



Discussion paper

## Foreign market entry mode choice of hotel companies: Determining factors



Rosario Andreu\*, Enrique Claver, Diego Quer

University of Alicante, Spain

### ARTICLE INFO

#### Article history:

Received 26 February 2016  
 Received in revised form 31 October 2016  
 Accepted 30 December 2016  
 Available online 13 January 2017

#### Keywords:

Internationalisation  
 Chinese hotel chains  
 Entry mode  
 Environmental factors  
 Firm-specific factors

### ABSTRACT

Decisions regarding firm internationalisation, especially when it comes to choosing which market entry mode to use, have been one of the most frequently discussed topics in academic literature in the last few decades. Many studies have been conducted from different perspectives, either focusing on one or several sectors or analysing companies from a specific country. Nevertheless, there are few studies dealing with the Chinese hotel industry. The aim of this study is to analyse the relationship between environmental and firm-specific factors and entry mode choice by the largest Chinese hotel chains. Using a sample of 185 entries, the results show that cultural distance, market attractiveness, firm international experience, asset intangibility, firm size and the number of Chinese outbound tourists visiting each country are determining factors of entry mode choice.

© 2017 Elsevier Ltd. All rights reserved.

### 1. Introduction

The interest in the Chinese economy has been on the rise ever since its spectacular growth process began. It started growing since the open door policy was implemented in 1978, tourism undoubtedly being one of the sectors that benefited the most from financial development (Aliouche and Schlemtrich, 2011). During the last three decades, the tourist sector in China has experienced significant growth, and it is now one of the pillars of the country's economy (Tsang and Hsu, 2011). According to the statistics from China National Tourism Administration (CNTA) in 2015 there were 133.82 million inbound tourists (including foreigners and tourists from Hong Kong, Macau and Taiwan) and 56.89 million stayed overnight in China. Moreover, in 2015 China reached 120 million outbound tourists (including overnight and same-day visitors), an increase of 12% compared with 2014 (Travel China Guide, 2015).

The hotel industry rose in China as tourism grew stronger, also undergoing high-growth stages throughout the years. According to Zhang et al. (2011), the hotel industry is the most sensitive to changes in the type and amount of tourists visiting a country. Ever since the first international hotel joint venture was established in

1982,<sup>1</sup> the Chinese hotel industry has grown quickly. It is clear to see that this sector plays a key role in the development of tourism in China, and therefore it is essential to conduct studies to analyse it (Gross et al., 2013).

One of the reasons why the hotel industry has experienced such a fast growth in China is the enlargement of multinational hotel groups within the country (Zhang et al., 2012). International hotel chains such as Intercontinental Hotels, Marriott International, Accor, Starwood Hotels, Best Western, Hilton International and Hyatt Corporation, to mention just a few, have a strong presence in China (Aliouche and Schlemtrich, 2011). Among the reasons that led these hotel companies to invest in China are the size of the country's market and the increase in tourist demand, its financial conditions and the impact of mega events such as the Olympic Games held in Beijing in 2008, the Expo 2010 Shanghai, and the 2010 Asian Games, celebrated in Guangzhou. The presence of international hotel companies in China has not only increased competitiveness, but it has also brought developed management practices into the country, and also improved market productivity and efficiency (Pine and Qi, 2004; Yu and Huimin, 2005). While large hotel multinationals continue their expansion process in China, the internationalisation of Chinese hotel companies is in

\* Corresponding author at: Department of Business Management, Economics Faculty, University of Alicante, Carretera de San Vicente del Raspeig s/n, 03690 San Vicente del Raspeig, Alicante, Spain.

E-mail addresses: [rosario.andreu@ua.es](mailto:rosario.andreu@ua.es) (R. Andreu), [enrique.claver@ua.es](mailto:enrique.claver@ua.es) (E. Claver), [diego.quer@ua.es](mailto:diego.quer@ua.es) (D. Quer).

<sup>1</sup> The first joint-venture hotel, Beijing Jianguo Hotel, was managed by the Hong Kong-based Peninsula Hotel Group. This hotel was a joint venture between China International Travel Service Beijing Branch and an American Chinese (Gu et al., 2012) and was the first real market-oriented and profit driven hotel (Xiao et al., 2014).

an early stage (Gu et al., 2012). As a consequence, research papers dealing with the internationalisation of Chinese hotel chains are still limited.

Chinese hotel chains have mostly developed within their home country, and therefore their international growth is limited when compared with other sectors of Chinese economy where international presence is stronger. The fact that managers in Chinese hotel companies believe that the domestic market is still far from saturated may be a reason (Gross and Huang, 2011). Another reason may be the ownership structure within the Chinese hotel industry, where state-owned hotels (SOHs) prevail (Law et al., 2015). Although the share of state capital has been reduced in the last two decades, SOHs still account for over two-thirds of the room inventory and assume indispensable functions in China's hotel development (Xiao et al., 2014). SOHs are among the less competitive in the market (Xiao et al., 2008). In general, they suffer from inefficient management, insufficient bureaucratic control, lack of fiscal discipline, low operating efficiency and lack of innovation, which ultimately limits their competitiveness (Yu and Huimin, 2005). Furthermore, state ownership may hinder firms' capability to detect opportunities in international markets (Mak, 2008).

In the last two decades we have started to witness the beginning of Chinese hotel chain's foreign expansion process. One of the reasons could be the booming of outbound tourism from China that can bring opportunities for their international expansion (Xiao et al., 2014). On the other hand, the reduction of the share of state capital in some Chinese companies could have boosted the internationalisation of China's hotel industry (Ryan and Gu, 2007). It is expected that Chinese hotel chains will increase their presence abroad in the future, as many SOHs become market-oriented companies (Xiao et al., 2014). Moreover, as mentioned above, the entry of international hotel firms in China promoted the development of managerial know how. The domestic industry gained hotel managers with abilities to access the global market (Gu et al., 2012). This experience may facilitate the internationalisation of Chinese hotel firms.

The expected increase in the internationalisation of this sector requires further research in order to contribute to a more competitive international growth. One of the most important issues in the internationalisation process is the entry mode decision because it determines the resource commitment abroad and the foreign relationships required to be successful in international markets. This topic has been widely analysed in the literature. There is a large amount of studies focusing on entry mode choice in different countries and sectors. However, the foreign market entry mode decision of Chinese hotel chains is still not a popular topic among researchers (Andreu et al., 2010; Gross et al., 2013; Kong and Cheung, 2009). Thus, our paper aims to fill this research gap.

More precisely, our paper contributes to the literature by providing new empirical evidence on foreign market entry modes in the Chinese hotel sector. The results allow us to know if entry mode choice of Chinese hotel firms is in line with the proposals of the main theories that have been used in past studies on entry mode choice, such as the Transaction Cost Theory, the Resource Dependence Theory and the Uppsala Model. Moreover, our findings provide managerial guidance about the determining factors that must be considered when choosing the entry mode in a foreign country. These factors are related both with the environment and with the companies themselves. Some of these factors have already been thoroughly examined in previous studies focusing on other industries and home countries, which make it possible to compare the results. Others factors are specific of Chinese hotel chains, as the influence of state ownership, and may help to better understand the reality of China's hotel industry.

The theoretical background for hypotheses development on the factors that influence entry mode choice can be found in the

next section. Then we will describe our research methodology and present our main findings. Finally, we will draw some conclusions and highlight the main contributions and limitations of our study.

## 2. Theory and hypotheses

### 2.1. Entry mode in the hotel industry

The hotel sector is considered as a soft service industry. One of the distinctive characteristics of service industries is the simultaneity between production and consumption, which makes it impossible to export them, thus limiting entry mode options (Erramilli, 1990). There are two broad options available to hotel companies for international market expansion, depending on whether or not they are willing to make a foreign direct investment (FDI). Companies use FDIs whenever they wish to maximise control and are in a good position to engage into increased resource allocation (Brouthers and Hennart, 2007). If the company is not ready to make an equity investment, then contractual agreements are the way to go. Among these non-equity based entry modes, management contracts and franchising are the most usual options (Pla-Barber et al., 2011).

Many theories have been used in prior research to analyse entry mode choice. For the purpose of this study, we mainly use three theoretical frameworks that provide complementary arguments: the Transaction Cost Theory, the Resource Dependence Theory, and the Uppsala Model. Using these theories as a basis, we will now propose a series of hypotheses on how certain environmental and firm-specific factors may influence entry mode choice.

### 2.2. Factors influencing entry mode choice

#### 2.2.1. Environmental factors

One of the key factors when making decisions on international strategies is host country risk. Political, financial and institutional instability increase the level of external uncertainty that a company has to face. According to the Transaction Cost Theory, if political risk and market uncertainty are high, foreign companies will choose an entry mode that requires the lowest possible resource allocation so as to minimise potential loss derived from adverse conditions in the host country (Pak and Park, 2004).

Hotels are service companies demanding investments in facilities and physical assets. In order to hold a flexible position in countries with high political instability, companies will choose an entry mode that does not require equity investments, thus minimising resource allocation (Pla-Barber et al., 2010). As Ekeledo and Sivakumar (2009) argue, soft service companies interested in entering high-risk countries will prefer a franchise or a management contract.

Furthermore, the Resource Dependence Theory claims that a company may not possess all the necessary resources to successfully enter a high-risk country. In such situations, companies may choose to cooperate with a local partner, which allows them to acquire market knowledge, to minimise asset exposure and to share the risks (Azofra and Martínez, 1999; Brouthers, 2002).

All these arguments suggest that there should be a negative relationship between host country risk and resource commitment. Thus, we propose:

**Hypothesis 1.** There is a negative relationship between host country risk and the use of entry modes demanding higher resource commitment.

According to Zhao et al. (2004), along with host country risk, the most frequently used variable for analysing external uncertainty is cultural distance. Cultural distance refers to the differences in the way that people from different countries perceive certain

Download English Version:

<https://daneshyari.com/en/article/5108179>

Download Persian Version:

<https://daneshyari.com/article/5108179>

[Daneshyari.com](https://daneshyari.com)