Zengyu Huang and Xia Han

Does Performance Matter in Service MNCs' Strategic Choice of Entry Mode

ABSTRACT

An important decision for the foreign investing firm is the choice of ownership level in a host country subsidiary (Contractor and Kundu, 1998). Many studies have examined the choice between different entry modes by service MNCs, in which emphasized strategic issues such as separating ownership and control of modal choice propensity (Brown et al. 2003), partnership selection (Dev, et al. 2007). There is also a general agreement that entry mode choice research so far have focused on firms' initial investment decisions, previous scholarship largely neglected the impact of entry mode choice on firm's performance (Kim and Gray, 2008), and expansion (Beamish 2004). The premise of this study claim that post-entry performance of service MNCs depend on a set of common factors include the dissipation of intangible assets, firm scale, learning and experience, government regulations, parent control, and speed of expansion, as those determining the ownership structure used to enter foreign markets. International hotel firms entering the market of China were employed as the research context of this study as hotel industry provides an interesting setting to investigate foreign market entry modes (Dev, et al, 2007).

Key Words: Entry Strategy; Service MNCs; China

INTRODUCTION

There has been a consensus among multinational corporations that entering China is not an option but a strategic necessity for their future. The country's accession to the World Trade Organization (WTO) signaled the dawning of a new era for business in China, with the liberalization of foreign investment regulations and accelerated market reforms. It is anticipated that China's rapid economic growth as well as the large influx of foreign direct investment will have a positive impact on the tourism sector and, ultimately, demand for hotel accommodation, in particular in the Commercial segment (HVS 2004). According to the China National Tourism Administration (CNTA), the country is home to more than 15,000 hotels with a stock of 1.3 million rooms. During the period of 1996 to 2007, international arrivals to China have increased by over 12 % per annum, from approximately 6.7 million in 1996 to 131 million in 2007 (CNTA, 2008).

For foreign investors, running hotels in China has never been easy. Regulations have long locked hotel chains into often-prickly partnerships with property developers, many state-owned (See Table 1). However, recent deregulation has made things easier, due to China's relaxation of investment control on service firms and driven by the desire to benefit from an increasingly affluent domestic population as well as influx of international visitors given Beijing's successful hosting of the 2008 Olympic Games, the upcoming Shanghai Expo, which will draw more tourists together with the recent announcement of launching the world biggest Disneyland project in Shanghai. All of these would provide global hotel firms with renewed impetus for market presence; such characteristics have made China a focal point of hotel investment.

A fundamental decision faced by international hotel firms considering entry into a foreign market is to choose the level of control over its local engagement (Littlejohn et al., 2007; Blomstermo, 2006; Contractor and Kundu, 1998). This decision is not only determined by the resources available to the firm and specific characteristics of the country where market entry is targeted, but also by the distinctive features of the hotel business. (Quer et al. 2007). Given several modal choices, ranging from full ownership to various contractual modes, such as management contract and franchising, the key question tackled by this research is 'for a foreign operation in the emerging economies, are there a common set of factors determine service firm's entry mode choice and performance as well as expansion?' This study focus on the international hotel firms in China, which is especially suitable for an investigation of the organizational modal choice question (Contractor and Kundu, 1998).

Entry mode choice is one of the core components of internationalization concept (Barkema and Drogendijk, 2007), thus, the correct choice of entry mode for a particular foreign market, especially to an emerging market is one of the most critical decisions for firms in international business (Meyer, 2009; Li and Peng, 2008; Brouthers and Nakos, 2004). Although theoretical contributions have been more advanced in the area of foreign entry mode than in other topics of the firm's internationalization process (Andersen 1997; Agarwal and Ramaswami, 1992), it is clear that the implications of a post-entry evolution of foreign direct investment have yet to be fully explored (Canaball and White, 2008; Brouthers and Bamossy, 2006), and so a better understanding of the factors influencing firm's propensity towards an optimal modal choice would be highly beneficial to both theoretical development and management practice.

While previous studies have examined the choice between equity and non-equity modes for manufacturing (Kim and Gray, 2008; Pehrsson, 2008; Guillen, 2003) as well as service firms (Czinkota et al., 2009; Huang and Roche, 2006; Brown et al., 2003; Contractor and Kundu, 1998). Wrigth et al. (2005) identified that research on internationalization is increasingly recognizing there are important differences between manufacturing and service sectors in terms of their influence on crucial strategies such as foreign market entry. Furthermore, Ekeledo and Sivakumar (2004) compared the modal choice of manufacturing and service firms, which found entry mode practices in manufacturing sector are not always generalizable to service firms. However, the extant literature does not offer a theoretically sound and empirically corroborated framework for how services firms choose among different types of entry modes (Blomstermo, 2006; Contractor et al., 2003). In addition, previous scholarship largely neglects the impact of entry mode choice on firm's performance (Canaball and White, 2008; Kim and Gray 2008), and expansion (Demirbag, et al. 2007; Beamish 2004). To this end, although the topic of entry mode has been extensively discussed; a number of aspects remain unexplored. Thus, there appears to be scholarly concern in relation to the lack of composite theory towards entry mode choice of service firms.

It will be insurmountable to discuss any single or all the theories that have been presented concerning the foreign entry mode research (Contractor and Kundu 1998). In this study, we drew on the entry mode literature and incorporating the transactional cost analysis exemplified by Anderson and Gatignon (1986); the eclectic framework developed by Dunning (1988); as well as the institutional theory proposed by North (1990), although there are other perspectives such as Shane (1996)'s agency theory and Davidson (1987)'s bargaining power perspective. Moreover, contrary to the substantial number of investigations found in MNCs' initial entry mode selection, there has been a relative dearth of studies linking entry mode to performance (Brouthers and Werner, 2003; Kim and Gray, 2008). Hence, firm's post-entry expansion is exposed to another dimension of entry mode research. This paper integrates international business literature with a bearing on the modal choice issue; the dependent variables in this research are firm's entry mode choice and performance. The choice of an integrated framework is essential since the nature of Chinese business environment is so complicated that no single approach can capture all the key factors affect the choice of appropriate mode of entry (Li and Peng, 2008). Also, in response to the recent call by Hoffmann et al. (2009) for developing interactions between different theories, an integrative approach permits us to create new determinants (Meyer et al. 2009) in order to predict entry mode and obtain the most realistic description.

The objectives of this research are to advance the theory and to establish an exploratory model for entry mode decision and its relation to firm's performance. Firms select entry mode strategies base on factors relating to the internal environment of a specific company, industry related factors in which the firm operates, as well as external environment of the operating units at national level (Peng, 2006). This study will investigate how these factors impact on firm's choice of entry modes; also examine the impact of entry mode on firm's performance. The overall model proposed by this research has been explained by the eclectic framework (Dunning, 1988) that conceptualizes the optimal level of ownership and control mode as a response by the firm to the interplay of environmental factors and as a determinant of firm's performance. Other complementary theoretical perspectives are also borrowed from transactional cost theory (Williamson, 1985); institutional theory (North, 1990); and resource-based view (Barney, 1991). These theoretical views explain the linkages between entry mode and each type of factors. The paper is organized as follows: a review of relevant literatures is followed by a presentation of hypotheses and data analyses. The paper concludes with implications of the empirical findings for management practice, and limitations that contribute to further theory development, empirical testing and research.

LITERATURE REVIEW

The existing literature on international business and FDI has largely taken on a manufacturing perspective; often implicit rather than explicit. Few empirical studies into the "Globalization" of tourism industry have been done so far, with the exception of Dunning and McQueen (1982) who completed a descriptive study based on data analysis of multinational hotel corporations. Additionally, Contractor and Kundu (1998) investigated the question of under what circumstances would a firm prefer to franchise its capability rather than run the operation itself. Erramilli et al. (2002) focused their research on the choice between different types of non-equity modes that service-firms employ routinely, based on the ‘organizational capability’ perspective. Furthermore, Brown et al., (2003) argued that the ownership and control dimensions of foreign market entry mode choice should be separated, and that foreign market entry decisions should be expanded to business activities beyond production and distribution.

As one of the world biggest emerging economies, China's experience in attracting foreign investment in services has started to pick up since 1990s. The service sector now account for 41.8 percent of the overall foreign direct investment. According to the World Tourism Organization (1999), China will be the world's number-one tourist destination by 2020, with annual arrivals of 130 million. As a result, the hotel industry will need to expand further to meet the growing demand from both international and domestic tourists. As Tang et al. (2006) noted that due to the lack of innovation and management expertise, China's own hotel companies are facing significant challenges, when compared to foreign multinational hotel firms, most of which have already declared China as a key target for expansion (See Analysis 1 and 2 Appendix A.). To date, overseas involvement in China's hotel business, although encouraged, has still been much under government control. The country’s accession to the World Trade Organization (WTO) in 2001 was a significant event. Internally, work is progressing to improve the legal system and liberalize foreign-investment restrictions. As far as tourism is concerned, China's relevant commitments such as the commercial use of land up to 40 years; wholly foreign owned entities are permitted to operate hotels and restaurants after four years accession to WTO.

One of the means by which hotel firms satisfy these competitive demands is referred to as internationalization or modes of foreign market entry, which represent institutional arrangements for organizing and conducting international business transactions (Root, 1987). The main methods of foreign entry in the hotel industry are: wholly owned operation, management contract with equity share, management contract, franchising, and marketing affiliation. Wholly owned international units place heavy financial demands on companies but allow greater control of any firm specific advantage. Management contract or franchising, on the other hand, make lighter financial demands on parent companies but, reduce the opportunity to control over international units (Yong et al., 1989).

HYPOTHESES DEVELOPMENT

To date, most of the relevant studies are focused on examining the impact of specific factors on firm's entry mode decision (Quer et al. 2007). Factors have been examined empirically include: technology transfer (Kim and Gray, 2008; Mattoo 2001), market size (Nakos and Brothers 2002), firm size (Demirbag, et al. 2008; Leung et al. 2003), CEO successor characteristics (Herrman and Datta 2002), cultural distance (Kim and Gray, 2008; Cristina and Esteban 2002), industry barriers and firm advantages (Altinay, 2005), international experience (Li and Meyer, 2009; Chen and Dimou, 2005), country risk and environmental uncertainty (Hoffmann, et al. 2009; Demirbag, 2007), role of staffing (Konopaske et al. 2002), as well as foreign exchange rate (Baek and Kwok, 2002). All these factors can be classified into four groups, namely, country specific factors, industry specific factors, firm specific factors and product specific factors.

This research will go beyond the foregoing specific factors that impact on firm's entry mode selection by considering if there are a common set of variables would influence firm's entry mode decision, performance as well as expansion (See Appendix A, Figure 2).

The transactional cost analysis [TCA] is the most widely applied theoretical perspective in entry mode research (Canabal and White, 2008; Brouthers and Hennart, 2007). It essentially argues that firms choose an entry mode that minimizes the transaction costs associated with their international operations. In Williamson's (1985) TCA theory, three factors are suggested to influence decisions: asset specificity, uncertainty, and frequency (Geyskens et al. 2006). Among which, asset specificity appears to be a central explanatory variable in most of the studies. But empirical investigations indicate mixed results (Brouthers and Brouthers, 2003; Erramilli and Rao, 1993). This is largely due to it is not clear whether the concept of asset specificity has always been properly applied in the entry mode literature (Brouthers and Hennart, 2007). A common measure of asset specificity has been a firm's R&D and / or advertising intensity. Other studies have used perceptual measures such as technology asset specificity (Taylor, et al. 1998) and human asset specificity (Brouthers et al. 2003).

Dunning's (1988) OLI theory, namely ownership, location and internalisation, makes an argument that the multinational firm will prefer to 'internalise' via equity ownership when the 'market' for knowledge transfers 'fails'. Firm-specific know-how refers to knowledge that is proprietary to a given firm and is an important type of firm specific assets. When a firm transfers its specific know-how, such as proprietary technology or specific skills, it will concern about dissipation of such expertise to its venture partner (Kim and Gray, 2008). Risk-reducing considerations may push hotel firms that have proprietary technology to choose full-control mode in China. In essence, the risks associated with the dissipation of firm-specific know-how are cited as an issue of particular concern to MNCs foreign entry strategy (Slangen and Hennart, 2008). In the context of equity ownership, MNCs prefer to choose high control mode when they transfer high levels of proprietary assets (Demirbag, 2007). This is due to the transfer of these highly tacit assets can be better managed through a high control mode than a low control one (See Appendix A, Figure 3). Moreover, the use of high control mode may be appropriate in emerging economies that have weak intellectual property protections (Kim and Gray, 2008).

Another type of firm-specific assets may affect MNC's entry mode choice is reputation. Firms that invest heavily in brand-name will try to avoid free riding by other firms. Caves

(1982) highlight the danger of local partners, who have less to lose from degrading a brand than does the entrant. Therefore, firms will take control to protect their brand name from degradation by free riders. Maintaining good name is challenging and is most likely to be achieved with entry modes characterized by higher levels of control over intangible assets by foreign MNCs. Thus,

H1a: The greater the risk of deteriorating intangible assets (inclusive tacit knowledge), the more likely firms will use entry modes characterized by higher levels of control, and thus minimize dissemination risk.

H1b: The higher levels of control a firm use over its intangible assets, the better is subsequent performance.

Dunning (1988)'s eclectic paradigm suggests that there are three factors will influence firms' entry mode choice, namely, ownership advantages, location advantages, and internalisation advantages. The eclectic framework has been commonly associated with resources-based theory and transaction cost analysis.

The size of the parent MNCs is a strategic variable in the research of modal choice (Demirbag et al., 2008). One view in the literature is that in order to capture the economies of scale on a global basis, a firm is required to have high control and ownership modes of operation (Kundu, 1998). The executives of such companies would indicate the need for equity-based ownership control in order for the firm to capture the economies of scale. Fladmore-Lindquist and Laurent (1995) studied the service industry but found the opposite conclusion. In view of the previous evidence and interactions with hotel managers, it is hypothesized that:

> *H2a: The importance of scale in global hospitality operations will be negatively associated with rising levels of control and resource commitment.*

According to the institutional view, when firms consider entering into a certain country, it first takes into account this country's regulations on foreign direct investment (Huang and Sternquist, 2007). Host government's macro-environment, in particular, the policy toward FDI often exerts significant influences on a firm's foreign expansion choices (Meyer and Nguyen, 2005). Supportive government policies and regulations toward the exchange rate and corporate taxes will contribute to a more favourable institutional environment and would tend to have a positive impact on firms' performance in a potential market (Demirbag,et al. 2007). The Chinese government now does not differentiate equity joint venture from wholly owned subsidiary in terms of financial policies and taxation (Deng, 2001). The regulatory environment in China is still changing, this holds particularly true after China joined WTO in 2001. After all, the government are far more concerned about what MNCs bring to the country in terms of employment and technology rather than how their deals are structured (Deng, 2003). In this sense:

> *H2b: As the Chinese government gradually relax ownership control as well as offering greater incentives, foreign hotel firms are more likely to commit more resources as their choice of entry mode into China.*

Empirical studies report mixed evidence on the performance of non-equity control as opposed to equity ownership (Demirbag et al., 2007). Hu and Chen *(1994)* found from a survey of 382 Hong Kong subsidiaries operating in China, where high equity controls were more likely to be successful than those based on contractual agreements. Later studies conducted by Brouthers and Brouthers (2000) reached similar conclusions. Yet, there are empirical works suggest that contractual based agreements perform as equally well as high equity mode (Pan et al. 1999; Reus and Ritchie, 2004).

Complementary resources are often considered the most important motivations for firms to form strategic alliances. In general, the inputs committed to the alliance may take the form of cash, equipment, management skills and land. If the venture is going to succeed, the parents' contribution should be compatible with the parents' comparative advantages. Because of intangible assets are usually the main reasons for foreign firms to invest directly in a foreign country. Furthermore, the effective utilisation of these resources in the alliance's operation would be more important. If we accept the assumption that foreign management is more effective than the local partner, the firm's performance would depend on the managerial role played by the foreign partner. Although evidence in this regard is less clear, the hypothesis may be formulated as follows:

> *H2c: The lower resource commitment and control will negatively associate with performance.*

Organizational learning theory suggests that previous relevant learning eases the acquisition of new related knowledge (Cohen and Levinthal, 1990). Thus the more foreign firms have acquired related knowledge to apply it, the more their subsequent performance are expected to benefit (Greenwood and Hinings, 1993). The implication is that parent companies' previous foreign entry experience both within the same country and from other countries has the potential to confer benefits for their subsequent performance (Barkema and Drogendijk, 2007). Moreover, the longer a firm has been operating abroad, the more opportunity they would have for its members to learn how to achieve congruence between partner goals and to accommodate cultural and other partner-related differences. A longer operational history should indicate that a hotel firm has been able to resolve conflicts over the attainment of partner goals and the way it is going to be managed. Thus:

H3: The longer the time that a foreign hotel firm in China has been in operation, the higher will be its levels of performance.

In many service industries, managers are not the primary owners of the organizations that they manage (Erramilli et al., 2002). This separation of ownership and control has led scholars to examine the mechanisms that owners have developed to ensure that employees act in accordance with the owner's goals (Brown et al. 2003, Quer et al. 2007). One of these mechanisms has been the development of management service contract, a hybrid organizational form that allocates ownership rights to the managers' retail outlets. This hybrid organisational arrangement reduces the cost of adverse selection in the assimilation of managers into an organization. The foregoing arguments lead to the hypothesis stated as follows:

H4: The more a hotel firm emphasizes on non-equity based entry as its organizational form, the faster the firm will grow in a potential market.

METHODOLOGY

Sample

There is a unique characteristic of the hotel industry, due to its fragmented ownership and control structure (Quer et al., 2007; Chen and Dimou, 2005). Our empirical study was conducted in the Chinese hotel industry with a population of approximately 1500 foreign-involved hotels (Horwath Report 2008) was used to test the model.

Firm level data were collected from China; they are defined as all foreign originated hotel operations that have either equity or non-equity based investment in mainland China. Hotels were identified through the '2007 Directory of Hotel & Lodging Companies – 76nd Edition'. Due to China's vast geographic size, thirteen cities were selected based on the number of international visitor's arrival and FDI inflow volume.

The sampling frame for this study was chosen as the 26% population of the international hotel firms located in China. Thus, a total of 160 questionnaires were mailed to hotel general managers in China who had at least one year experience in his/her current position. A final response rate of 28.7 percent was achieved with 80 usable questionnaires, after eliminating two responses due to missing data in more than one section of the questionnaire. According to Crawford-Welch (1990), the response rate of previous research conducted in hospitality industry range from approximately 10 percent

(Dev, 1988) to 30 percent (Tse, 1988). Given the consideration of highly concentrated nature of respondents, the response rate of 28.7 percent is quite respectable when compared with similar studies in the hotel industry. For example, Brown et al (2004) and Zhou and Dimou (2005) had an effective response rate of 22.2 percent and 19 percent respectively.

Measures

Previously established scales were utilized to measure the constructs of this research. Questionnaire was designed following an extensive review of the academic literatures.

Dependent Variable

Entry mode

Based on previous scholarships regards to the selection of entry mode (Quer et al. 2007; Ekeledo and Sivakumar, 2004), we characterized our dependent variable of entry mode, Variable 1 (MODE), into two categories: a value of 0 for equity based entry mode, and 1 for non-equity based entry mode. Equity entry modes include different types of FDI (joint ventures, acquisitions and wholly-owned subsidiary), while non-equity modes include contractual arrangements such as franchising and management contracts.

Performance

Hotel firms' performance in China is another dependent variable in this study. Previous research shows substantial variances in the operationalization of performance with researchers assessing firm performance through measures such as financial performance and growth rate. Consequently, there is considerable disagreement concerning the measurement of performance (Chowdhury, 1992). Many empirical studies indicate the inadequacy of financial indicators such as profitability in assessing performance (Chowdhury, 1992; Delios and Beamish, 2004). Since firms often have objectives in addition to financial ones (Kim and Hwang, 1992), a multifaceted measurement might be more appropriate (Glaister and Buckley, 1999; Delios and Beamish, 2004). For these reasons, this study will use both financial and non-financial measures. For the hypotheses on firm's subsequent performance, Variable 2 (PERF) is coded, with 0 equals to high performance and 1 equals to poor performance.

Independent Variables

Dissipation of Intangible Assets

The term intangible assets in this study refer to both tacit knowledge and intangible knowledge. It is coded as X1=Risk of Deteriorating Intangible Assets and Dissipation (INTAN). There are four measures for this variable. The first two: strategic know-how, and intangible assets focused on parent firm's ownership choice against this two measures. Dissipation measure was represented by the retention of control over intangible assets, and tacit knowledge.

Firm Scale

Firm scale, as often measured by global sales, is a surrogate for the amount of resources (capital, employees, sales) the firm has under its command (Kundu 1998). In study of firm scale, respondent's annual sales and number of hotels were measured against entry mode (MODE). This measure required that firms indicate the number of hotels their parent firms operating on a worldwide basis. Hotel parent firm's annual sale from fiscal year of 2003 was gathered through firm's annual report. It is coded as X2=Firm Scale (SCALE).

Government regulations

Government regulations capture the impacts of government legislation and policy, such as exchange rate, corporate taxes and FDI incentives on firm's modal choice and performance. It is coded as X3=Government regulations (GOVE).

Parent control

The ownership pattern or equity control of the affiliate is expected to have an impact on MNC's entry mode choices (Demirbag et al., 2008). In this case, parent control measures the foreign parent firm's ownership control to its performance, which is coded as X4=Control (CONT).

Experience and learning

Firm's previous FDI and international experiences are expected to impact on their entry mode choice and performance. The experience variable in the context of this study indicates firm's international experience impacts on its entry mode choice and also subsequent performance. It is coded as X5=Firm Experience (EXPER).

Speed of expansion

We define non-equity based cooperative ventures as those who do not incur any equity commitment during the development and operation of the firm. In the case of hotels, non-equity based cooperative venture is mainly represented by firms managed by pure management contract and franchising. It is coded as X6=Speed of Expansion (EMODE2).

ANALYSIS AND RESULTS

A Pearson correlation analysis between the dependent and independent variables was performed, which revealed that most of the correlations among the 8 variables are relatively small. In terms of reliability, the most important figure is the alpha value, which should be above .70 (Pallant 2001). In this study, the mean score of each variable and scale, standard deviation, Cronbach alpha value were identified. Nearly all scale reliability for all constructs exceeded the minimally acceptable level. These results establish the acceptability of reliability the study constructs in the confirmatory factor analysis. The evidence also suggests that multi-collinearity is, perhaps, not a serious problem with the data.

Hypothesis 1a argues that the greater the risk of deteriorating intangible assets, the more likely firms will use entry modes characterized by higher levels of control, and thus minimize dissemination risk. The cross-tabulation and correlation results strongly support Hypothesis 1a at $p < 0.01$, which is in line with the Kim and Gray (2008)'s study. Hypothesis 1b states that the higher levels of control a firm use over its intangible assets, the subsequent performance is better, which has been partially supported.

Hypothesis 2a predicts that the importance of scale in global hospitality operations will be negatively associated with rising levels of control and resource commitment, which has also been supported at $P < 0.05$. Hypothesis 2b tested the impact of government policy on firm's modal choice; correlation result suggested that firms will commit more resources as their organizational form with the increasing relaxation of government policy. Hence, Hypothesis 2b was confirmed at $P <0.05$, which conformed to Huang and Sternquist (2007)'s proposition that when government incentives for investment is great firms will favor entry modes that involve relatively high-resource commitments. Hypothesis 2c predicts that the lower resource commitment and control will negatively associate with performance. It is supported through correlation analyses at $p<0.05$ that align with Demirbag (2007)'s finding.

Hypothesis 3 argues that the longer the time that an international service cooperative venture in China has been in operation, the higher will be its levels of performance. It has received support through logistic regression and correlation analyses at $p < 0.05$, which reached similar conclusion as Barkema and Drogendijk (2007).

Hypothesis 4 states that the more a hotel firm emphasizes on non-equity based cooperative venture as its organizational form, the faster the firm will grow in a potential market. It was statistically supported through a correlation analysis at $p<0.05$.

All in all, most of our hypotheses are unequivocally supported, with weaker support for some others. The overall results appear quite satisfactory.

DISCUSSION AND RESEARCH IMPLICATIONS

While a significant amount of research has been devoted to understand the choice between equity and non-equity modes, relatively little is known about firm's post-entry activities (Canaball and White, 2008). This paper attempts to address this gap in the literature. The key issue investigated by this research is: 'Are there a common set of factors influence firm's entry mode choice and performance as well as expansion in an emerging economy.'

First, the significant, positively singed statistics supports that firms intrinsically prefer the equity based, high-control initial entry mode when the risk of deteriorating intangible assets is high. Second, the results provide strong support for Dunning (1988)'s Eclectic framework that the rising level of control, for example, equity based high-control entry mode is negatively associated with the importance of scale in hotel firm's global operation, which allow firm's rapid expansion in the foreign market. Third, our results indicate that host country's government regulations affect firm's entry mode choice decision. In the context of this study, as China gradually relaxed its ownership control to global hospitality firms, more MNCs are willing to commit greater resources to a higher control entry mode in order to avail the government incentives and gaining more financial returns.

While there is a growing volume of entry mode research, such studies tend to examine the criteria used to select a mode of entry, but ignore performance implications (Kim and Gray, 2008; Brouthers and Bamossy, 2006). Based on the analyses, it appears that an extended composite organizational theory model of mode selection does a good job of predicting performance construct. Results suggest that similar variables affecting entry mode choice decision, yet, influence firm's post-entry performance. We found that the longer time the firm in foreign operation with cooperative venture experience, the better it performed, in terms of both pure financial and balanced non-financial indicators. A longer operational history denoted that an international service cooperative venture has been able to avoid severe conflicts over the attainment of partner goals and the way it is going to be managed. Additionally, it is found that firms perform better when foreign partner contribute more control over the operation of the hotel, as less damage done to the intangible assets and competencies.

This study finally explored the influences of firm's entry mode choice to its speed of expansion, which have gained little attention from previous researchers. The data supported the proposition of which, foreign entrants characterized with non-equity based initial entry mode tended to expand quicker than those who entered on an equity-based mode. It seems like lower financial commitment provided firms with greater flexibility of expansion.

CONCLUSION

The results of this study provide theoretical and practical implications regarding the entry strategies of international hotel firms to China, particularly the relationship among firm's entry mode choice, performance implications, and speed of expansion. First, this study establishes the importance of firm's post-entry performance and expansion elements related to service firm's entry mode propensity, attempted to contribute to the existing knowledge by arguing that besides the country and firm specific variables, firms' performance and expansion after the initial entry should also be taken into account as determination of the modal choice. Second, our research revealed that firm performs better when previous international experience had been established. Although Contractor and Kundu (1998) and Erramilli et al. (2002) indicated the propensity to non-equity entry mode is greater in the global hotel sector. This research though revealed a different perspective by arguing when potential foreign hotel firm is a performance - driven entrant, equity based entry mode should be prioritized, whereas expansion – driven firms should adapt non-equity based entry mode as their organizational form.

This study provides some limitations and suggestion, which offer immediate avenues for future research. First, the hotel industry is characterized as highly competitive and dynamic. Since this study involved only large hotel multinationals, the findings may not be applicable to small and medium sized hotel firms or to countries outside developing economies. Second, because the sample included only large, highly international firms, it may be suggests of seeing entries into more extreme temporary market (China – as a high risk developing market) since these firms have entered the lower risk (more developed) markets many years previously. Thus, the results gathered may be biased due to target country being entered and may not represent mode performance implications in the other developing, emerging economies. Finally, another critical question remains un-addressed, how do firms determine the importance of each independent variable, compared to the other variables in making entry mode choice decisions? If one variable suggests wholly owned modes and one cooperative joint venture, how does a firm determine the weight to give each of the variable determinants? Future research studies could go a long way in improving our understanding of entry mode decision making by focusing on the trade-offs made by managers in evaluating differing entry mode criteria.

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Appendix A.

Figure 1. Towards a Composite Framework of Entry Mode Choice Research

Title	Transaction Cost Approach	Institutional Theory	Organizational Capability Perspective	The Eclectic Framework	Principle - Agent Consideration
Basic Theory	Transaction Cost Theory	Legitimacy	Resource - based theory	Transaction Cost Theory, International Trade Theory, Resource - based theory	Agency Theory,
Unit of Analysis	Transaction	Firm	Firm	Firm	Firm/Individual
Explanatory Variables	Transaction characteristics,	External environment	Firm's capabilities	Ownership, location, and internalization advantages	Investment Incentives, Individual performance
Behavioral assumptions	Bounded rationality and opportunism	Alignment with host country's environment	Bounded rationality	Bounded rationality (and opportunism)	Bounded rationality
Decision Criteria	Transaction minimization	Trade-offs between environment -al factors and firm capability	Trade-offs between value and cost	Trade-offs between return, risk, control, and resources	Trade-offs between return, cost, and resources

Figure 2. Hypothesized Conceptual Framework

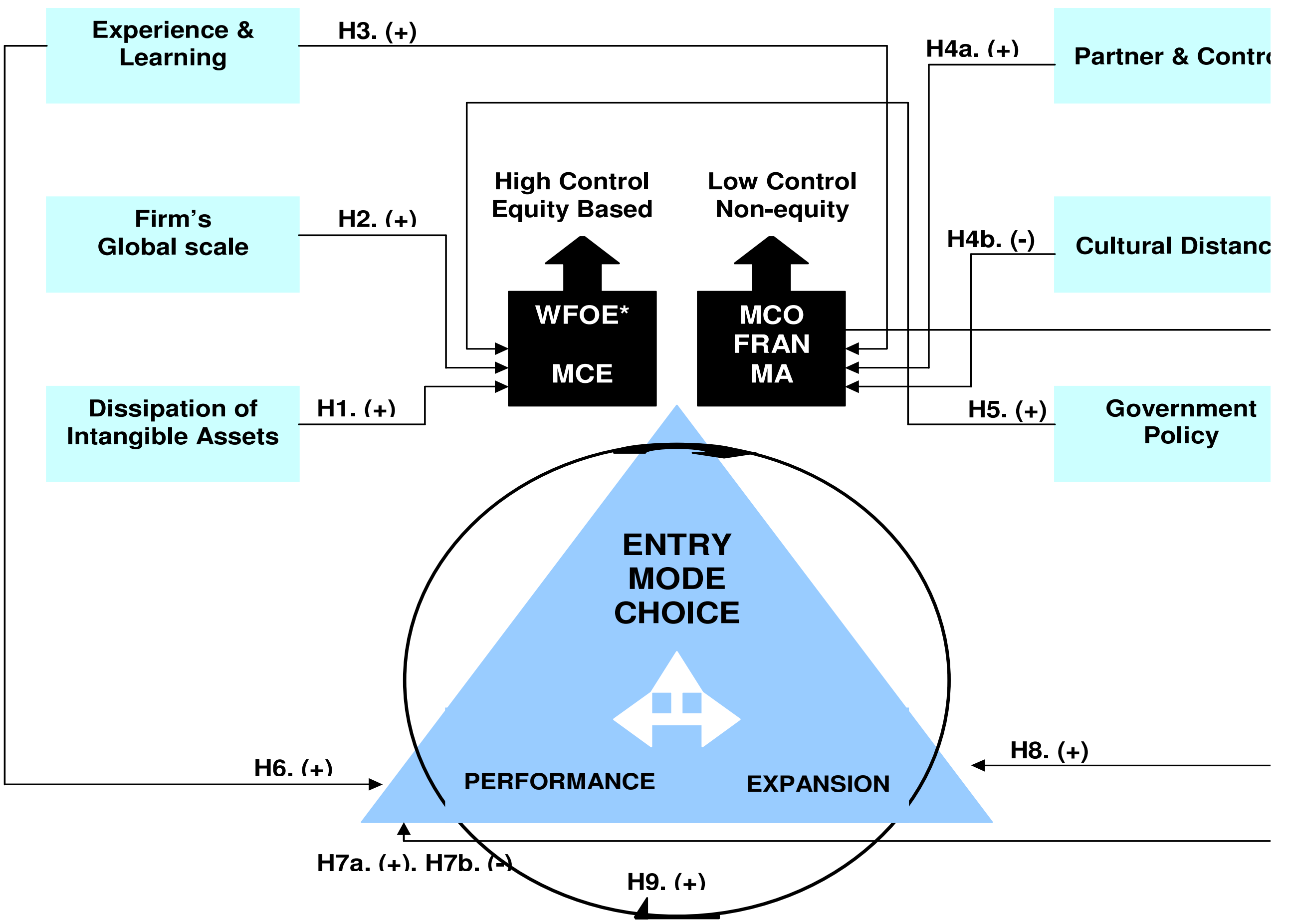
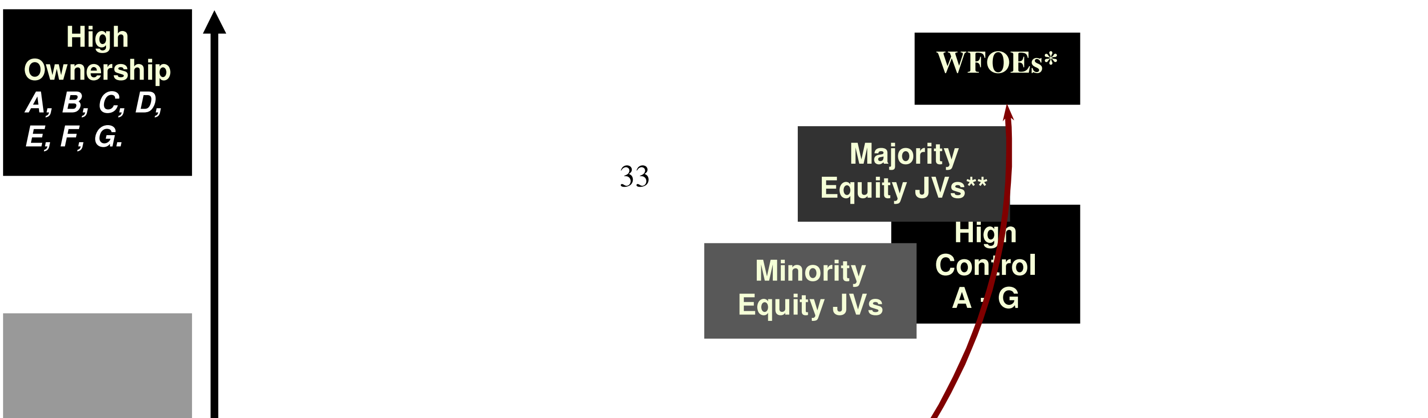


Figure 3. Model of Separating Ownership and Control in Service FDI



Pure Franchising Agreement

*WFOEs - Wholly Foreign Owned Enterprises
** JVs - Joint Ventures
***Control - defined in several dimensions as listed below:
A - Daily Management & Operation
B – Control Over Physical Assets
C – Control Over Finance
D – Control Over Revenue
E – Control Over Codified Assets
F – Control Over Imperfect imitable assets
G – Control Over Strategic Decisions

Table 1. Hotel Ownership Distribution

Ownership	Hotels	Percentage of Total	Beds (Units in 10,000)	Percentage of Total
State Owned	5832	57	131.22	56.4

Collective	902	10.1	16.54	8.1
Shareholding Cooperative	172	1.9	28.1	1.6
Alliance	90	1.0	18.1	1.1
Limited Liability	734	8.3	28.441	8.2
Limited Liability Shares	327	3.7	0.667	4.5
Private Owned	556	6.3	11.811	4.0
Others	361	4.1	0.51	3.0
Foreign Funded	***786***	***7.7***	***28***	***13.3***

Source: The Year Book of China Tourism Statistics (CNTA 2007)

Table 2. Inbound Tourists and International Travel Revenue (2000-2007)

Year	Inbound (million people)	Revenue (billion) US$
2000	83.44	16.23
2001	89.01	17.79
2002	97.91	20.39
2003	91.66	17.40
2004	109.04	25.7
2005	121.2	28.5
2006	124	33.5
2007	131	41.9

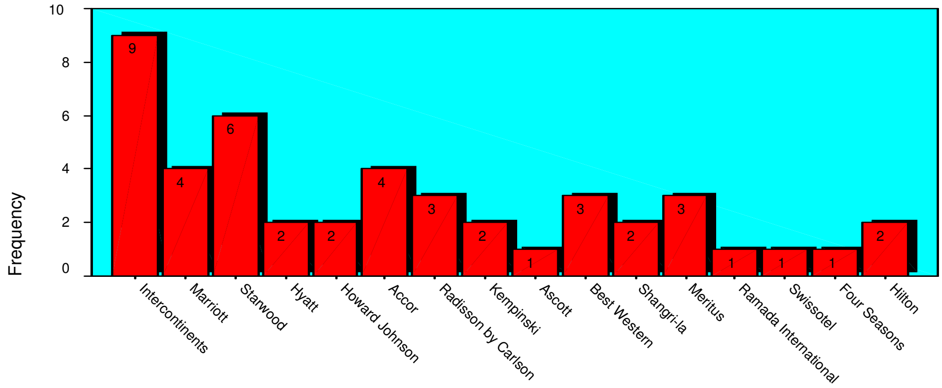
Sources: China National Tourism Administration

Table 3. Brands Represented in the Study

Best Western Hotels	**Novotel Hotels**
Courtyard by Marriott	**Radisson SAS Hotels and Resorts**
Crowne Plaza Hotels and Resorts	**Ramada International Hotels**
Four seasons Hotels and Resorts	**Ramada Plaza Hotels**
Grand Hyatt Hotels	**Shangri-la Hotels and Resorts**
Hilton Hotels and Resorts	**Sheraton Hotels and Resorts**
Holiday Inn Hotels and Resorts	**Sofitel Hotels**
Horward Johnson	**St. Regis Hotels**
Ibis Hotels	**Swissotel Hotels and Resorts**
Intercontinental Hotels and Resorts	**The Ascott**
Kempinski Hotels and Resorts	**Traders Hotels by Shangri-la**
Marriott Hotels and Resorts	**Westin Hotels and Resorts**
Meritus Hotels	

Table 4. Hotel Firms Represented in the Final Dataset

Hotel Parent Company



Hotel Parent Company

Table 5. Salient Characteristics of Respondents and its Representing Firm

1	**Location of Hotel**	
	City Centre	76.10%
	Convention	6.50%
	Serviced Apartment	4.30%
	Resort	10.90%
2	**Positioning of Hotel**	
	Luxury or 5-Star	73.90%
	Upscale or 4-Star	19.60%
	Three Star or Other	6.50%
3	**Hotel Firm Head office Location**	
	North America	52.20%
	Europe	34.80%
	Asia Pacific	13.00%
4	**Respondent's Place of Birth**	
	North America	15.60%
	Europe	42.20%
	Pacific Island	8.90%
	Greater China	11.10%
	China	8.80%
5	**Hotel Firm's Years of Experience in China**	
	Below 5 years	28.30%
	6 to 15 Years	45.60%
	Above 15 years	23.90%
6	**Mean Percentage of Hotel Employees above 400**	87%
7	**Mean Number of Hotels World-wide in Chain**	1962
8	**Percentage of Respondent's Position as General manager**	95.70%
9	**Percentage of Respondents Hold a College Qualification**	91.30%

Table 6. Pairwise Pearson Correlation among Variables

	Variables	1	2	3	4	5	6	7	8
1	PERF	1							
2	MODE	0.05	1						
3	X1 INTAN	0.418***	0.118*	1					
4	X2 SCALE	0.004	0.136**	0.028	1				
5	X3 GOVE	0.05	0.248***	0.008	-0.063	1			
6	X4 CONT	0.151**	0.066	0.16	0.087	0.032	1		
7	X5 EXPER	0.169**	0.016	-0.028	0.672	0.34	0.005	1	
8	X6 EMODE 2	0.143**	-0.097	0.03	-0.054	0.035	0.045	0.119	1

*****p<0.01; **p<0.05; *p<=0.10 (two-tailed); N=80**

Notes:
MODE (0 – equity based entry mode, 1 – non-equity based entry mode), Entry mode choice; PERF (0 – high performance, 1 – poor performance), average score of overall performance (combining both financial, market related, productivity and profitability, balanced score card measures of performance); X1 INTAN, risk of deterioating intangible assets; X2 SCALE, firm scale (size of global operation); X3 GOVE, government regulations; X4 CONT, parent control; X5 EXPER, firm experience and learning; X6 EMODE2 (speed of expansion).

Analysis 1. China Hotel Industry SWOT Analysis

STRENGTHS	**WEAKNESSES**
Leading world destination	State ownership
Growing international hotel brands	Debt problem
Improving domestic brands	Unprofitable operations
Quality Star-ranking system	Inefficiency in management
New hotel regulation	
OPPORTUNITIES	**TREATS**
Hotel reform	Overprovision
Hotel appraisal and valuation	Potential economic slowdown
Hotel real estate market	Regional political tensions
Hotel brand development	Intensified competition
Mixed-use projects	(Both international and domestic)
Education and training	

Analysis 2. China Hotel Industry Facts & Figures

	All 4&5-star	International 5-star	Domestic 5-star	Independent 5-star	International 4-star	Domestic 4-star	Independent 4-star	All 3-star
GENERAL								
Occupancy	69.20%	70.40%	74.60%	64.80%	71.40%	72.70%	67.90%	65.40%
Average Room Rate	$72	$105	$82	$63	$59	$48	$42	$31
RevPAR	$64	$73	$60	$45	$42	$31	$27	$18
INCOME								
Room	51.10%	55.20%	52.10%	44.70%	60.70%	56.60%	44.40%	51.90%
Food	26.80%	22.30%	23.70%	31.60%	23.90%	23.60%	31.20%	29.20%
Beverage	5.80%	6.80%	5.50%	5.40%	5.10%	4.90%	6%	6.70%
Other F&B	4.20%	5.00%	4.50%	4.70%	2.20%	2.70%	4.70%	9.40%
Telephone	0.60%	0.80%	0.10%	0.60%	0.90%	0.80%	0.30%	0.50%
Spa&Fitness	3.00%	1.30%	5.50%	3.90%	0.90%	0.80%	0.30%	0.50%
IBFCMF	32.60%	39.00%	37.80%	31.80%	29.70%	35.00%	27.10%	24.00%
EBITDA	2300.00%	30.40%	26.50%	23.50%	23.30%	27.90%	13.50%	14.50%
SOURCES OF BUSINESS								
Domestic	44.10%	32.00%	37.10%	47.30%	33.20%	40.70%	61.70%	72.60%
Foreign	55.90%	68.00%	62.90%	52.70%	66.80%	59.30%	38.30%	27.40%

Sources: China Hotel Industry Study 2004 (Horwath Asia Pacific)