirmed the interior designer, using ARF. They had designed for Shangri-La and Four Seasons. We had finished the renovation in lobby, the function room in 2nd floor, the Shanghainese restaurant and all guest rooms. [General Manager, Rose]
Wisteria	Foreign	Mitigation	Our HR constantly selects staff with good potential and grooms them for higher position. I would say that I am one of those who was developed and groomed by the management. I started as a front office agent and I was promoted as front office manager…of course, after several years of hard work. Honestly, this is something that I could have never earned in the new hotels...[Front Office Manager, Wisteria]
		Adaptation	General Manager: At this point I would have to say that our product and the experience that we provide to our customer are so different that we are not there to copy or learn from them. We will actually tell our customers how different we are and make them value the experience they have when they come here.
Magnolia	Foreign	Mitigation	What we have done is we are trying to invest in our people…by completing a succession planning system. You know, to show them where they are today, where we think they will be and will go in a year or two years' time. And developing a career development program, you know tailor-make to their needs. We've done this with all the middle management. Because of that, I think we are very successful to retain all these people. [Resident Manager, Magnolia]
		Adaptation	General Manager: I think the service quality for this new clientele, let's call them. The more sophisticated clientele and international clientele to me that will be the same as we're offering in any other places. I came from New York before here; the clientele over there are demanding the same thing as what these people will demand or already demanding of Macao. You know 24 x 7 services...you know...business center, laundry valet, room service and all the rest of it, they expect people to be proficient in English which is now the case in Macao, or in which case of native tongue...pretty much that, once you are offering that, anything else will be gravy.
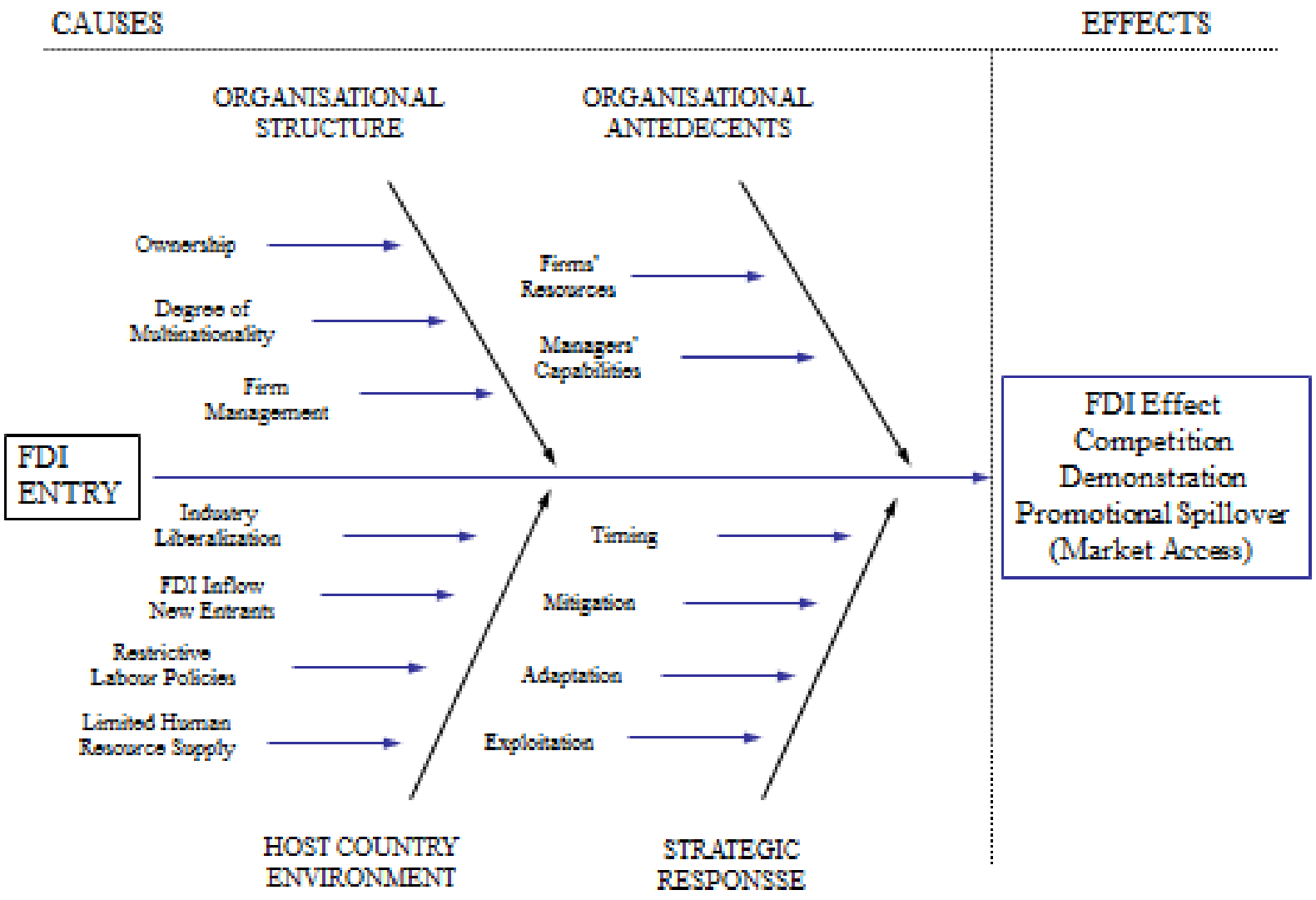
Figure 1: The Mechanism of FDI Effects