Available online at www.sciencedirect.com
ScienceDirect
International Business Review 16 (2007) 362–376
INTERNATIONAL BUSINESS REVIEW
www.elsevier.com/locate/ibusrev

Foreign market entry mode in the hotel industry: The impact of country- and firm-specific factors

Diego Quer*, Enrique Claver, Rosario Andreu

Department of Management, University of Alicante, Spain

Received 2 September 2005; received in revised form 10 October 2006, 14 January 2007; accepted 16 January 2007

Abstract

One of the key decisions in the internationalisation process of hotel firms is the choice of the entry mode into a foreign country. Many different factors influence this strategic decision. From a sample of 127 entries carried out by Spanish hotel firms between 2001 and 2003, this study provides new empirical evidence that cultural distance reduces the likelihood of choosing equity entry modes, while firm profitability and internal financial funds availability favour the assumption of greater commitment in the international expansion process.

Keywords: Hotel firms; Internationalisation; Entry mode; Target/destination country; Firm factors

1. Introduction

Tourist activity in general, and the hotel industry in particular, have a markedly international character nearly by definition; this is why they are totally imbued with the phenomenon of globalisation. In recent years, along with the diversification and horizontal and vertical integration processes, another corporate growth strategy that is being followed by an increasing number of hotel firms consists in developing their operations on an international scale. The difficulties to grow in their country of origin's traditional destinations, the appearance of new emerging tourist destinations in other countries, or the attempt to avoid depending exclusively on a single destination before the competitive pressure and the power of tour operators, are some of the reasons underlying the

*Corresponding author. Tel./fax: +34 965 903 606.
E-mail address: diego.quer@ua.es (D. Quer).

0969-5931/$ - see front matter
doi:10.1016/j.ibusrev.2007.01.003

internationalisation strategies implemented by Spanish hotel firms. Since the first relevant international operation carried out by a Spanish chain in the mid-1980s (Sol Meliá in Bali, Indonesia), this type of strategies have grown exponentially until the present day, when we find over 600 Spanish hotels in about 50 countries.

One of the critical decisions in that internationalisation process is the choice of an entry mode. This decision is determined not only by the specific characteristics of the firm and of the country where the entry operation is planned, but also by the distinctive features of the hotel business. The analysis of the factors influencing the choice of an entry mode is one of the research topics most commonly treated in the literature on international business. Although most works have tended to focus on manufacturing firms, a growing interest has recently developed in analysing the peculiarities of service firms when it comes to adopting this strategic decision (Brouthers & Brouthers, 2003; Ekeledo & Sivakumar, 2004; Sánchez & Pla, 2006). Among the second group of research studies can be found some that have dealt with this issue in relation to the hotel industry; they are less numerous though (Brown, Dev, & Zhou, 2003; Contractor & Kundu, 1998; Erramilli, Agarwal, & Dev, 2002; Pla & León, 2002; Ramón, 2002).

Within this framework, our paper seeks to complement the existing contributions by providing new empirical evidence about the way in which factors linked with the target country and the firm itself have determined the entry modes used by Spanish hotel firms in their most recent internationalisation process (2001–2003). With this aim in mind, the paper is structured as follows. In the first place, we will show the peculiar characteristics of the hotel industry and the way in which they affect the entry mode, after which, based on a thorough literature review, a number of hypotheses will be proposed. Once the characteristics of the sample and the data used have been presented, we will offer the results obtained. The paper will finally offer some conclusions and will equally refer to some of the contributions made by this research as well as its limitations, after which future orientations will be suggested that can help scholars to make further progress in this line of research.

2. Theoretical background and literature review

2.1. Hotel industry characteristics and entry mode

Entry modes abroad can be divided into three large groups according to the generic options that are available to an enterprise in order to make the most of its specific advantages beyond the domestic market: supplying foreign markets through commercial transactions (exportation); transferring knowledge to the destination country through a contractual agreement; or moving productive or commercial capabilities, providing capital through foreign direct investment (FDI), either jointly (joint venture) or on its own (wholly owned subsidiary). These modes of entry fall into two broad categories: non-equity entry modes (including exports and contractual agreements) and equity entry modes (including FDI modes).

Considering the exchange flows and the characteristics of each alternative, FDI implies better control of operations abroad and greater profit potential, but at the expense of committing more resources and consequently assuming a greater risk. In the case of the hotel industry, a high degree of control can also be achieved with contractual agreements, but, since it is not necessary to invest in real estate, growth can take place faster and assuming less risk.