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Global Brand Expansion: How to Select a Market Entry Strategy

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Abstract

When hotel firms expand internationally, they must determine the ownership strategy and the management strategy that will best maintain the firm's competitive advantage. Those decisions are made separately from each other and depend on the expanding company's own strengths and the strengths found in the local market. That interplay between the company's strengths and local resources drives the type of partnership or affiliation arrangement that the company uses to enter the foreign market. The decision regarding who controls management and marketing, for instance, depends to a large extent on whether the expanding company can rely on local interests to maintain the firm's customer service standards. If the firm does not use customer service as a competitive advantage, it can make more use of third-party interests to operate the hotel. If the hotel facility is itself a point of competitive advantage, the decision on the extent of equity investment by the firm rests on whether local interests have sufficient resources to build and maintain the property.

Keywords

international hotel expansion, marketing; hotel management, franchise systems

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Global Brand Expansion

How to Select a Market Entry Strategy

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When hotel firms expand internationally, they must determine the ownership strategy and the management strategy that will best maintain the firm's competitive advantage. Those decisions are made separately from each other and depend on the expanding company's own strengths and the strengths found in the local market. That interplay between the company's strengths and local resources drives the type of partnership or affiliation arrangement that the company uses to enter the foreign market. The decision regarding who controls management and marketing, for instance, depends to a large extent on whether the expanding company can rely on local interests to maintain the firm's customer service standards. If the firm does not use customer service as a competitive advantage, it can make more use of third-party interests to operate the hotel. If the hotel facility is itself a point of competitive advantage, the decision on the extent of equity investment by the firm rests on whether local interests have sufficient resources to build and maintain the property.

Keywords: international hotel expansion; marketing; hotel management; franchise systems

A hotel firm contemplating entry into foreign markets faces several decisions regarding the most appropriate entry strategy. In particular, the firm must determine what is the best ownership structure and how best to manage the property in conjunction with local resources. Academic research suggests that the best entry strategy aligns the entrant's strengths and weaknesses with the local market's environment as well as with the firm's own structural and strategic characteristics (see, for example, Ekeledo and Sivakumar 1998; Hill, Hwang, and Kim 1990).

Indeed, in contemplating foreign market entry, a firm should separate ownership decisions from control decisions. The lodging industry has long separated ownership and management in its international locations. However, we note that current industry structure means that the decisions regarding ownership and management involve two steps (Pan and Tse 2000). First, entrants must decide whether to own the facilities in which their businesses will operate. The second step is to decide whether the chain itself will manage the property, whether the property will be operated by a management company, or whether it will be locally managed. To be sure, the ownership and control decisions in entering foreign markets are strongly correlated, but we have found that studying this question in the hotel and hospitality industry is useful (for more on the correlation, see Anderson and Gatignon 1986; Keegan 2002).

Building on a prior study on international market entry strategies (Dev, Erramilli, and Agarwal 2002), we argue that expanding hotel companies should also make separate ownership and control decisions for each business activity involved in the foreign operation. Of special interest to the service industry are two particular business activities: investment in physical facilities and control of operations and marketing.

The factor that is especially relevant to international expansion in the hotel industry is the expanding firm's knowledge, which enables the firm to develop a competitive advantage.[1] A firm's knowledge can be classified into two main types, namely, codified knowledge and tacit knowledge. A firm's codified knowledge is knowledge that can be easily identified, structured, and communicated—such as the firm's characteristic design features and signature service offerings. Its tacit knowledge, on the other hand, is less easily communicated—such as the firm's culture, workplace routines, and business processes (Kogut and Zander 1992; Madhok 1997). In this study, we investigate how a firm's competitive advantage rooted in its codified and tacit knowledge affects decisions regarding its foreign-market entry strategy.

Local Partners in Foreign Markets: Transfer and Absorption

In determining how best to apply its knowledge-based competitive advantage to an international market, a hotel firm must understand how best to use that market's resources. More particularly, in seeking to transfer its codified and tacit knowledge to the foreign market, it needs to understand that market's capacity to absorb this know-how. If the local market cannot absorb transferred knowledge, a firm will not enjoy a competitive advantage in that market. Choosing how to enter a foreign market therefore depends on aligning the firm's advantages (and shortcomings) with the market's resources and business conditions. For each business activity the firm plans to conduct in the foreign market, it must decide the best sorts of local partnerships to establish.

The method of transferring codified and tacit knowledge rests on developing a

1. Many factors tied into competitive advantage that affect foreign entry decisions have been identified recently, including the following: (1) market concentration or diversification strategy; (2) global concentration, synergy, and strategic motivations; (3) other strategic factors, such as the importance of scale economies, quality control, reservations systems, and training investment; and (4) imperfectly imitable capabilities vis-à-vis nonequity entry strategies (e.g., franchising vs. management-service contracts). For more on these factors, see Bradley and Gannon (2000); Kim and Hwang (1992); Contractor and Kundu (1998); Erramilli, Agarwal, and Dev (2002); Barney (1991); Conner (1991); Wernerfelt (1984).

mutually beneficial partnership that combines the company's knowledge with that of local investors. An entering firm can fill gaps in its understanding of a local market by collaborating with local partners, while at the same time the local partners tap into the firm's know-how to develop a competitive advantage for themselves (more information on these questions can be found in Madhok 1997; Aulakh and Kotabe 1997; Burgel and Murray, 2000; Erramilli and Rao 1990; and Luo 2001). The less the provision of knowledge or resources by local partners, the greater the extent that the firm will need to exercise control over its operations in that market. By the same token, when an entering firm has little experience with or knowledge about a foreign market or potential partners there, the firms' resources and capabilities are at risk and the firm may fall victim to local opportunism. To protect itself under such conditions, the firm will likely maintain control over its operations and ownership of its resources.[2]

Separating Ownership and Control

Historically, local partners' expertise has been viewed in terms of production, distribution, and research and development (R&D). Because economic, technological, and competitive pressures have motivated firms to specialize in those activities for which they possess (or can readily acquire) a competitive advantage, many of them outsource the remainder of their business functions to partners who possess complementary resources and know-how.

In the hotel industry, the complementary assets and knowledge increasingly extend beyond production and distribution.[3] Exhibit 1 depicts how ownership and control decisions might be applied to a variety of business activities.

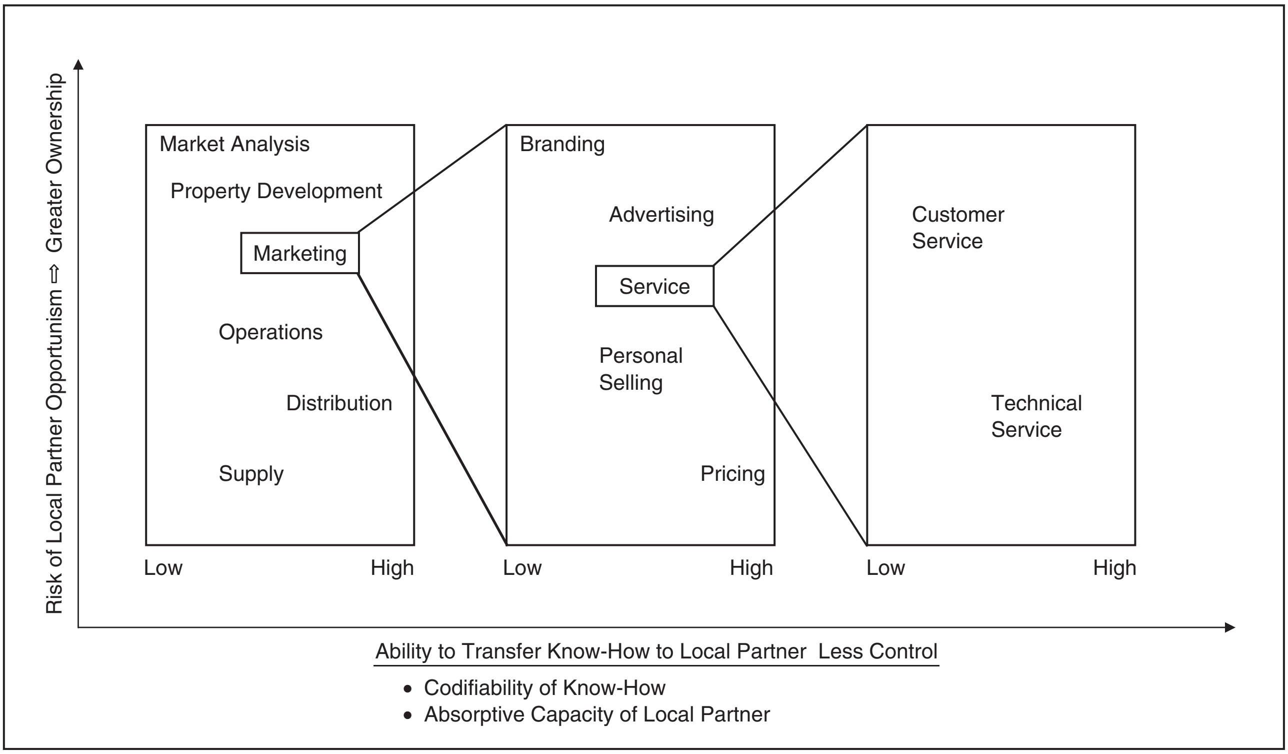
The left-hand box in Exhibit 1 shows how several general business activities play out in terms of vulnerability to opportunism and the transferability of know-how. Some may entail relatively high risks of local-partner opportunism (R&D, plant and equipment, marketing); others are relatively easy to transfer to local partners (plant and equipment, distribution). Within the space defined by the risk and transfer axes, a firm must balance vulnerability and ease of transfer in determining whether to own or invest in local facilities or resources and how much control to exercise over marketing and operations. Within a particular general function, say marketing, Exhibit 1 suggests that an entering firm should undertake high-risk activities itself (branding, for instance, which is difficult to transfer) while outsourcing low-risk activities, such as pricing to local partners (pricing being an easy-to-transfer function) (Erramilli, Agarwal, and Dev 2002).

Four Variations on Ownership and Control

Having examined the dimensions of separating ownership and control, we now consider more specifically what sorts of arrangements may occur in different situations. One model for when new hotels open in foreign markets is that local investors who lack industry expertise often purchase land and build facilities for the hotel firm to manage. In other cases, the hotel firm may finance the purchase and construction of its own facilities. Such a firm may then

2. For more on the related issues of opportunism and transaction costs, see Erramilli and Rao (1993); Hill, Hwang, and Kim (1990); and Teece (1980). For more on a firm's knowledge of and vulnerability in a foreign market, see Anderson and Gatignon (1986); and Kim and Hwang (1992).
3. For the focus on production and distribution, see Buckley and Casson (1998); for more on specialization and outsourcing, see Achrol (1997); Stern, El-Ansary, and Brown (1988); and Walker (1997).

Exhibit 1:
Factors Affecting the Separation of Ownership and Control for Various Business Functions When Entering Foreign Markets



Source: Adapted from Bartlett and Ghoshal (1998, Figure 6.1).

approach marketing and operations by applying its own policies and procedures to the local infrastructure. Yet another approach is for the hotel firm instead to rely on the expertise of a franchise system or marketing network to guide its local marketing and operations. Exhibit 2 illustrates the ownership and control outcomes that are possible when combining these two dimensions with reference to international hotel expansion.

The vertical dimension of Exhibit 2 distinguishes foreign-market entrants with an ownership stake in the local hotel from those that have none. The horizontal dimension categorizes local hotels according to whether marketing and operations operate according to the policies and procedures of a franchise system or third-party marketing network or whether the firms apply their own policies and procedures. The decisions relating to ownership combined with the decisions relating to marketing and operation mean that a company has four possible market-entry strategies. *Chain-owned, affiliated* hotels (hereinafter COA) are operated as part of a franchise system (such as Holiday Inn Park View in Singapore) or a marketing network (such as Utell and Leading Hotels of the World). Here the market entrant invests in the physical assets of

Exhibit 2:
Two Dimensions of the Foreign Market Entry Strategy Decision: Examples from the International Hotel Industry

	Control over Marketing and Operations[a]	
Ownership of Physical Facilities[b]	*Membership in a Franchise System or Marketing Network (Lower Entrant Control)*	*No Membership in a Franchise System or Marketing Network (Higher Entrant Control)*
Sole (i.e., independent) owner/operator, Majority owner/operator, or minority owner/operator (higher ownership)	Chain-owned, affiliated (COA) Marriott Karachi Holiday Inn Park View, Singapore	Chain-owned, unaffiliated (COU) Sea Garden Hotel, Turkey Hotel Grande Bretagne, Athens
Third party management company (no ownership)	Management company, affiliated (MCA) Sheraton Four Points, Dubai Novotel Ambassador, Seoul	Management company, unaffiliated (MCU) Hotel Sedona Makassar, Indonesia Le Montreux Palace, Switzerland

a. This dimension represents the extent to which the foreign market entrant invests in the hotel's physical assets (i.e., land, physical plant).
b. This dimension represents the extent to which the market entrant develops its own operating systems and/or marketing programs or relies upon those established by a marketing network or franchise system.

these hotels while relying (at least in part) on the franchise system or marketing network to guide its marketing and operations activities. *Management company, affiliated* (hereinafter MCA) hotels are operated by a third-party management company and also linked with a franchise system or marketing network; in this situation the entering firm does not hold an equity position in the hotel facility (such as the Sheraton Four Points in Dubai). Here again, MCA hotels are subject to the marketing and operations policies of the system or network. *Management company, unaffiliated* hotels (hereinafter MCU) are operated under management contract but have no affiliation with franchise systems or marketing networks (such as the Hotel Sedona Makassar, Indonesia). Hotels in this category develop an in-house approach to marketing and operations. *Chain-owned, unaffiliated* (hereinafter COU) hotels are owned and operated under a common brand name as part of a corporate chain (such as Shangri-La in Manila). They are independent of either a third-party management company or franchise system. This means that the COU entry strategy offers a firm the highest level of control of the hotel's marketing and operations functions.

Method

Before we describe our study method, we note that many factors beyond those we have surveyed affect entry strategies. We did not formulate any hypotheses to test these other factors, but we controlled for them statistically in our analysis. Included among these factors are a local market's potential for growth, its general business conditions, the sociocultural distance separating the home market from the foreign market, and the size of the entering firm.[4]

Sample

Our sample consisted of 124 members of the Global Hoteliers Club (a 22.2 percent response rate), comprising hotel managers who have worked on at least three continents. We asked each one to report on their individual hotel properties. Exhibit 3 lists some of the well-known brands that were represented in the study.

Our sample included hotels from fifty-three countries, reflecting a diversity of local markets. Hotels represented in the sample have parent companies that seem heavily international in orientation, as they derive approximately 60.5 percent of their revenues internationally. Exhibit 4 provides additional sample characteristics.

Exhibit 3:
Brands Represented in the Study

ANA	Novotel
Caesar Park	Oberoi
Camino Real	Okura
Conrad	Omni
Crowne Plaza	Pannonia
Disney	Pan Pacific
Fairmont	Peninsula
Four Seasons	Regent
Hilton	Renaissance
Holiday Inn	Ritz-Carlton
Hyatt	Rockresorts
Inter-Continental	Shangri-La
Kempinski	Sheraton
Mandarin Oriental	Sonesta
Marriott	Taj
Melia	Traders
Meridien	Westin
Movenpick	Wyndham
Nikko	

Measures

Based on our review of the academic and trade literature, we developed measures for the constructs we studied. We refined the original questionnaire based on a pretest of fifty international hotel general managers who attended the Cornell Hotel School's General Managers Program.

In determining foreign-market-entry strategy we used two questions. First we asked the hotel general managers to specify their property's type of firm. We then asked whether the property belonged to a franchise system or marketing network. We included only parent companies that operated more than one hotel at the time of the study. The responses were sorted according to the four entry strategies that we identified (that is, those listed Exhibit 2). Our measurements of the other variables in our study appear in Exhibit 5. They meet the usual standards of reliability and validity (for more detail on the measurement of these variables, see Brown, Dev, and Zhou 2003).

Data Analysis

To determine how strongly the various factors were related to the four different entry strategies, we used multiple logistic regression. While multiple regression assumes that the dependent variable is continuous, multiple logistic regression permits category-dependent variables (for more information about multiple logistic

4. For more on growth potential, see Contractor and Kundu (1998); Ekeledo and Sivakumar (1998); Gatignon, Weitz, and Bansal (1990); Luo (2001); and Olsen, West, and Tse (1998). Regarding general business conditions, see Contractor and Kundu (1998); Erramilli, Agarwal, and Dev (2002); Hill, Hwang, and Kim (1990); and Luo (2001). Regarding sociocultural differences, see Anderson and Coughlin (1987); Bello and Gilliland (1997); Contractor and Kundu (1998); Erramilli and Rao (1993); and Hill, Hwang, and Kim (1990). On firm size, see Contractor and Kundu (1998); Dunning and McQueen (1981); and Erramilli and Rao (1993).

Exhibit 4:
Salient Characteristics of the Sample

	Frequency	
Geographic Origin: Continent	*Absolute*	*Relative (%)*
Africa	12	9.7
Asia	54	43.5
Australia	11	8.9
Europe	28	22.6
South America	4	3.2
North America	15	12.1
Total	124	100

	Mean
Size of operation	
No. of hotels in worldwide chain	348.6
No. of rooms per hotel property	368.6
No. of employees per hotel property	455.1
Parent's international scope	
Years of international operations	29.2
Percentage of revenues from international operations	60.5
Years of operations	
Years hotel has been open	21.1
No. of years under present management	8.5

	Frequency	
Entry Strategy	*Absolute*	*Relative (%)*
Chain-owned, affiliated (COA)	21	16.9
Management company, unaffiliated (MCU)	39	31.5
Management company, affiliated (MCA)	35	28.2
Chain-owned, unaffiliated (COU)	29	23.4
Total	124	100

regression analysis, see Cohen et al. 2003; Hair et al. 1998). This technique uses independent variables to determine the probability that a specific observation belongs to a particular group. In terms of our study, the independent variables represent the various factors that influence the foreign-market-entry decision, the specific observation is the individual hotel, and the groups in this study are the four different foreign market–entry modes. Multiple logistic regression can be used to calculate the probability of group membership, and it can also be used to determine the statistical significance of the independent variables that affect group membership. Our focus is determining the statistical significance of the independent variables.

Results

Because our study applies a resource-based, transaction-cost perspective to investigating the market-entry decision, we focus on the following three factors important to

Exhibit 5:
Questionnaire Items

Parent company competitive advantage[a]

1. Generating Customer Service (CA_SVC; reliability coefficient = 0.914)
   - Finding good locations (CA1).[b]
   - Creating customer base (CA4).[b]
   - Creating repeat business (CA5).[b]
   - Ensuring service quality (CA6).
   - Ensuring customer satisfaction (CA8).
   - Providing appropriate services (CA13).[b]
   - Quality of guest-contact staff (CA14).
   - Quality of managerial team (CA15).
   - Teamwork among employees (CA16).
2. Management and Organization (CA_MGT; reliability coefficient = 0.850)
   - Knowing the right time to enter (CA2).[b]
   - Creating the brand reputation (CA3).[b]
   - Establishing a chain operation (CA7).[b]
   - Company culture (CA17).
   - Operating policies and procedures (CA18).
   - Implementing employee empowerment (CA19).
   - Quality of reservation system (CA20).[b]
   - Information technology systems (CA21).
3. Physical Facility (CA_FAC; reliability coefficient = 0.932)
   - Quality of physical facilities (CA9).
   - Décor/design of properties (CA10).
   - Ambience/atmosphere of properties (CA11).
   - Comfort of physical facilities (CA12).

Local business conditions facing hotel's parent company

1. Resource Availability (RESOURCE; Reliability Coefficient = 0.829)
   - Availability of qualified service employees (OC1).[e]
   - Availability of qualified managerial staff (OC2).[e]
   - Availability of reliable suppliers (OC3).[e]
   - Quality of supplies for your hotel (BC4).[b,f]
2. Training Costs (TNG_COST; $\rho = 0.876$)
   - Cost of training service employees (OC4).[e]
   - Cost of training managerial staff (OC5).[e]
3. Availability of Local Investment Partners (INVESTOR; reliability coefficient = 0.810)
   - Availability of qualified local investment partners to your parent company for establishing new hotels (OC7).[e]
   - Availability of trustworthy local investment partners to your parent company for establishing new hotels (OC8).[e]
4. Market Potential (MKT_POT; reliability coefficient = 0.850)
   - Size of the hotel market (MC1).[d]
   - Potential for growth in the hotel market (MC2).[d]

Exhibit 5:
(continued)

Local business conditions facing hotel's parent company

5. Local Market's General Business Conditions (BSNSCOND; reliability coefficient = 0.821)
   - Political relations between the host and home country (BC1).[b,f]
   - Government restrictions on operations of foreign hotels (BC2).[b,f]
   - Reputation of your hotel's brand (BC3).[b,f]
   - Quality of infrastructure (phones, roads, etc.) (BC5).[f]
   - General business conditions (BC6).[f]
   - Political stability (BC7).[f]
   - Aggressiveness of competitors (OC6).[b,e]
   - Number of new competitors expected to enter your market in the next 5 years (MC3).[b,d]
6. Sociocultural Distance (DISTANCE; reliability coefficient = 0.883)
   - Differences in business practices between this country and the parent's home country (MC4).[a]
   - Differences in culture between this country and the parent's home country (MC5).[d]

a. Anchored by 1 *(no advantage)* and 5 *(great advantage)*.
b. Deleted from further analysis.
c. Construct reliability assumed to be 0.85.
d. Anchored by 1 *(very small)* and 5 *(very large)*.
e. Anchored by 1 *(very low)* and 5 *(very high)*.
f. Anchored by 1 *(very poor)* and 5 *(very good)*.

the entry strategy: namely, an entering firm's ability to transfer its know-how (codified and tacit) to the local market, the ability of potential local partners to absorb that know-how, and the availability of qualified and trustworthy investment partners in the local market. In reporting our results, we consider each of these factors in turn.

Transferability of Knowledge

We have argued that, in determining its entry strategy in a foreign market, a firm will choose the strategy that best allows it to transfer its competitive advantages to that market. In the hotel industry, such competitive advantages are based largely in the firm's knowledge, whether codified or tacit. A hotel firm's codified knowledge can include the specifications of its standard service offerings, operating procedures, training programs, and uniform or characteristic physical facilities. Its tacit knowledge depends on its organizational culture, for example, the processes it uses to address consumer complaints; its dedication to delivering its own level and style of service quality; and its ability to adapt to changes in demand, competition, and technology.[5]

In our research we investigated the following three types of hotel knowledge: the ability to generate customer service, superior company management and organization, and distinctive and effective physical

5. For more on codified knowledge that is characteristic of the hotel industry, see Kogut and Zander (1992). For more on tacit knowledge, see Cohen and Leventhal (1990); Kogut and Zander (1992); and Madhok (1997).

Exhibit 6:
Summary of Logistic Regression Results

Factors Affecting the Foreign Market Entry Decision	*Results*		
Transferability of knowledge			
Customer service	MCU > COU	MCU > MCA	MCU > COA
Company management and organization	COU > COA	MCA > COA	MCU > COA
Physical facilities	COA > COU	COA > MCA	COA > MCU
Absorptive capacity of local partners			
Availability of local resources	COA > COU	MCA > MCU	COA > MCU
Cost of training local partners	MCU > COU	MCU > MCA	
Availability of local investment partners	MCA > COA		

	Control over Marketing and Operations	
Ownership of Physical Facilities	*Lower Entrant Control*	*Higher Entrant Control*
Higher ownership	Chain-owned, affiliated (COA)	Chain-owned, unaffiliated (COU)
No ownership	Management company, affiliated (MCA)	Management company, unaffiliated (MCU)

facilities. The first two reflect a market entrant's tacit knowledge while the third exemplifies its codified knowledge.

Customer service. In generating effective customer service, a firm seeks to create and maintain an adequate customer base while ensuring customer satisfaction. To transfer the advantages of excellent customer service into a foreign market requires a high level of managerial, human, and financial resources. This in turn requires the firm to exercise a considerable degree of control over its operations to guard against the local partner's shirking its responsibilities or cutting corners. As a consequence, firms with a competitive advantage based on customer service will maintain high control over their foreign operations, in particular their marketing activities (through which they build customer expectations in the local market) and operations (through which they seek to fulfill those expectations). Because, however, such a competitive advantage is largely unrelated to ownership (which pertains primarily to physical facilities), we expect that a firm with a strong competitive advantage in the area of generating customer service will be unlikely to affiliate with an outside brand or chain (i.e., COU > COA; MCU > MCA) (for more on the difficulty of transferring tacit knowledge to a foreign market, see Bello and Gilliland 1997; Contractor and Kundu 1998; and Kim and Hwang 1992).

Our results, summarized in Exhibit 6, show that an entrant's customer service advantage is more likely to be associated with the MCU entry strategy than with any of the other three strategies—COU, COA, or MCA (for technical details of the statistical analysis, see Brown, Dev, and Zhou 2003). This latter case, MCU > MCA, supports our expectation that the firm requires considerable managerial control over marketing and operations to protect its customer service competitive advantage.

Company management and organization. A firm's superior managerial and organizational expertise can give it a competitive advantage. Such an advantage aids the firm in satisfying the predilections of its target market as well as in achieving cost leadership. Here again, such expertise is largely a function of tacit knowledge and is therefore difficult to transfer into a foreign market. The transfer of such managerial assets as effective decision heuristics, written rules and procedures, and a management information system cannot be accomplished without the firm's controlling its marketing and operations. This is impractical in the context of a franchising or marketing network arrangement. As with the case of customer service, to the extent that a firm enjoys a competitive advantage in terms of management and organization, it is likely to choose an entry strategy characterized by a high level of control over marketing and operations (i.e., COU > COA; MCU > MCA).[6]

Exhibit 6 shows that, the more an entering firm develops a competitive advantage in terms of management and organization, the less likely it uses the COA entry strategy as compared with the COU strategy (COU > COA), the MCA strategy (MCA > COA), or the MCU strategy (MCU > COA). Only the first case is consistent with our expectation. The three results taken together suggest that an affiliation with a franchise system or marketing network constrains a chain's ability to transfer its competitive advantage in management and organization to its owned hotels.

Physical facilities. In the hotel industry, physical facilities that embody the décor and design of a property are tangible symbols of the intangible elements of the lodging experience that a firm offers to its customers. This means, on one hand, that the knowledge involved in the firm's characteristic, brand-specific physical design elements are easy to codify and therefore easy to transfer to a foreign market. On the face of it, then, we might expect a firm with such a competitive advantage to avoid the commitment of financial and managerial resources that are involved in ownership. On the other hand, there is no guarantee that local owners will build physical facilities to match the specifications set by the entering firm. Local owners may stray too far from signature design elements to maintain the firm's competitive advantage. Therefore, we expect that under such conditions an entering firm will maintain some form or degree of ownership of physical facilities (i.e., COA > MCA; COU > MCU). Since its expertise in physical facilities design and execution is independent of its marketing and operations functions, even when it owns the property a firm might accept a relatively low level of control over these functions (i.e., MCA > MCU; COA > COU) (see Conner and Prahalad 1996).

Our Exhibit 6 findings show that firms with an advantage in physical facilities are more likely to choose the COA entry strategy as compared with any of the other three strategies (COA > COU, COA > MCA, COA > MCU). These results also suggest that entrants with this competitive advantage are indeed likely to select an entry strategy featuring lower control over marketing and operations.

6. For more on this form of competitive advantage, see Day and Wensley (1988). For more on the difficulty of transferring such an advantage, see Cohen and Leventhal (1966); Polanyi (1966); and Teece (1980).

Absorptive Capacity of Local Partners

As we have argued, when choosing a foreign-market-entry strategy a firm must weigh not only the transferability of its own knowledge but also the absorptive capacity of the local market's potential business partners. Transfer depends on the availability of local human resources and reliable local suppliers.

Availability of resources. Clearly, in markets with plentiful local resources, entering firms can easily transfer their own knowledge, avoid opportunistic local partners, and therefore apply strategies that involve relatively less marketing and operational control (i.e., MCA > MCU; COA > COU).[7]

Again the results partially support this expectation (Exhibit 6). Firms in this situation are more likely to use the COA strategy than the COU strategy (COA > COU) and more likely to choose the MCU strategy than the MCA strategy (MCU > MCA). However, of those two preferred strategies, entrants unexpectedly are more likely to select the COA strategy than the MCU strategy (COA > MCU).

Cost of local partner training. Obviously, high training costs make the transfer of knowledge expensive and thereby reduce any competitive advantage stemming from knowledge transfer. Since such higher training costs are most likely due to a scarcity of qualified local employees, an entering firm facing high training costs will be inclined to choose an entry strategy that features relatively high levels of control over marketing and operations (i.e., COU > COA; MCU > MCA). Note that here again there are no ownership implications related to training costs (Bello and Gilliland 1997; Contractor and Kundu 1998).

Exhibit 6 again provides partial support for our prediction. Entrants facing high training costs are more likely to use the MCU strategy than the MCA strategy (MCU > MCA), which is what we expected. They are also more likely to use the MCU strategy than the COU strategy (COU > MCU), which is contrary to our expectations but consistent with their spirit.

Availability of Trustworthy, Reliable Local Investment Partners

An entering firm has little choice but to make an equity investment if the local market lacks trustworthy, reliable investment partners. Unqualified investment partners expose the entrant to an increased risk of opportunism and incompetence. Consequently, when a local market offers a pool of qualified investment partners, an entering firm can choose an entry strategy that requires a lower level of equity participation (i.e., MCA > COA; MCU > COU). Since this choice carries no control implications beyond the issue of investment equity, it has no bearing on the degree of control needed vis-à-vis marketing and operations (see Anderson and Gatignon 1986; Luo 1999).

The only telling result here (in Exhibit 6) is that, the more qualified local investors available in a local market, the more likely that a firm will choose the COA entry strategy relative to the MCA strategy (MCA > COA), as expected. These results are summarized in Exhibit 7.

Managerial Implications

This study has examined the marketing-entry strategies surrounding the separation of the ownership from managerial control, in particular control over marketing and

7. For more on absorptive capacity and local knowledge, see Contractor and Kundu (1998); Madhok 1997; and Cohen and Levinthal (1990). On the degree of control needed, see Anderson and Gatignon (1986).

Exhibit 7
Conditions Favoring Each Foreign Market Entry Strategy: Summary of Results

	Marketing and Operation Dimension	
Ownership Dimension	*Affiliated with Franchise System of Marketing Network (Lower Entrant Control)*	*Not Affiliated with Franchise System of Marketing Network (Higher Entrant Control)*
Sole (i.e., independent) owner/operator, majority owner/operator, or minority owner/operator (higher ownership)	Chain-Owned, affiliated (COA) Physical facilities competitive advantage Plentiful local resources	Chain-owned, unaffiliated (COU) Management and organization competitive advantage
Third-party management company (no ownership)	Management company, affiliated (MCA) Management and organization competitive advantage Plentiful local resources Locally available, qualified, and trustworthy investors	Management company, unaffiliated (MCU) Customer service competitive advantage Management and organization competitive advantage High local market training costs

operations. Exhibit 7 shows the benefits of separating those two decisions. For example, the usual prescription is to retain ownership in foreign markets where the cost of training local employees is high. Based on our findings, we recommend that hotels facing such a situation must retain control over the local facility's marketing and operations, rather than concern itself with facility ownership. This would spare the entrant the heavy investment required of ownership yet still provide the higher control needed to cope with high training costs. A similar prescription can be made for firms that have a competitive advantage based on superior customer service—that is, control can be gained without ownership.

Interestingly, a hotel firm's competitive advantage based on its management and organization can be transferred to local markets using several entry modes—in particular, the COU (chain-owned, unaffiliated), MCU (management company, unaffiliated), and MCA (management company, affiliated) entry modes. Only the COA (chain-owned, affiliated) entry mode is not useful in transferring the management and organization competitive advantage to local markets. This suggests that the dictates of a franchising system or marketing network will hinder the entrant's ability to transfer its tacit competitive advantages, specifically its management and organizational advantage.

From Exhibit 7, we see that the ownership dimension of the entry decision is associated with the local market's capacity to absorb an entering firm's competitive advantages. For example, when trustworthy and reliable local equity partners are available (i.e., the absorptive capacity of the local equity market is high), the firm should use a management-company entry strategy rather than equity ownership to transfer its competitive advantages. Another situation that calls for a management-company strategy is when the cost of training managers and employees in a local market is high (i.e., the market's absorptive capacity for operations is low). In this situation, the entering firm can capitalize on a management company's expertise in hiring and managing human resources, thereby avoiding the high costs of hiring and training local employees.

When a local market's absorptive capacity for operations is high, an entering firm can transfer its tacit competitive advantages through some form of marketing affiliation because local resources are readily available. Lower-control entry strategies are the choice when local human resources are abundant.

Finally, in seeking to transfer to a foreign market a competitive advantage based on the codifiable knowledge pertaining to physical facilities, chain ownership of a hotel property is the best choice, especially when the entering firm is affiliated with a franchise system or marketing network. This finding suggests that an entering firm can build hotels to its specifications more easily by retaining ownership rather than by opting for the management company entry strategy.

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