Kun Yang¹

*College of Business Administration,
Central Michigan University, USA*

John D. Buschman²

*Chaplin School of Hospitality and Tourism Management,
Florida International University, USA*

A Dyadic Perspective on Determinants of Entry Choices in the Global Hospitality Industry

Abstract

This paper discusses the firm-level determinants of international hotels' foreign markets entry choices, contrasting acquisition with management and franchise contracts, based on a resource-dependency perspective and appropriability theory. It points out that brand equity, relatedness of products and market segmentation, partner-specific knowledge of hotels, international experience, and the duration of proprietary knowledge impact hotels' decisions on how to enter a foreign market. In addition, the paper suggests the existence of entry choices sequence favorable to acquisition probability after the end of management contract when the franchisors' or management companies' proprietary knowledge attenuates. Contract activity is likely to be renewed after the acquisition, once the management company has established a new form or a higher level of proprietary knowledge.

Keywords: cross-border acquisition, contract, hotel, entry strategy
JEL: M16

© 2017 Kun Yang, John D. Buschman.

This is an open access article distributed under the Creative Commons

Attribution-NonCommercial-NoDerivs license (<http://creativecommons.org/licenses/by-nc-nd/3.0/>).

Introduction

Global investment in acquisitions has reached unprecedented levels in recent decades [Barkema, Schijven, 2008]. It has become a prevalent growth strategy for companies and a way to acquire new resources in order to meet the swiftly shifting demand of the competitive global market. The lodging industry is no exception, experiencing an extraordinary level of consolidation as acquisitions soared to record levels in the late 1990s [Evenett, 2004]. Meanwhile, another type of entry choices, namely management contracts and franchise agreements have also been widely employed by multinational hotel companies in recent decades. Together with cross-border acquisitions, they have inevitably become important means for hotel companies to grow and expand internationally [Editor, *Cornell Hospitality Quarterly*, 2009].

Previous research on the expansion strategies in the hospitality industry has mainly been focused on the initiating hotel company which takes action to acquire or enter into contract with an individual target hotel or a hotel company with multiple properties. This leaves plenty room for holistic studies. First, given that the contract or acquisition involve at least two hotels, the discussion from focal-hotel perspective merely provides a unitary analysis of a dyadic event [Zajac, Olsen, 1993]. A dyadic view can be applied in the study of entry choices. Second, the categorization of entry choices is always based on equity and non-equity explored what happens after multinational hotel companies choose an expansion strategy. It is therefore of great importance to study their next moves depending on the changing situation.

Our paper seeks to answer the following questions. Under what circumstances do hotel companies use contracts (e.g., franchise agreement, management contract) or acquisitions as foreign market entry strategies? Could we view the activity from a dyadic perspective? Can we find special determinants on hotel companies' entry choices? Is there any tendency toward strategy change after the multinational hotels' first entry? Based on the literature review on hotel companies' foreign entry modes, we applied resource dependence perspective and appropriability theory to answer the above questions. In the next section, we analyze the differences of acquisitions and contracts in the global hospitality industry, followed by the literature review on determinants of hotel companies' entry choices. The fourth section lays theoretical foundations and presents our propositions. We concluded the paper by contributions and implications for the further research.

Acquisition and Contract in Global Hospitality Industry

Definitions

There are a few concepts we need to clarify in the paper, given the special, if not unique characteristics of the hotel industry. Contract refers to a franchise agreement, or a management contract, where the initiating hotel company generally makes no upfront capital expenditures in order to build or buy the assets in question [Teece, 1986]. A franchise agreement means the authorization given by a hotel company to another corporation or an individual to sell its unique products and services [Angelo, Vladimir, 2007]. Management contract refers to a “written agreement between an owner and an operator of a hotel or motor inn by which the owner employs the operator as an agent to assume full responsibility for operating and managing the property” [Eyster, 1988]. An initiating hotel company is the company that takes action to enter the hotel industry in a host country. A target hotel company is the entity or asset that is being investigated by the initiating hotel company in order to answer the question whether it is worth acquiring it, or entering into contract with it, in the host country. Hotel dyads are the relationships between the initiating hotel company and the target hotel company as defined above.

Acquisitions in Hospitality Industry

Typically, there are two types of acquisitions in the hotel industry: the acquisition of physical assets and the acquisition of a brand, consisting of brand names, brand image and brand equity. In other words, the two types of acquisitions in hotel industry include acquiring tangible property (building, land, equipment) and intangible assets such as brand names, operations and management systems. Hotel companies in the first situation seek to obtain location advantages while in the second one they wish to acquire more ownership and internalization advantages. Ownership advantages include knowledge of guests requirements, strategic planning, and reservation systems. The location advantages consist of the size and nature of the city or resort in which the hotel is to be located, the infrastructure in the region, and the perception of the region as an attractive travel destination [Johnson, Vanetti, 2005].

Location Advantages

The overall hotel's product is composed of both tangible and intangible sub-products. The predominant product is service which occurs when the customer and the service provider meet, either in person or through service communications. A large volume of customers will tend to agglomerate in particular areas such as tourist destinations (particularly beach or waterfront locations), airports, highway roadsides or interchanges, downtown city centers or suburban business centers. These are the types of locations that are able to attract enough traffic for a profitable operation. This implies that hotels have

limited options for expansion. Once acquiring hotel companies obtain the target hotel's location, they can begin to control the source of supply.

Ownership Advantages

One of the reasons for acquisition is when the owner of the targeted hotel (s) has not kept up investments in maintenance or modernization, or when the target hotel (s) are in need of greater cash flow. Acquiring hotel companies may also look to take over *trophy hotels* (renowned or historic properties, often in advantageous locations) with an undervalued price due to market inefficiency. For the target hotel (s), cash flow is the principal benefit as well as the motivation of being acquired via merger and acquisition (M&A). Trophy hotels are often those whose property value have dropped during a recession and the resultant period of oversupply in relation to demand. For instance, Hilton Corporation's strong cash position allowed it to acquire Hilton International in 2006. Marriott acquired 49% of Ritz-Carlton at an advantageous time and ITT Sheraton acquired Ciga, a luxury Italian chain, for just 530 million USD in 1994.

Hotel companies can gain geographical presence and inventory control through acquisitions. The unique nature of the hotel industry manifests in the need to be physically present at a customer-desirable location in order to deliver its goods and services. Thus, it is both time-consuming and involves high capital investment to build new hotels. Consequently, acquisition as well as franchise/management activities become an essential tool for expansion as it enables a quicker and less-expensive way to expand in general.

Moreover, brand equity (synergy of reputation, reservation system), well established operational and management systems, and network in local region are also ownership advantages available for acquiring and target hotel companies.

Internalization Advantages

After acquisition, there may arise considerable opportunities to reduce costs or enhance revenues by consolidating the central reservation systems; combining marketing, advertising, accounting, and human-resources functions, using cross-selling, and eliminating redundant computer and system operations as well as duplicate managerial jobs. Such synergistic gains in a hotel environment can translate into higher occupancies, higher ADRs (average daily rates), and a higher RevPar (revenue per available room), as well as lower operating expenses. Meanwhile, more efficient distribution may even strengthen a hotel company's brand equity, and support its marketing efforts.

Although international expansion through acquisitions offers significant value-creation opportunities for firms, it also presents significant challenges that can jeopardize the potential gains, such as liability of foreignness and "double-layered acculturation" [Barkema, Bell, Pennings, 1996; Eden, Miller, 2004].

Contract in the Hotel Industry

The reasons for choosing management contracts and franchises are mainly derived from the fundamental characteristics of the hotel products themselves, largely intangibles delivered twenty-four hours a day and seven days per week by a well-trained and highly-service-oriented staff. It therefore becomes clear that managing a hotel requires very special expertise. Prior impressions of familiar hotel brands frequently determine guests' purchase decisions. So, an established brand image, experienced operations and management systems, training programs, marketing programs and reservation systems are crucial for hotel owners to succeed. Franchising and management contracts therefore are two of the most broadly-used expansion strategies in the international hotel industry to acquire valuable brand image and specialized expertise. Moreover, the simultaneity of production and consumption, a key characteristic of the hospitality business, limits customers, to a certain extent, from investigating the experience ahead of time.

Franchising presents advantages to both parties. Franchisors obtain more geographical presence with low risks. Franchisees get support from franchisors on location selection, credit, construction, fixtures and equipment, training, pre-opening and opening activities, marketing activities, economies of scale, and consistent support. Management contracts are widely used in the global hotel industry as a mechanism for separating the ownership of hotel properties and their management. It relieves the owners of day-to-day operating responsibilities and benefits them by bringing in proven operations and management systems as well as a good reputation (brand equity). Managing company can control a large number of properties with a relatively limited investment. And typically, its brand has a large geographical presence with lower financial investment and less financial risk than the owners' brand by itself. Nevertheless, the managing company might be confined by limitations in the owner's funding.

Acquisition vs. Contract

Acquisition is a way of creating value. Acquisitions use synergy between the target and acquiring hotels. In other words, the whole will be greater than the sum of the parts. Since cross-border acquisition generally requires significant financial investment from the initiating hotel company, it is not easy to back out if cooperation or integration between two parties becomes difficult. Acquisition involves a final irreversible transaction of ownership transfer. In contrast, the contract can consist options to complete integration through acquisition. Parties can also choose to terminate the contract if they are not satisfied with the relationship.

Contract rather produces value than creates it. Franchisors could help franchisees generate profit by spreading brand names, operation and management system, thus realizing the value production. Due to the nature of the contract, ownership and management are separated. That is, the financial issues and operational issues are executed by different parties. This division can lead to problems like power of control. In contrast, acquisition

can provide total control or relatively strong control (in cases of partial acquisition). Contractual agreements can be seen as entry modes that improve the level of flexibility for firms to leave a destination market if they are not able to adapt to an unfamiliar location [Kim, Hwang, 1992].

Acquisition and contract have two opposite ways of dealing with resources. Hotel companies conducting acquisition explore a target hotel company's resources, while those that expand through contract exploit their own unique resources. In the case of acquisition, the resources of both parties tend to be integrated and synergized. For the initiating firm, the action of acquisition is one of appropriating or exploiting resources such as the target hotels' geographical advantages or local customer relationship systems. In contrast, in the event of contract, initiating firms transfer their knowledge, reservation systems, and customer relationship management systems and so forth to the target hotel(s). Such activities depend on spending own resources and exploring the other party's resources rather than on exploitation or appropriation. Our model divides the entry choices into acquisition and contract based on this rationale.

Previous Research on Determinants of Cross-Border Acquisition and Contract

Generally speaking, researchers studied the determinants of entry modes on two levels, namely, country, and the second – industry and firm. Scholars [e.g., Morschett et al., 2010; Rodriguez, 2002] who studied the country level found that the determinants of a firm's entry strategy include cultural distance, market attractiveness, uncertainty about the legal environment of the host country, the host country risk, economic development and state of competitiveness, home country's culture, firm size, international experience, and degree of internationalization. Concerning firm and industry levels, Doherty [2007] found that the combination of both organizational factors (i.e., international retailing experience, availability of financial resources, presence of a franchisable retail brand, company restructuring and influence of key managers) and environmental factors (i.e., opportunistic approaches, local market complexities, domestic competitive pressures and availability of potential franchise partners) encourage service companies to choose franchising as entry mode.

Some researchers deem entry mode as a means of acquiring or exploiting knowledge or firm resources. Considering cross-border entry mode as a means of obtaining a firm's knowledge base and resources for local and foreign competition [Meyer et al., 2011], Pla-Barber, Villar, and León-Darder [2014] found that cultural distance and brand strength influence the level of resource augmenting modes (e.g., foreign direct investment). Applying resource based view, Choi [2007] found that entry mode choices are associated

with intangibility level. When the level of intangibility goes up, lodging firms' entry mode choices shift from joint venture to acquisition to franchising to Greenfield to management contract. Clarke and Chen [2007] suggested that firms could choose wholly-owned subsidiary if they would benefit from high technological know-how, while firms with good managerial skills may consider franchise.

Some researchers conducted case studies on hotels' foreign entry modes. For example, Cunill and Forteza [2010] modified transaction cost theory based on institutional differences to explore the determinants on hotel's foreign expansion to Caribbean and the Gulf of Mexico in the case of Balearic hotel chain. Boyen and Ogasavara [2013] studied a case on Brazil as host country and observed the entry mode patterns. They found out that lodging companies favor non-equity entry mode such as management contract and franchising, particularly in their first entry to Brazil. Quer, Claver and Andreu's [2007] empirical evidence shows that cultural distance decreases the possibility of equity entry modes, while firm profitability and financial availability encourage higher level of equity entry mode.

Several studies on acquisition and contracts selection determinants are worth mentioning. Dunning and McQueen [1982] utilized the eclectic paradigm to examine the international hotel chains. They argue that these companies prefer to non-equity entry for expansion. Fladmoe-Lindquist and Laurent [1995] applied agency theory and transaction cost economics to show that the entry choice of international franchising is positively associated with monitoring costs but negatively associated with asset specificity of the service firm, for instance, brand name. Kehoe [1996] argued that the low-cost capital from non-chain sources offers a favorable explanation for the existence of management agreements that can be chosen over company ownership in the case of hotel properties with large capital inputs.

Contractor and Kundu [1998] used empirical evidence to establish the principal factors affecting hotel companies' cross-border entry modes. They found that management contracts and franchising accounted for 66% of foreign operations. This indicates that contractual control is relatively strong in those modes. Kundu [1994] found that firm-specific factors such as size, international experience, and country-specific factors such as geographic proximity explain the majority of the variation in the degree of internationalization of multinational hotel chains. Factors such as tourism receipts, exports, inward investment, and country risk were also found to be statistically significant in explaining the differing levels of foreign direct investment in the hotel sector.

Foreign entry modes have been widely examined in the past few decades. However, the previous studies have not explored the determinants of lodging companies' foreign entry modes in a dynamic and longitudinal way. Our research aims to close this gap by taking a holistic and dyadic view by looking at hotel dyads in a longitudinal way, instead of merely looking at the expansion strategies from the perspective of the initiating hotel company. Furthermore, rather than categorizing hotel expansion strategies into equity based and non-equity based, we classified the expansion strategy according to the approaches

hotel companies use to allocate the resources (e.g., integration or contract), particularly for the hospitality industry. We take resource dependence perspective and appropriability theory to build up our propositions.

Theories and Propositions

Resource Dependence Perspective

Resource dependence perspective posits that firms, embedded in relationships and influenced by the external environment, can use acquisitions to enhance their control of the resources needed for survival and prosperity [Pfeffer, Salancik, 1978]. A hotel's supply capacity is limited since the supply of all services must be produced at the point of contact with a customer [Olsen, West, Tse, 2008]. In other words, service can only be delivered simultaneously at certain locations where customer traffic appears, such as city centers, airports and resorts. Thus, the limited locations turn out to be critical and are limited resources. For a foreign initiating hotel company seeking a new market in the host country, the target hotel's reservation system, customer relations management system, as well as the local network with suppliers, customers and government are dependency resources that can be internalized, and the hotel companies' dependence on its environment decreased.

The process of cross-border acquisition is a useful way to achieve these objectives. Acquisition is a process that leads the initiating hotel companies to obtain access to critical resources in foreign countries, to show geographical presence, to gain enough market power, to obtain specific skills or technology, and neutralize the moves of competitors. Acquisition is also a process that helps target hotels to gain advanced management concepts, operation systems and new technologies from the initiating hotel companies.

Appropriability Theory

The appropriability theory of the multinational corporation emphasizes the conflict between innovators and emulators of new technologies. Where appropriability is "high," innovators can protect their profits more easily and spend it on sophisticated technologies that lead to breakthroughs that can be transmitted worldwide through the innovator's own subsidiaries. Conversely, where appropriability is "low," multinationals find it less profitable to create simple technologies and ideas that require market transfer [Magee, 1981]. Applying this theory to the hotel industry, contracts are adopted when appropriability is high, that is, when the franchisor or contractor can expand in foreign markets with limited financial investment and relatively high profit. Franchisors and management contractors have the confidence that their well-established and successful operations and management systems are inimitable. Often, the local owner retains significant control and emphasizes its own interests rather than that of the group as a whole. After years of franchise or management

operation, the full-fledged franchisors or management companies can reap the rewards themselves by terminating contracts with franchisors or contract partners from whom they could emulate technology and systems. As appropriability mechanisms erode, franchisors and management companies seek ways to get the control over these hotels and protect their profits. Acquisitions help them gain greater control over the profitable franchised or managed hotels and keep the profit within their own enterprises for indefinite, extended periods of time.

Propositions

Brand Equity

Brand equity incorporates the principles of hotel groups using branding as a differentiator, as well as hotel-industry-specific product segmentation where brands are developed to target specific market segments [Olsen, West, Tse, 2008]. Lodging is a brand-equity business and brand equity is the backbone of expansion in the hospitality industry. Building strong brands is considered to be one of the key drivers or ‘powerful forces’ of success in the hotel industry [Jiang, Dev, Rao, 2002; Kotler, Bowen, Makens, 2006]. By building equity in its brand, a lodging company can “sell” its name to hotel owners and franchisors so they may reach more consumers in order to generate greater demand that will ultimately support expansion [Morgan Stanley, cited by Jiang et al., 2002]. This concept has gained considerable attention from academicians, practitioners, and researchers in recent years [Bailey, Ball, 2006; Cobb-Walgren et al., 1995; Kim, Kim, 2005; Prasad, Dev, 2000]. CEOs of hotel companies that own brands recognize that brand equity drives stock price and shareholder value.

Repositioning hotel chains’ brands or brand portfolios is one way of affecting new product development. Marriott purchased Ritz-Carlton to round out its portfolio and give it a full range of products extending fully into the luxury segment. In the case of acquisition, the initiating hotel companies acquire the targets’ intangible assets including brand names, as well as operations and management systems. If the target hotels have strong brand names and high brand equity in the host countries, the acquiring hotels are more likely to directly gain market share by acquiring the targets’ brand names. In such cases, the targets’ brand names are usually maintained after acquisition instead of dissolving them into the initiating company’s existing brand portfolio. Mahajan, et al. [1994] conducted a pilot study for the all-suite segment of the hotel industry that evaluated the effect of brand equity in acquisition decisions. The results demonstrated that brand equity as measured by brand loyalty and brand recognition accounted for 5%–30% of the explained variance in perceived desirability of hypothetical mergers.

On the other hand, in the case of an initiating hotel company that has strong brand names in its portfolio but does not possess the recognition and loyalties in the host country, it is more likely to introduce their brands directly to the host country. Initiating

hotel could either acquire a hotel company or enter into contract with a potential partner in the host country. Since the hotel industry is characterized by high capital intensity, contrary to other industries in the service sector [Contractor, Kundu, 1998], initiating hotel companies tend to choose contract over acquisition as it brings less risks to explore its brand's value in the host country. Thus, Proposition 1 is described as follows:

P1a: The initiating hotel company has more likelihood to conduct cross-border acquisition as entry mode when the target hotel's brand equity is higher than that of the initiating hotel companies in the host country.

P1b: The initiating hotel company is more likely to choose contracts as entry mode when the initiating hotel company's brand equity is higher than that of the target hotel in the host country.

Relatedness of Products and Market Segmentation

Initiating hotel companies can make two resource comparisons when deciding on acquiring and entering contract with another company, that is, to what extent the other companies' resources overlap its present resources (similarity) and to what extent the other companies' resources augment its existing resources (complementarity). We argue that similarity and complementarity between two hotel companies suggest subtle differences in the relative desirability of acquisition vs. franchise or management contract.

Similarities in products, markets, and technologies between two firms are generally referred to as the level of business relatedness [Koh, Venkatraman, 1991]. This paper discusses the similarities in products, markets for certain market segments, which can be termed upscale, moderate and economy segments. The definition of complementarity adopted in this paper is the extent to which two firms' resources are different, yet interdependent and mutually supportive [Tanriverdi, Venkatraman, 2005], mainly referring to the complementary market segments and products. Since complementarity in one dimension does not preclude similarity at the next higher level of categorization within that same dimension, this paper focuses on the dimension of market segment and product relatedness (similarity and complementarity).

Hotels with similar market segments typically duplicate each other's assets and operations. Obtaining similar resources might result in redundant resources and contribute little new resources or innovation to the initiating company. According to the resource dependency perspective, firms striving for survival obtain external resources to eliminate their dependency on environment, influence the environment, and to get the control of resources. The basis for control is the actual use of the resource and who controls its use. It is, of course, possible for a resource to be used by an entity other than the owner's, in which case the user has some measure of control over the resource [Pfeffer, Salancik, 1978]. By the same rationale, instead of acquiring external resources such as another company's inventory in the host country, an initiating hotel company can get control of that inventory through contract. Contract then can support gaining market share as well as reduce the

liabilities of foreignness and newness. Franchise agreement and management contract can therefore be good ways of using external resources with less redundancy and lower costs than through acquisition.

When hotel dyads, that is the initiating and targeted companies own complementary resources, they are more likely to engage in acquisition. Idiosyncratic resources could strengthen the initiating hotel company and give it more control over the environment. Acquisition enables hotels to benefit from exploiting each other's expertise in complementary areas. As Harrison et al. [2001, p. 680] state, "resource complementarity is critical to successful acquisitions and equally important for effective strategic alliances". So, complementarity between both firms of a dyad can generate economic benefits for two firms when they combine their resources through acquisition [Williamson, 1975; Harrison et al., 2001]. Therefore, Proposition 2 is presented as follows:

P2a: The initiating hotel is more likely to choose contracts as entry mode when there is a higher degree of similarity in products and market segmentation between initiating hotel company and the target hotel.

P2b: The initiating hotel is more likely to choose cross-border acquisition as entry mode when there is a lower degree of similarity in products and market segmentation between initiating hotel company and the target hotel.

Partner-Specific Knowledge of Two Hotels

Partner-specific knowledge is embedded in social relationships and characterized by a level of trust between two firms. The value of this knowledge is maximized when two firms continue the relationship by conducting more transactions in the future [Wang, Zajac, 2007]. With respect to information asymmetry, a firm that does not know its transacting partner faces a greater risk of opportunistic behavior by its partner, whereas repeated interactions allow two firms to better know each other's operations and products over time, thus reducing information asymmetry. Repeated transactions with the same partner can also enhance the effectiveness and efficiency of interaction by developing a mutual understanding of routines and procedures [Williamson, 1975; Dyer, Singh, 1998].

Hotel dyads between companies with repeated transactions tend to develop absorptive capacity. Absorptive capacity of a firm refers to its ability to recognize, assimilate, and commercialize new external knowledge [Cohen, Levinthal, 1990]. As two hotel companies conduct repeated transactions, they become well acquainted, are able to identify their crucial knowledge, and even deliberately develop inter-firm knowledge-transfer routines to facilitate the learning process [Dyer, Singh, 1998]. In many cases these companies have been acquiring hotels where they had management contracts or were involved in some form of joint venture [Olsen, Zhao, 2000]. Following Proposition 3 emerges from this knowledge:

P3: The more partner-specific knowledge hotel companies have, the greater the likelihood that they will again choose this partner for acquisition or contract, and that initiating

hotel companies will acquire their contract partners rather than other hotels that they have no partner-specific knowledge of.

International Experience

From the aspect of resources, the more transaction-specific knowledge initiating companies have, the greater the likelihood that they will choose previous entry mode rather than the new one is. For example, Wyndham Worldwide, Holiday Inns (a subsidiary of Intercontinental Hotels Group) and Choice Hotels International are franchisors that have an estimated 16,849 hotels in total. They almost exclusively choose franchise as their entry mode since they already possess transaction-specific knowledge and can offer a well-developed franchise system package. Moreover, Contractor and Kundu [1998] state that the greater the accumulated experience of the franchise system is, the lower the perceived risk associated with its internationalization and the greater the perceived benefits are. Proposition 4 is therefore:

P4: Cross-border entry choice is positively associated with the initiating hotel company's previous international experience i.e., hotel companies already involved in acquisitions are more likely to again make acquisitions instead of entering into a contract.

Duration of Proprietary Knowledge

One of the main purposes of resource combinations is to create value and synergy. Initiating hotel companies entering into contract possess core advantages in brand, operation and management systems, etc. However, while the two parties cooperate, the franchisee/ contract partners might grasp the main resources as well as gain the main advantages of the initiating firms. The unintended leakage of knowledge leads to "free riding" and opportunism in the form of partners seeking to terminate the relationship and to become competitors.

According to appropriability theory of the multinational corporation, initiating firms can protect their profits more easily for sophisticated technologies when appropriability is high, and on breakthroughs that can be transmitted worldwide through the innovator's own franchisees and contractor partners [Magee, 1981]. Conversely, when franchisees and contract partners have acquired "sophisticated knowledge", meaning appropriability is "low", initiating hotels find it less profitable to suffer from the leaked knowledge. Under this circumstance, initiating firms tend to stop the knowledge leakage and develop more sophisticated knowledge to protect or retain the profits. Thus, acquiring the prior franchisees/contract partners is an effective way to reach the goal. In some cases, the acquiring hotel company's motive was to prevent the majority owner from switching to different partner. For example, when Hilton Corporation bought shares of the Prudential Insurance Company in flagship and key properties, it was rumored that Prudential was looking into the possibility of contracting with another company to manage the hotels, a process known in the hotel industry as *re-flagging*.

Once the initiating hotel firm acquires the target properties or firm and synergy is successfully created, the target hotels can obtain new core advantages and sophisticated knowledge. In such cases appropriability will be high again, allowing both sides to gain profits through contract. The initial hotel company can sell properties and then bring them back into the portfolio under contract, recovering the capital previously invested in the equity, and thereby improving cash flow. This is the strategy that was followed by the Hilton Corporation before their eventual acquisition by private equity giant Blackstone. Hotel firms are therefore likely to spin off the target hotel (s) and again enter into contract after new proprietary knowledge is formed. This leads to the following proposition:

P5a: The longer the contract relationship within hotel dyads lasts, the greater the likelihood that a subsequent acquisition happens between them.

P5b: The greater the time after the acquisition, the more likely it will be that spin-off or contract activities will happen.

FIGURE 1. Conceptual model of determinants of entry choices in hospitality industry

Source: own study.

Conclusions

Applying resource dependence perspective, appropriability theory and dyadic perspective, this paper asserts that brand equity, relatedness of products and market segmentation, partner-specific knowledge of two hotel companies, international experience, duration of proprietary knowledge are the key determinants of multinational hotel entry choices. The paper suggests that there can be a sequence of entry choices. If a hotel management company initiates a management contract with a target hotel (or hotel company), it risks

that the contracted hotel (company) might later attempt to terminate the contract after it acquires sufficient proprietary knowledge. To avoid this from happening, the managing company might instead acquire the contracted hotel for the purpose of retaining their market share in the host country. With time, the acquired hotel would be spun off by the acquiring hotel company once the acquiring company reestablishes new proprietary knowledge and has greater controlling power over the acquired hotel even with non-equity entry mode (contract).

This paper intends to contribute to the literature of hotels' foreign entry choices in three ways. First, instead of dividing the entry choices on equity based and non-equity based, it separates entry choices by how initiating hotel companies strategize the existing resources, that is, whether they explore target hotel's resources, or exploit their own unique resources. Second, differently from the previous studies which took focal-hotel perspective and unitary analysis on hotels' foreign expansion, this paper draws a dyadic perspective, considers the comparative relations as the determinants of entry choices, and probes the determinants of entry choices in the global lodging industry. Furthermore, the paper looks at the entry choices in a dynamic way by proposing a cycling sequence of the hotel company's strategy, which hasn't been given adequate attention in the previous studies.

Our research has opened a door to the dyadic and dynamic study on lodging companies' foreign expansion, while previous research mostly took a unitary view instead of a dyadic one. Our propositions are mostly based on the dyadic relationship between the initiating hotel companies and the target hotel, which helps painting a fuller picture of the foreign entry mode phenomenon. We not only consider one-time acquisition or contract, but rather deem it as a series of transactions across years. Our longitudinal approach will benefit the future research on further understanding the hotel companies' foreign expansion strategies.

The propositions need to be tested in empirical studies, and therefore it becomes both the major limitation of this conceptual paper as well as the future research direction of the authors. The paper proposed firm-level determinants of the multinational hotel companies' entry choices. Country-level factors such as cultural differences, country risks, economy risks should be considered and examined in the empirical tests.

Notes

¹ Author's email address: yang1 km@cmich.edu

² Author's email address: jbuschma@fiu.edu

References

- Angelo, R.M., Vladimir, A. (2007), Hospitality today—an introduction. American hotel and lodging association, 6th ed.
- Bailey, R., Ball, S. (2006), An exploration of the meanings of hotel brand equity, *The Service Industries Journal*, Vol. 26, No. 1, pp. 15–38.
- Barkema, H.G., Schijven, M. (2008), Towards unlocking the full potential of acquisitions, the role of organizational restructuring, *Academy of Management Journal*, Vol. 51, No. 4, pp. 697–722.
- Barkema, H.G., Bell, J.H., Pennings, J.M. (1996), Foreign entry, cultural barriers, and learning, *Strategic Management Journal*, Vol. 17, No. 2, p. 151–166.
- Boyen, M.H., Ogasavara, M.H. (2013), Internationalization patterns of multinational lodging firms in Brazil, *Tourism and Hospitality Research*, Vol. 13, No. 4, pp. 181–200.
- Clarke, A., Chen, W. (2007), *International hospitality management: concepts and cases*, Burlington, Elsevier.
- Cobb-Walgren, C.J., Ruble, C.A., Donthu, N. (1995), Brand equity, brand preference, and purchase intent, *Journal of Advertising*, No. 24, pp. 25–40.
- Cohen, W.M., Levinthal, D.A. (1990), Absorptive capacity: a new perspective on learning and innovation, *Administrative Science Quarterly*, No. 35, pp. 128–152.
- Contractor, F.J., Kundu, S.K. (1998a), Franchising versus company-run operations: modal choice in the global hotel sector, *Journal of International Marketing*, Vol. 6, No. 2, pp. 28–53.
- Contractor, F.J., Kundu, S.K. (1998b), Modal choice in a world of alliances: analyzing organizational forms in the international hotel sector, *Journal of International Business Studies*, Vol. 29, No. 2, pp. 325–356.
- Choi, G.A. (2007), *The effect of intangible capital on lodging firms' foreign market entry mode*, The Ohio State University, ProQuest Dissertations Publishing, 3279760.
- Cunill, O.M., Forteza, C.M. (2010), The case of Balearic hotel chains for expansion into the Caribbean and the Gulf of Mexico, *Investigaciones Europeas de Direccion y Economia de la Empresa*, Vol. 16, No. 3, pp. 53–67, 192.
- Doherty, A.M. (2007), The internationalization of retailing factors influencing the choice of franchising as a market entry strategy, *Journal of Service Industry Management*, Vol. 18, No. 2, pp. 184–205.
- Dunning, J.H., McQueen, M. (1982), Multinational corporations in the international hotel industry, *Annals of Tourism Research*, No. 9, pp. 69–90.
- Dyer, J.H., Singh, H. (1998), The relational view: cooperative strategy and sources of interorganizational competitive advantage, *Academy of Management Review*, Vol. 23, No. 4, pp. 660–679.
- Eden, L., Miller, S. (2004), Distance matters: liability of foreignness, institutional distance and ownership strategy, in: M.A. Hitt, J.L.C. Cheng (Eds.), *The evolving theory of the multinational firm. Advances in international management*, Amsterdam, Elsevier, pp. 187–221.
- Editor (2009), Examining mergers and acquisitions, *Cornell Hospitality Quarterly*, Vol. 50, No. 2, pp. 138–141.
- Eyster, J. (1988), *The negotiation and administration of hotel and restaurant management contracts*, Cornell University 3rd, rev. ed.
- Evenett, S.J. (2004), *The cross-border mergers and acquisitions wave of the late 1990s. Challenges to globalization: analyzing the economics*, University of Chicago Press.
- Fladmoe-Lindquist, K., Jacque, L.L. (1995), Control modes in international service operations: the propensity to franchise, *Management Science*, Vol. 41, No. 7, pp. 1238–1249.
- Harrison, J.S., Hitt, M.A., Hoskisson, R.E., Ireland, R.D. (2001), Resource complementarity in business combinations: extending the logic to organizational alliances, *Journal of Management*, No. 27, pp. 679–690.

- Jiang, W., Dev, C., Rao, V.R. (2002), Brand extension and customer loyalty: evidence from the lodging industry, *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 43, No. 4, pp. 5–16.
- Johnson, C., Vanetti, M. (2005), Locational strategies of international hotel chains, *Annals of Tourism Research*, Vol. 32, No. 4, pp. 1077–1099.
- Kehoe, D. (1996), *The Fundamentals of Quality Management*, Chapman and Hall.
- Kim, C., Hwang, P. (1992), Global strategy and multinationals' entry mode choice, *Journal of International Business Studies*, Vol. 23, No. 1, pp. 29–53.
- Kim, H.B., Kim, W.G. (2005), The relationship between brand equity and firms' performance in luxury hotels and chain restaurants, *Tourism Management*, No. 26, pp. 549–560.
- Koh, J., Venkatraman, N. (1991), Joint venture formations and stock market reactions: an assessment in the information technology sector, *The Academy of Management Journal*, Vol. 34, No. 4, pp. 869–892.
- Kotler, P., Bowen, J., Makens, J. (2006), *Marketing for hospitality and tourism*, 5th ed., New York, Prentice Hall.
- Kundu, S.K. (1994), *Explaining the globalization of service industries: the case of multinational hotel*, Ph.D. dissertation, Rutgers, The State University of New Jersey – Newark.
- Magee, S.P. (1981), The appropriability theory of the multinational corporation, *The Annals of the American Academy of Political and Social Science*, No. 458, pp. 123–136.
- Mahajan, V., Rao, V.R., Srivastava, R.K. (1994), An approach to assess the importance of brand equity in acquisition decisions, *The Journal of Product Innovation Management*, Vol. 11, No. 3, pp. 221–235.
- Meyer, K., Mudambi, R., Narula, R. (2011), Multinational enterprises and local contexts: the opportunities and challenges of multiple embeddedness, *Journal of Management Studies*, Vol. 48, No. 2, pp. 235–252.
- Morschett, D., Schramm-Klein, H., Swoboda, B. (2010), Decades of research on market entry modes: what do we really know about external antecedents of entry mode choice? *Journal of International Management*, Vol. 16, No. 1, pp. 60–77.
- Olsen, M., West, J., Tse, E.C.Y. (2008), *Strategic Management in the hospitality industry*, 3rd ed., Pearson.
- Pfeffer, J., Salancik, G. (1978), *The external control of organizations—a resource dependence perspective*, New York, Stanford Business Press.
- Pla-Barber, J., Cristina, V., León-Darder, F. (2014), Augmenting versus exploiting entry modes in soft services—reconsidering the role of experiential knowledge, *International Marketing Review*, Vol. 31, No. 6, pp. 621–636.
- Prasad, K., Dev, C.S. (2000), Managing hotel brand equity: a customer-centric framework for assessing performance, *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 41, No. 3, pp. 22–31.
- Quer, D., Claver, E., Andreu, R. (2007), Foreign market entry mode in the hotel industry: the impact of country – and firm specific factors, *International Business Review*, Vol. 16, No. 3, pp. 362–376.
- St. John, C.H., Harrison, J.S. (1999), Manufacturing-based relatedness, synergy, and coordination, *Strategic Management Journal*, Vol. 20, No. 2, pp. 129–145.
- Tanriverdi, H., Venkatraman, N. (2008), Knowledge relatedness and the performance of multi-business firms, *Strategic Management Journal*, Vol. 26, No. 2, pp. 97–119.
- Teece, D.J. (1986), Profiting from technological innovation: implications for integration, collaboration, licensing and public policy, *Research Policy*, Vol. 15, No. 6, pp. 285–305.
- Wang, L., Zajac, E.J. (2007), Alliance or acquisition? A dyadic perspective on inter-firm resource combinations, *Strategic Management Journal*, Vol. 28, No. 13, pp. 1291–1317.
- Williamson, O.E. (1975), *Markets and hierarchies, analysis and antitrust implications: a study in the economics of internal organization*, New York, Free Press.
- Zajac, E.J., Olsen, C.P. (1993), From transaction cost to transactional value analysis: implications for the study of interorganizational strategies, *The Journal of Management Studies*, Vol. 30, No. 1, p. 131.
- Zhao, J., Olsen, M.D. (1997), The antecedent factors influencing entry mode choices of multinational lodging firms, *International Journal of Hospitality Management*, Vol. 16, No. 1, pp. 79–96.