Agenda of the international entry choice research in hospitality management field

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The topic of MNC international entry choice is relatively developed and has been growing for more than two decades in IB (international business) area. Since one of the basic questions of IB research is why and how firms go aboard, the topic of how and why firms choose certain entry strategies into host countries has been brought to the table and gained much attention by the scholars. Despite of the development in IB field, this research on entry choice in the area of hospitality hasn't progressed much. This gap could be shown by comparing the theories that are used or established for explaining international expansion in IB area with those applied in hospitality field. This paper aims to summarize and compare the researches on this topic in both fields, shedding light on the future research on international expansion in the area of hospitality management. Several worth-noting theories and research agenda in management and IB field are suggested by the authors. The paper is structured into three sections. First, it reviews the different categories of entry choices from different perspectives. Then it elaborates the six most commonly applied theoretical perspectives on international entry choice: transaction cost economies, resource based view, perspective of knowledge flows, agency theory, institutional theory, and Dunning's eclectic framework. Finally, a brief review on entry choice in hospitality field and suggestions on the future research in hospitality industry are illustrated in the paper.

Entry choice categories

Although there is not complete listing of mode structures exists, the mostly investigated choice is between wholly owned subsidiaries (WOS) and joint ventures (JV). Some studies have also explored the choice between contracts and equity (franchising contracts vs. company-owned outlet, management contracts vs. production subsidiaries). Brouthers and Hennart (2007) have identified 16 different entry modes based on the previous studies. According to their argument, there are two main views on the meaning and the categories of entry modes. The first perspective considers contracts, JVs and WOSs as a continuum of increasing control, commitment and risk. WOS would be chosen if MNCs exert maximum control, make maximum commitment and take on maximum risks. Contracts would be selected when MNCs want minimum control, make relatively less commitment and take on minimum risks. Based on this view, scholars identified several mode structures. For instance, Erramilli and Rao (1990) identified 11 types of entry mode namely ranging from Greenfield WOS venture to licensing and franchising; Anderson and Gatignon (1986) listed 17 mode structures ranging from WOSs to small shareholder organizations. From this point of view, certain variables determine the choices. For example, low asset specificity determines licensing and intermediate asset specificity predicts JVs, and high asset specificity determines WOSs.

The second perspective is represented by Hennart (1988, 2000), who doesn't agree that JV is a step in the continuum between contracts and WOS but categorized entry modes into two types, contracts and equity (JVs and WOSs). The main difference between the contract and equity is, in Hennart's opinion, is the fact that input suppliers are paid ex post from the profits of the venture in equity, while in contracts the payments are specified ex ante. Hennart further argued that the former is efficient when defining what they must contribute is difficult ahead of time and measuring contribution is costly after the cooperation. Hennart (2000) also mentioned buying local factors of production is sometimes difficult. The firms with the hard-to-transact assets will integrate into WOS if the assets can be bought on the market; in contrast, if the assets held by the MNE can be easily purchased on the market, a local firm with hard-to-transact assets will contract the technology and establish a domestic WOS. When both the MNC's and local firm's assets are hard to transact, JV would occur. Thus Hennart (1988) argued that JVs are not an intermediate entry mode between market and hierarchy but rather a solution of the double market failure. He also mentioned that JVs are categorized in the hierarchy/equity category, and "JVs are the any type of setup where input providers are paid for their inputs through a share of the profits of the venture." Meanwhile, the partial acquisitions and JV Greenfields should be categorized as JVs. This is not in line with the literature such as Kogut & Singh (1988) who argued that the term JV refers to the shared new ventures with separate legal personalities. Brouthers and Hennart (2007) adapted and adopted Hennart (2000)'s definition of the JVs and differentiate contracts, WOSs and JVs as shown by Figure 1.

Figure 1. Contracts, Wholly owned subsidiaries (WOS), and Equity Joint Ventures(JVs)

		Input contributed by MNEs	
		Hard to sell	Easy to sell
Inputs contributed by local firms	Hard to sell	JVs between MNE and local firm	WOS by local firm (takes licenses/ franchise form MNE)
	Easy to sell	Wholly owned by MNE	

Source: Brouthers and Hennart (2007)

In sum, Brouthers and Hennart (2007) adapted Hennart (2000)'s model of entry modes , classified the modes of entry into three cells (JV, WOS by local firm and WOS by MNE), and shows JV is not some intermediate form between market and hierarchy but results from joint internalization because of double market failure (Hennart, 1998). Moreover, the authors also distinguishes the level of ownership (contracts, JV, WOS) and the establishment mode (Greenfield vs. acquisitions), both of which are mixed used by scholars.

Meyer et al. (2009a) classified modes of FDI into three types: Greenfield, acquisition, and Joint Venture (JV). JVs partially integrate local resources from a local partner and acquisitions integrate the local firm *in toto*. Both of JV and acquisition offer access to resources that are held by local firms. Greenfield doesn't directly approach local firm as organizational resources but allow the MNC to purchase or contract for local resources. The authors stated that there are two sequential stages in the entry decisions; firstly deciding partial ownership (JV) vs. full ownership (acquisition/Greenfield), and then choosing between acquisition and Greenfield if full ownership

is preferred. But in practice, they argue, the two stages are often blurred, such that studies examine the three entry choices simultaneously (Kogut and Singh, 1988; Chang and Rosenzweig, 2001; Elango and Sambharya, 2004).

From the perspective of ways of obtaining resources and capabilities, Andreu, Claver and Quer (2010) stated that there are three entry strategies, namely internal growth (developing resources on its own), external growth (acquiring firms which possess the needed resources and capabilities), and intermediate or cooperative growth (cooperating with other companies that own the needed resources and capabilities).

Scholars have kept on looking at and defining entry modes from different levels and perspectives. Besides these various definitions of entry choice per se, scholars have tried to explain the phenomena of international expansion through using different theories, such as transaction cost economies, resource based view, knowledge flow perspective, agency theory, institutional theory, and eclectic paradigm.

Transaction cost economies

From the transaction cost economics (TCE) perspective, the choice of entry mode is the one that minimizes the transaction costs due to the asset specificity, high frequency, uncertainty, and opportunism (Williamson, 1981, 1985). TCE suggests that firms try to evaluate the cost and benefit of operating and transacting related to the different entry modes in the local markets. Since the market imperfection exists and causes the misunderstanding, conflict that leads to delay, breakdown, or malfunction, the choice of entry strategy depends on a comparison of coordination costs incurred from internalization and the transaction costs arising from interaction with potential partners in local markets (Brouthers, 2002). The international joint venture lies between the pure market mode (ex. contract) and wholly owned strategy and it is preferred over the market mode when market imperfection is significant for intermediate product, especially the industry or country specific knowledge and key access to distribution channels are required. It is more difficult or expensive to acquire or replicate the assets that are necessary to produce the intermediary goods (Hennart, 1998).

Asset specificity is a central variable in the majority of these studies. But the related researches found mixed results about this explanatory variable. Some studies' results support for TCE's prediction that high asset specificity is related to the use of high control modes (whole owned subsidiary) (Brouthers & Brouthers, 2003; Brouthers et al. 2003; Makino & Neupert, 2000); but other studies found the opposite effect (Delios & Beamish, 1999; Palenzuela & Bolillo, 1999). Brouthers and Hennart (2007) 's review indicates that the majority of transaction cost-based entry mode studies tends to find no significant relationship between asset specificity and entry mode choice (e.g., K. D. Brouthers & Brouthers, 2003; Delios & Beamish, 1999; Gatignon & Anderson, 1988; Hennart, 1991; Hennart & Larimo, 1998; Kim & Hwang, 1992; Taylor, Zou, & Osland, 1998).

Frequency is another dimension that affects firm entry mode choices (or boundary decisions), according to Williamson (1985), the choice between market contracting and integrating transactions within the firm. The fixed costs involved in integrating transactions in the firm can only be justified when the volume of transactions is large enough. Thus frequency is an important determinant of the choice between contracts and equity.

Resource based view

From the resource based view (RBV), the choice of international expansion hinges on whether and to what extent the expanding investing firms require context-specific (location-bounded) resources to achieve the competitive advantages (Meyer & Peng, 2005). The main analysis centers on the extant assets exploitation or resources augmentation for the purpose of creating new resources, both of which contribute to the link between MNCs' resource endowments and their growth path in international expansion (Meyer, et al. 2009b). Context-specific resources could be obtained from network, relationships with related firms, distribution channels and even government authorities, especially in the emerging economies where formal institutions are weak (Peng & Heath, 1996). Context-specific capabilities such as organizational flexibility, ability to managing local labor forces and capability of managing interfaces with local government are all considered to be critical factors to achieve competitiveness. MNCs in this case may prefer to establish their foreign operations with a local partner as a joint venture or through acquisition, especially when MNCs purse in intangible rather than tangible assets since the former is likely to involve higher level of information asymmetries due to the knowledge –components of resources (Meyer et al. 2009b).

Andreu et al (2010) apply RBV to testing the factors that influence the entry choice of Spanish tourism firms into new businesses. They argue that resource diversification contributes to long-term sustainability and regional development (Ivars, 2003). Diversification has many advantages especially for the tourism industry which depends on regional resources in terms of economy, culture, nature and history.

Entry mode choice is one of the main decisions in the diversification process. Montgomery (1994) argued that diversification on firm level is a function of its resource stock. Diversification may reflect a shortage of certain resources and capabilities that the firm needs for the purpose of taking the strategy, which in turn can determine the entry mode. According to Andreu et al. (2010), there are three entry strategies, namely internal growth, external growth, and intermediate or cooperative growth (cooperating with other companies which have the resources and capabilities). Meanwhile, Andreu et al. (2010) pinpointed the factors that influence the entry mode are categorized into two sets, namely the traits of the sector and the internal composition of resources and capabilities within the organization (Chatterjee & Singh, 1999); and other factors such as managerial experience, agency problems and the availability of information that may dilute the influence of purely economic factors.

They hypothesized that the degree of similarity between the new business and the company's original business positively associated with choice of internal growth. This conforms with Miller (2004) 's argument that firms using internal growth rather than external growth pursue less extensive diversification. They also proposed that the greater the company's diversifying experience, the greater the likelihood that entry into the new business will take place via internal growth. The empirical results conform to previous studies which show that internal development is the best option for related diversification, while external development and cooperation agreements are more suitable for unrelated diversification, their findings also illuminate that tourism firms that have adopted these patterns have achieved higher profitability.

Knowledge transfer perspective

The perspective of knowledge transfer holds that the choice of entry mode relies on whether the knowledge is transferrable and the transfer is less costly. There are two kinds of knowledge, one is tacit knowledge and the other is common architecture knowledge (Kogut and Zander, 1993). The former is less codifiable and hard to teach, and the latter is codifiable and easy to transfer. According to their empirical study, the choice of transfer mode is determined by the efficiency of knowledge transfer. The firms would choose equity entry mode if there is large amount of tacit knowledge transfer and non-equity entry mode if large amount of common architecture knowledge is required.

Management of knowledge flows within and across a firm's boundary is critical to strategic success in a globalized competitive context. Hence, a global lodging firm can be regarded as a knowledge-based service company and consequently the hotel firm's registered brand names, as well as unregistered, but proprietary reservations and logistics systems constitute codified strategic assets, which are a potent source of control over partners who are likely to conduct opportunistic behaviors (Contractor & Kundu, 1998). On the other hand, transferring tacit knowledge to a partner firm in a foreign nation can be difficult and costly, as it depends on, to a large extent, the absorptive capacity of learning new knowledge (Cohen & levinthal, 1990). Thus non-equity form of entry mode such as franchising can be less prevalent in developing countries (Contractor & Kundu, 1998).

Agency theory

Agency theory has been intensively on the fundamental concern related to the separation of ownership and control, and it highlights the importance of information transfer process. In the agency theory, the problems of adverse selection and moral hazard due to differences in interest and risk preferences existed between investors and managers, address the difficulties of assessing the capabilities and performance of foreign employees (managers), indicating less preference of non-equity and low-control entry mode such as franchising, in which the critical source of control is through the stern enforcement of franchising contract (Quinn & Doherty, 2000). In contrast, foreign institutional investors with globally diversified investing portfolios and superior administration capabilities are more likely to perform high-risk entry decisions especially in emerging market (Filatotchev et al. 2007). The phenomena of large amount of international merger and acquisition could be explained by the self-interest of managers who care about their careers, prestige power, and salary, job security (Haunschild, 1993).

Institutional theory

"Institutions" refers to the "rule of the game" (North, 1990) and are capable of shaping firm strategies in relation to foreign market entry (Peng, 2003). Scott (1995) defined the institutional environment in terms of three "pillars" being -the regulative, normative, and cognitive domains. North (1990) divided the institutional distance into two aspects, formal and informal. The perspective of institutional theory brings up the issue of institution from the "background" to the front and would enrich the study on the drivers of firm strategy and performance in IB (Peng, Wang and Jiang, 2008). Institution theory suggests that legitimacy is crucial to the survival of firms. The decision of cross-border M&A largely depends on whether MNEs are able to easily and economically obtain legitimacy in the host country (Eden & Miller 2004; Kostova & Zaheer, 1999; Xu & Shenkar 2002). MNEs that conduct acquisition would find it easier to obtain

external legitimacy and internal consistency in host countries which have relatively small institutional distances (Kostova & Zaheer, 1999).

Recent researches show that institutions are more than background conditions and can directly determine entry strategies, especially for the institutions in emerging economies, which is weak and far different from those developed in the developed countries. In a weak institution which lacks strong formal institutions, network (Guan Xi) among managers would function as informal institutions that substitute the lacking formal institution and facilitate the economic transactions (Peng et al, 2008). Thus alliances-based entry mode such as international joint venture can become a preferred strategic choice in weak institutional context (Peng, 2006). Xu and Shenkar (2002) also analyzed the entry choice under the circumstances of institutions. They argue that the longer regulative institutional distance is positively associated with Greenfield, and the cognitive and normative institutional distance is negatively associated with merger and acquisition.

The factor of institutions has gained much attention and was considered as the third leg of "strategy tripod" which comprises institution-based view, industry-based view, and resource-based view of IB strategy. (Peng et al, 2008). Some scholars found institutions interact or influence the entry choice. For instance, Meyer et al. (2009a) found that institutional and resource effects crucially interact. They stated that the entry modes—Greenfield, acquisition, and joint venture facilitate firms to overcome different market inefficiencies associated with two characteristics of the resources and to the institutional context. Stronger Institutions ensure a higher degree of market effectiveness which encourages acquisitions. Thus JVs are chosen to approach many local resources in a weaker institutional framework, but it becomes less important in a stronger institutional framework where acquisition plays a more crucial role in accessing intangible and organizationally embedded resources.

Eclectic paradigm

Dunning's OLI or Eclectic paradigm framework is among the most commonly adopted perspectives in the studies of cross-border entry modes. This OLI perspective was set up for the purpose of a distinguishable theory and later was developed as a holistic framework that brings concepts and theories from previous works together into one integrated construct. The three elements of Dunning's OLI paradigm are ownership advantages, location advantages, and internalization advantages. Since it is not a theory, Dunning's Eclectic Paradigm could be considered as a vehicle that integrate insights from resource-based (firm-specific), transaction cost economies (internalization), and institutional (location) theories (Brouthers and Hennart, 2007) and that investigates how these theories interact with each other.

Many studies applied this approach to the research on entry modes (Agarwal and Ramaswami 1992; Padmanabhan & Cho, 1999; Cloninger, 2004; Tsai & cheng 2002; Nakos & Brouthers, 2002, etc.). Brouthers, Brouthers, & Werner (1999) 's study shows that Dunning's framework explains very well the firm performance and the fact that firms which choose entry mode based on the firm-specific (ownership), location-specific and internalization advantages tend to have better subsidiary performance. Tatoglu and Glaister (1998) investigated the investments in Turkey and found that OLI paradigm may affect manufacturing and service industry in a different manner.

One of the good papers on entry mode was written by Brouthers and Hennart (2007), who reviewed the literature on international entry mode choice and gives a holistic view of the works on entry mode across the years of researches. Meanwhile, it pinpoints the weaknesses of the

literature, and provides some suggestions on the further research. The authors addressed that the motive for entry may have a significant influence on the establishment modes besides the TCE, RBV, IT and OLI. And the interaction between strategic motives and other variables such as cultural differences is also worth further research. The authors pointed out although there is less research on SME mode choice, those theories for large firm mode decisions could be generalized to SME entry modes. In addition, the issue that firm boundaries influence the performance was ignored. The mode choice influences subsidiary performance. Finally, the authors provided directions for future theory development. They suggested that existing theories needs deepening, new and different theories such as strategic decision making (SDM) research that could help us gain a better understanding of mode choice decisions. The author also provides new and different methodologies such as multilevel sample analysis for the future research on entry mode.

Hospitality management field

In the research of entry choice in hospitality industry, Zhao (1993) completed the pioneer study that integrates the international strategic management perspective and international business perspective to investigate the antecedents of multinational lodging firms' international entry choices. The results showed that multinational lodging firms' selecting modes into foreign markets are determined by two categories of antecedent factors—external environment including political, economic, socio-cultural, technological and ecological factors; and internal environment in terms of competitor, customer, property location, supplier, strengths, partner selection and human factors (Zhao & Olsen, 1997). This study shows no relationship between the generic international strategies (such as Brand portfolio, niche market, standardization and adaptation, etc.) and entry modes. It also reveals that multinational lodging firms try to apply multiple entry modes at the mean time and their selection of entry modes are likely to be influenced by the degree of maturity of the host country. The study also indicates that minority equity participation is usually inseparable to management contract or franchise. Overall, the research found that the matches between the external and internal environment may affect the entry mode decision of multinational lodging firms, who may choose a wholly owned or long-term lease entry mode if it has strong tangible assets. If a firm holds intangible assets and prefers to use similar operational modality used at home country, while the host countries expect the company to share those intangible assets, management contract or franchising may be appropriate entry mode. But multinational lodging firms need to modify their non-equity involvement into minority equity involvement to fit the requests from their partners in the host countries.

Looking at the literature in hospitality field after 1994, there are only a few articles centering on international entry mode. Contractor and Kundu (1998) conducted an empirical study on the organizational forms in the international hotel sector. Domke-Damonte (2000) studied the interactive effects of international strategy and throughput technology on service firms' entry mode. Gannon and Keith (1997) highlighted the possibilities and difficulties of socialization control in different entry modes in the international hotel industry. Brown, Dev and Zhou (2003) advocated that the ownership and control dimension of international entry mode should be separated and that cross-border entry mode decisions should be expanded to business activities beyond production and distribution. Recently, Andreu et al. (2010) applies RBV to explaining the relationships among diversification, entry choice and profitability in Spanish tourism industry. Gannon, Roper, and Doherty (2010) demonstrate that management contracts as "asset light" options for international market entry not only offer valuable equity and strategic

opportunities but also decrease international hotel companies' chances of developing and sustaining competitive advantage of human resources. They pinpointed that hotel firms should leverage their specific market entry expertise and develop mutually supportive relationships with their property-owning partners for the purpose of surmounting the challenges of managing human resources in the complex owned arrangement (management contracts).

Discussion

As shown above, there are generally two limitations in hospitality management research on this topic. Theoretically speaking, the management and IB theories used in the entry choice literature have not been fully applied in the hospitality field. Only the Eclectic paradigm, RBV and agency theory have been commonly applied in the field of hospitality management. Despite that hospitality field possesses special characteristics in terms of service features and ownership structures which may influence the form and motivation of international expansion, more attempts are imperative to test other theories that are commonly utilized in the hotel industry, one industry of the service sector. More interesting results may occur if empirical researches show some certain theories are particularly improper or proper in the hotel industry. Moreover, interesting findings might be shown if new theories immerge especially for the hospitality industry. Moreover, some papers are at the initial stage of elaborating facts and cases and haven't used nor relate those facts to theories to explain the phenomena. This might result from the initially underdeveloped stage of research on this topic. More rational analysis based on theories is expected to improve research in hospitality field and bridge the gap between management and IB research and hospitality research.

Methodologically speaking, such research in hospitality field lacks empirical analysis based on big sample size. This probably results from the considerable amount of private hospitality companies from which it is hard to obtain data. Many papers employ case studies which is an effective and necessary theory-exploring tool at the initial stage of theoretical development. However, such method tool doesn't help much on establishing and developing theories at the next stages. Therefore more quantitative studies and the combination of both qualitative and quantitative studies are in badly needed to explore and set up theories exclusively in hospitality or service sector due to the special traits it possesses.

Besides these, some new findings in management and IB research shed lights on certain issues such as the motivations of foreign expansion. While market-seeking or resource-seeking motivations will always characterize some portion of investment, there is an increasing role for the efficiency-seeking and strategic-asset seeking investment, which makes mergers and acquisitions as well as strategic alliances critical to the asset-augmenting FDI. A benefit of multinationality could be regarded as the access to specific geographically dispersed resources. The new development of quasi hierarch modality such as increasing application of cooperative arrangements is mainly due to critical constraint—net cost. Stability and trust in the network setup can be a critical management challenge as the costs of monitoring network activities can be substantial (Lundan & Hagedoorn, 2001). Some uses resource dependence perspective to explain M&A, which is a response to the constraints environment (Pfeffer & Salancik, 1978; Haunschild, 1993). When considered purely in terms of cash flow constraints, JV, minority ownership in subsidiaries and non-equity cooperative alliances have become modalities that are more attractive as many globally competitive firms have become squeezed the profits. This is particularly the case in recent years due to intensive global competition in the international hospitality industry and dramatic economic recession taking place in western world.

Furthermore, more topics revolving around entry choice are about to be paid attention, such as the comparison on the performance of each entry mode and the exit strategy in certain contexts. Slangen & Hennart (2008) compared the performance of acquisitions and Greenfield and stated that low and intermediate levels of subsidiary integration contribute to higher performance of acquisitions than that of Greenfield, and higher integration makes Greenfields outperform acquisitions. Some IB scholars (Dai, 2010) have noticed the exit strategies that MNC took under certain circumstances such as war etc. Hospitality firms also determine to exit markets after certain years' operation. What are the antecedents of the exit strategy? Would it be possible to contribute the decision to war, institutional distances, geographical distances, economical clash, etc? These areas have much research potential in the area of hospitality management.

Conclusion

This paper picks six main theoretical perspectives which are commonly applied by scholars in explaining the entry mode. They are transaction cost analysis, the resource-based view, knowledge transfer perspective, agency theory, institutional theory, and Dunning's eclectic framework. TCE argues that managers suffer from bounded rationality, whereas potential partners may opportunistically act if given the chance. Asset specificity, uncertainty and frequency are the three TCE factors that influence entry choice. The resource-based view (including knowledge-based and organizational capabilities theories) suggests that firms acquire a set of firm-specific resources and capabilities that are valuable and inimitable, and develop proprietary resources that they can exploit in foreign markets or use foreign markets as a source for developing new resource-based advantage. But the issue is that the measures of resource are debatable, and such perspective needs to be complemented by other perspectives such as TCE or institutional theory. Knowledge transfer perspective holds entry choice depends on the easiness of transferring knowledge based on the traits of the knowledge. Agency theory emphasizes the high risks of low-control entry mode resulting from self-interest inclination of foreign partners. The institutional theory suggests that country-level institutional environment influences firms' entry choices because of the host countries' institutions refine or facilitate firms' operation by "rule of the game". The eclectic framework brings together three components, ownership, location advantages, and internalization advantages to explain the entry choices.

However, the above theories that are commonly used in management and IB research haven't fully applied in hospitality field. This research in hospitality industry is still on the initial stage of theoretical development, characterized by the lack of theory application and simply methodologies. Furthermore, while motives for international expansion are gained sufficient attention by management, IB and hospitality management scholars, other variables such as the performance of different the entry modes are worth further study. There is less attention on the institutional influences on the entry choice and they are always considered as control variables. Such variables as institutional distance which are heat-discussed in management and IB field also need more consideration. Finally, theories on international entry choice exclusively for hospitality or service industry are expected to be set up by leveraging management and IB theories and applying the traits of hospitality firms.

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