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**The Non-Equity Entry Mode Choices
of International Hotel Organisations
in New Zealand**

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Abstract

Research on the non-equity entry mode choices of service firms is relatively limited. We use transaction cost economics and the organisational capability perspectives to examine the determinants of choosing between franchising and management contracts in the hotel industry. In our analysis of four international hotel organisations operating in New Zealand, we found that both asset specificity and imperfect imitability helped in explaining the choice between franchising and management contracts. Behavioural uncertainty and host country management capabilities explained the entry mode choice of some hotel organisations but were not applicable for others that entered New Zealand via international strategic alliances or used strata titles. Finally, environmental uncertainty and the development of New Zealand's business environment had limited effect on the choice between franchising and management contracts.

Keywords:

Non-equity entry modes, franchising, management contracts, organisational capability perspective, transaction cost economics, international hotel organisations

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1. Introduction

The choice of entry mode firms use to enter a foreign country is a critical consideration in the internationalisation process. Entry modes are one of the most researched phenomena in the fields of international business and management (Werner, 2002). According to Quer, Claver and Andreu, (2007), entry modes can be divided into three generic groups: exporting, contractual agreements and foreign direct investment (FDI). Moreover, Pan and Tse (2000) identify that these generic groups can be further divided into two broader categories: equity entry modes and non-equity entry modes. Equity entry modes refer to FDI and non-equity entry modes refer to exporting and contractual agreements. According to Pan and Tse (2000) non-equity entry modes require less control from the headquarters of the firm as they are less investment intensive and therefore entail lower risk than equity entry modes.

Non-equity entry modes have become increasingly popular among service firms, as opposed to manufacturing firms (Contractor & Kundu, 1998, a; Cunill & Forteza, 2010; Leon-Darder, Villar-Garcia & Pla-Barber, 2011; Sanchez-Peinado & Pla-Barber, 2006, a, 2006, b; Pla-Barber, Sanchez-Peinado & Madhok, 2010; Villar, Pla-Barber & Leon-Darder, 2012). This can be attributed to several key differences between the two business types. Firstly service firms generally require less financial investment to move their business across country borders (Erramilli & Rao, 1990, 1993; Murray & Kotabe, 1999). Secondly service firms are much more people-intensive in their operation (Erramilli & Rao, 1990, 1993). Critically however the production of a service, unlike a product, is inseparable and perishable i.e. a service is produced and delivered simultaneously (Habib & Victor, 1991). Therefore, as the findings of manufacturing firm oriented research can not be effectively transferred to analysing service firms, there has been a growing number of studies analysing how service firms specifically choose between different entry modes (Brouthers & Brouthers, 2003; Erramilli & Rao, 1990; Sanchez-Peinado & Pla-Barber, 2006, a, 2006, b).

In this paper we investigated international hotel organisations to draw further implications for the service sector, as done in several previous studies (Altinay, 2005, 2007; Brown, Dev & Zhou, 2003;

Contractor & Kundu, 1998, a & b; Erramilli, Agarwal & Dev, 2002; Leon-Darder et al., 2011; Pla & Leon, 2002; Ramon, 2002; Quer et al., 2007). We chose New Zealand as the country context, due to its status as a popular tourist destination and also because the tourism industry is New Zealand's largest 'export' sector (Ministry of Economic Development, 2008). The small size of the country also allowed us to use a qualitative methodology while still having a reasonably representative sample. We interviewed representatives of four of the eight international hotel organisations that operate in New Zealand, or have one or more of their chains operating in New Zealand, on an almost exclusively non-equity basis. We also build hospitality research in a New Zealand context as done by Shergill and Sun (2008) in their study of tourists' perceptions towards hotel services in New Zealand. Finally we add an international business dimension to the study of hotel administration in New Zealand.

Service firms generally favour non-equity entry modes over equity entry modes (Contractor & Kundu, 1998, a; Erramilli & Rao, 1990, 1993). In the context of the lodging industry, Choi and Parsa (2012) found that as the brand equity and employee human capital of service firms increase, the entry mode seems to move from equity to non-equity entry modes. However a factor, which has received relatively little attention in the literature is what determines the choice between different non-equity entry modes (Dimou, Chen & Archer, 2003; Erramilli et al., 2002). The focus of this paper is on the two most commonly used non-equity entry modes in the hospitality industry, namely franchising and management service contracts (management contracts) (Contractor & Kundu, 1998, a & b; Pla & Leon, 2002), referred to as 'asset light' modes by industry practitioners. Franchising has been defined as a quasi-market transaction i.e. an inter-firm transaction that crosses firm boundaries, whereas management contracts have been defined as a quasi-internalised transaction i.e. an intra-firm transaction that remains within firm boundaries (Alon, Ni & Wang, 2012; Contractor & Kundu, 1998, a; Erramilli et al., 2002). In franchising, the franchisor (the foreign entrant) has very little involvement in the day to day operation of the business unit, leaving it up to the franchisee (the host country collaborator/local partner) to control. The franchisor provides only the brand name as well as marketing and technical advice (Alon et al., 2012; Contractor & Kundu, 1998, a). In management

contracts conversely, the entering firm not only leases the brand name to the host country collaborator but also secures a contract to manage the daily operations of the foreign business unit. The management contract therefore offers more strategic and operational control for the entering firm as opposed to franchising, but at the cost of being more resource intensive (Contractor & Kundu, 1998, a, b; Pla & Leon, 2002).

In this study we aim to shed new light on the determinants of non-equity entry mode choice in the service sector. To do so, we first review the literature, using transaction cost economics (TCE) and the organisational capability (OC) perspectives as the theoretical foundation of this paper. We examine three constructs under both TCE and the OC perspective. The TCE constructs are asset specificity, behavioural uncertainty and environmental uncertainty. The OC constructs are imperfect imitability, host country management capabilities and the development of the host country's business environment. We then link the TCE constructs to the OC constructs to investigate the complementarity of the two theories. We chose TCE and the OC perspective because of the characteristics of service firms outlined above and the non-equity dimension of this study. We follow the literature review by an elaboration of the methodology used in the study, with arguments about the sample, data collection and analysis. We then discuss the findings of the research, linking them back to the theory, before concluding the paper.

We aim to fill the gap in the literature on non-equity entry mode choice by using TCE and the OC perspective in unison (rather than independently) to analyse the choice between franchising and management contracts in the hotel industry, focusing on firm level tacit assets, which in this study refer to assets that are intangible in nature and are not easily codifiable. We are not aware of another study that has considered all six constructs outlined above as complementary determinants of the choice between franchising and management contracts in the hotel industry (especially in a New Zealand context). We also contribute to the literature by suggesting that behavioural uncertainty and host country management capabilities will not explain the choice between franchising and management contracts of hotels that enter a country via international strategic alliances or that use

strata title ownership structures, where several individuals own parts or 'units' of the hotel property as well as jointly owning the common areas of the hotel.

2. Literature review and research questions

2.1 Transaction Cost Economics

The transaction cost theory/transaction cost economics (TCE) refers to the trade-off between market procurement and internalisation (Williamson, 1979). In the context of this study, the theory weighs up the costs of transaction i.e. the cost of monitoring the local collaborators' behaviour in a franchising agreement against the cost of internalisation i.e. the cost of the higher resource commitment of a management contract, to determine the most appropriate entry mode. TCE is the most commonly applied theory in entry mode research due to its success in explaining the determinants for modal choice (Brouthers & Brouthers, 2003; Contractor & Kundu, 1998, a; Erramilli & Rao, 1993; Hennart, 1991; Murray & Kotabe, 1999). As a firm enters a foreign market it can choose to transfer its products or services externally across firm boundaries relinquishing much of the control to the host country collaborator or it can choose to internalise these actions retaining more of the control.

Previous research suggests that transaction cost is affected by asset specificity and uncertainty (Williamson, 1991, 1985). The uncertainty construct will be further broken down in this study to behavioural uncertainty and environmental uncertainty, as done in Brouthers and Brouthers (2003), Contractor and Kundu (1998, a) and Cho (2005). Cho (2005) evaluated how, TCE modified for service firms, explains the entry mode decisions of hotel chains, further validating TCE as an appropriate theory for this study. However, Cho (2005) applied TCE as the only theoretical basis of his paper. Our study combines TCE with the OC perspective.

2.1.1 Asset Specificity

Asset specificity refers to assets that have little or no value outside of their intended purpose/the context of the specific transaction (Brouthers & Brouthers, 2003; Anderson & Gatignon, 1986; De

Vita, Tekaya & Wang, 2011; Espino-Rodriguez, Lai & Baum, 2008; Williamson, 1991, 1985). Previous entry mode research proved empirically that asset specificity has a direct effect on the entry mode choice of firms (Cho, 2005; De Vita et al., 2011; Erramilli & Rao, 1990, 1993; Klein, Frazier & Roth, 1990). The general conclusion reached in these studies was that the higher the asset specificity, the more likely firms are to choose a governance structure with higher control. Contractor and Kundu (1998, a) measured this relationship in service firms and came to the same conclusions for tacit assets, specifically training in the hospitality sector. According to De Prijcker, Manigart, Wright and De Maeseneire (2012), Hu (1995), Kim and Hwang (1992) and Lam (1997), the higher the ‘tacitness’ of an asset the higher the likelihood that high control modes will be preferred.

Moreover, according to Erramilli and Rao (1993), Gatignon and Anderson (1988), Hennart (1991) and Hill (1990), it should be assumed that the host country collaborator will behave opportunistically if allowed to do so. These researchers suggest that as the specificity of an asset increases, so too does the cost of stringently negotiating and continually supervising/enforcing contractual agreements such as in franchising. This is the manifestation of the transaction cost created through asset specificity. As this cost increases so does the motivation for seeking more control i.e. to internalise. Thus firms will choose higher control governance structures as the cost of vertical integration (the degree to which firms own/control their upstream or downstream operations (Carney & Gedajlovic, 1991; Williamson 1979) is outweighed by the transaction cost of high asset specificity (Erramilli & Rao, 1993; De Vita et al., 2011; Hennart, 1994; Williamson, 1985). In a study of hotel chains, it was shown that franchising will be preferred until the transaction cost arising from asset specificity prompts higher control entry modes (Altinay, 2007).

Research Question 1a:

How does the specificity of a hotel chain’s tacit assets affect the hotel organisation’s choice between franchising and management contracts?

2.1.2 Behavioural Uncertainty

Behavioural uncertainty refers to the underlying uncertainty and risk of dealing with the host country collaborator. It revolves around the transaction cost of monitoring and enforcing contracts and legal agreements as well as controlling the actions of the host country collaborator (Brouthers & Brouthers, 2003; Williamson, 1991, 1985). The assumption that the local partner will behave opportunistically is at the centre of behavioural uncertainty logic i.e. the higher the behavioural uncertainty the higher the assumption of opportunistic behaviour (Anderson & Gatignon, 1986, 1988; Erramilli & Rao, 1993; Hennart, 1991; Hill, 1990). Furthermore the concept of bounded rationality needs to be considered i.e. it is impossible to foresee all eventualities and prepare for them (Brouthers & Brouthers, 2003; Chiles & McMackin, 1996; Hill, 1990; Williamson, 1979, 1991, 1985). Therefore as the uncertainty about the local partners' behaviour increases, so does the motivation to seek higher control and consequently the governance cost of preventing the expected opportunistic behaviour also increases. According to Anderson and Gatignon (1986), Chiles and McMackin (1996), Hill (1990) and Ring and Van De Ven (1992), TCE therefore dictates that firms will prefer the use of higher control modes to reduce the uncertainty.

If uncertainty about the local partner' behaviour is high, the firm will commit the resources to internalise the market entry, assuring control and lessening the uncertainty (Fladmoe-Lindquist & Jacque, 1995). Behavioural uncertainty affects service firms more deeply than manufacturing firms due to the people intensive nature of their business operations (Erramilli & Rao, 1993; Williamson, 1985).

Research Question 1b:

How does behavioural uncertainty affect a hotel organisation's choice between franchising and management contracts?

2.1.3 Environmental Uncertainty

Environmental uncertainty refers to the uncertainty/unpredictability of the business environment in the host country and revolves around the nature of the economic, fiscal and political conditions in

the country as well cultural and geographic distance (Gatignon & Anderson, 1988; Lopez-Duarte & Vidal-Suarez, 2010; Miller, 1993; Sanchez-Peinado & Pla-Barber 2006, a; Villar et al., 2012; Williamson 1991, 1985). Service firms, due to the nature of their business, generally have a lesser resource requirement than manufacturing firms in their entry modes, facilitating a rapid market exit, if needed, and lessening the importance of the environmental uncertainty (Agarwal & Ramaswami, 1992; Erramilli & Rao, 1993). Therefore service firms will generally prefer to enter the market under external modes such as franchising and will only choose to internalise if the environmental uncertainty is high and the consideration of bounded rationality increases (Altinay, 2007; Contractor & Kundu, 1998, a).

Research Question 1c:

How does environmental uncertainty affect a hotel organisation's choice between franchising and management contracts?

2.2 Organisational Capability Perspective

The organisational capability (OC) perspective has its foundation in the resource based view (RBV) (Foss, 1997) and refers to viewing a firm as a 'bundle' of resources and capabilities (Erramilli, et al., 2002; Madhok, 1996, 1997, 1998; Tan, Erramilli & Liang, 2001; Un, 2000). According to Lahiri, Kedia and Mukherjee (2012) the RBV and the OC perspective can be used to better understand the dynamics of service firms. Previous research on the OC perspective suggests that the foreign operation should be viewed as a unit for transferring the capabilities of the home country to the host country and the most efficient and effective way of transferring the capability across country borders will dictate the choice of entry mode (Collis, 1991; Barney 1991; Hu, 1995; Madhok, 1997, 1998, Teece, Pisano & Shuen, 2008; Tan et al., 2001). According to these researchers, the transfer of capabilities can occur within firm boundaries (internally) or across firm boundaries (externally). It is assumed in this theory that the internal modes are more efficient than external modes but at the cost of being more resource intensive (Luo, 2001). The concept therefore determines the choice between entry modes by evaluating the efficiency of the capability transfer in relation to its cost i.e. as the

value of the firms' capability erodes through inefficient external transfers, the firm will opt for an internal mode, as the loss in efficiency outweighs the cost of internalisation (Erramilli et al., 2002).

The OC perspective has not received nearly as much attention in the literature as TCE has for explaining specifically entry mode choice (Canabal & White, 2008). It has however been shown to be particularly effective in specifically explaining the choice between different non-equity entry modes (Erramilli et al., 2002; Madhok 1997, 1998). As the inefficiency of an external transfer (franchising) increases, the firm will choose to internalise the transfer (management contract) (Barney, 1991; Collis, 1991; Madhok, 1997, 1998). Erramilli et al. (2002) specifically endeavoured to test how effective the OC perspective is in determining the non-equity entry mode choices of international hotels chains and empirically proved that the OC perspective can be successfully used in such analyses. However, Erramilli et al. (2002) claimed that the OC perspective is more appropriate than other traditional international business theories (including TCE) for an examination of the non-equity entry mode choice of service firms and specifically for international hotel chains. Our paper conversely combines the TCE rationale outlined above with the OC perspective, responding to the call of Canabal and White (2008) for combining and integrating theories in entry mode research.

This approach is validated by Madhok (1996, 1997, 1998) who used the assumptions of opportunism and bounded rationality (the central assumptions of uncertainty in TCE) and applied them to the OC perspective. This idea is also supported by Villar et al. (2012) who suggest that although the two theories are different, their approach leads to similar implications regarding the influence of asset specificity. Madhok (1997) states however that in the increasingly dynamic global economy although TCE raises some valid considerations, the OC perspective i.e. the need for efficiency, may be a stronger driver in determining the entry mode choice, something highlighted by Teece et al. (2008).

The efficiency of capability transfer is mainly affected by three different constructs. Firstly, the imitability of the capability, which refers to the degree of which the host country collaborator can absorb/replicate a capability (Barney, 1991; Madhok, 1997, 1998; Lam, 1997). Secondly, the

availability of capable host country management, which refers to the availability of local partners with capable management staff to efficiently transfer the capability to (Dev, Brown & Zhengzhou, 2007; Erramilli et al., 2002; Madhok, 1997, 1998, Altinay, 2007; Contractor & Kundu, 1998, b). Finally the level of development in the host country's business environment is the third construct affecting transfer efficiency (Contractor & Kundu, 1998, a; Dev et al., 2007).

2.2.1 Imperfect Imitability

Imperfect imitability refers to the degree of which a firms' capabilities are embedded in the organisational routines of the firm (Barney 1991; Lam, 1997). From the OC perspective if the imitability of a firms' capabilities are imperfect, the value of the capabilities are decrease through the consequently assumed inefficient transfer to the host country collaborator (Barney, 1991). Therefore it can be expected that the higher the 'embeddedness' of the firm's capabilities i.e. they are imperfectly imitable, the more likely the firm is to choose internalised means to enter the market (Barney, 1991; Dev et al., 2007, Lam, 1997). The value of a capability is in its contribution to the competitive advantage of the firm (Collis, 1991; Dev et al., 2007; Madhok, 1996, 1997, 1998). If it is difficult to transfer the capability to a host country collaborator efficiently i.e. the local partner is unable to easily absorb/replicate the capability as intended, affecting the competitive advantage of the firm, internal modes will be favoured (Barney, 1991; Contractor & Kundu, 1998, b; Dev et al., 2007; Lam, 1997; Madhok, 1997, 1998).

For service firms this is especially critical due to the tacit nature of their assets such as industry knowledge. If industry knowledge associated with a brand (the capability of the firm) cannot be held by one person, but rather is inter-connected and shared throughout the organisation, it greatly complicates the transfer of the capability (De Prijcker et al., 2012; Dev et al., 2007; Erramilli et al., 2002; Kogut & Zander, 1993; Lam, 1997). In other words, if the service is imperfectly imitable, the local partner may not have the organisational capacity to efficiently replicate the capabilities in the foreign unit, prompting internalisation. If the capability is more perfectly imitable, it could be more easily transferred to the local partner (Barney, 1991) and therefore the firm would favour the lower cost and lesser risk of an external mode.

Research question 2a:

How does imperfect imitability of a hotel chain's tacit assets affect the hotel organisation's choice between franchising and management contracts?

2.2.2 Host Country Management Capabilities

The availability of host country management capabilities refers to the host country collaborators' possession of capable management staff (Erramilli et al., 2002). The efficient transfer of capabilities to the host country through franchising depends on the availability of capable local management (Altinay, 2007; Contractor & Kundu, 1998, b; Dev et al., 2007; Hu, 1995; Madhok, 1997, 1998). It can therefore be expected that if the management capabilities of the host country collaborator are lacking, it erodes the savings made from external modes as the service will not be delivered as intended, prompting internalisation (Dev et al., 2007; Feller, Parhankangas & Smeds, 2009; Hu, 1995; Madhok, 1997, 1998). Under optimal conditions, less resource intensive entry modes would be preferred by the entering firm, however not at the risk of destroying the value of the firms' capability through inefficient service transfer to the local collaborator. This factor is especially critical for service firms due to their reliance on people for the successful delivery of their services (Bowen & Jones, 1986; Brouthers & Brouthers, 2003; Erramilli & Rao, 1990, 1993). Therefore if the local partner is unable to perform as intended, internal modes will be favoured (Dev et al., 2007; Lam, 1997; Madhok, 1998).

Research Question 2b:

How do a host country's management capabilities affect a hotel organisation's choice between franchising and management contracts?

2.2.3 Development of the Host Country's Business Environment

The development of the host country's business environment refers to the development and stringency of the host country's legal and political system. The highest possible efficiency in transferring the capabilities across country borders is the desired outcome from the OC perspective. Firms will therefore choose low resource entry modes (external modes) until the efficiency of the

capability transfer is affected negatively by the host country's business environment (Altinay, 2007; Contractor & Kundu, 1998, a; Madhok, 1998). From this it can be inferred that as the development of a host country's business environment increases i.e. the existence of established legal systems and the enforcement of intellectual property laws, so too does the desire to use low resource entry modes (Altinay, 2007; Contractor & Kundu, 1998, a). Low development of the business environment conversely would spark fears in the foreign entrant about the possible inefficiency of external transfers, promoting the firm to internalise (Altinay, 2007; Contractor & Kundu, 1998, a).

Research Question 2c:

How does the development of a host country's business environment affect a hotel organisation's choice between franchising and management contracts?

3. Methodology

3.1 Research Design

Birkinshaw, Brannen and Tung (2011) and Doz (2011) persuasively argue that qualitative research can play an important role in international business and management literatures since it can bring deeper insights into the complex constructs and contexts studied. Alvesson (2003) argues that interviews, as a means of qualitative research, are valuable because they provide the possibility to document the ideas, experiences and knowledge of the interviewees. While acknowledging that there are potential pitfalls in using interviews in international business research, Macdonald and Hellgren (2004) also encourage more researchers to use them if appropriate attention is given to recruiting interviewees who are higher in the information hierarchy as opposed to just the organisational hierarchy. They also stress that large numbers of participants do not guarantee reliability and validity of the study and that a relatively small number of well-informed participants can be sufficient to identify meaningful patterns in an industry. In our interpretative study, a qualitative methodology was used in the form of semi-structured interviews. The interviews were conducted at the offices of the organisation, lasted for an average of one hour and were recorded and transcribed. There are three reasons for choosing this methodology.

Firstly as established in the literature review section, this specific phenomenon of non-equity entry mode choice by service firms has received relatively little attention in the literature. According to Yin (2009) qualitative methods allow for researchers to develop theoretical insights where the existing theories are incomplete or inadequate. The main advantage with this methodology is consequently that because it is exploratory in nature, it will allow for the participants to respond in their own words, as opposed to giving them fixed responses to choose from as done in quantitative methods. This was particularly emphasised in this study by quoting the respondents of the interviews. These conclusions could then potentially be a better base on which to conduct further quantitative research in the future.

Furthermore in this particular case, the effectiveness of quantitative methods would decrease as the lack of literature and past empirical research to draw on hinders the ability to draft appropriate and measurable items (Cavana, Delahaye & Sekeran, 2001). Secondly as the majority of past entry mode research has been quantitative in nature (Canabal & White, 2008; Sarkar & Cavusgil, 1996), there has recently been a growing stream of qualitative studies analysing entry modes, to which this study aims to contribute. These include entry mode choice for manufacturing firms (Kouznetov & Jones, 2009), service firms (Czinkota, Grossman, Javalgid & Nugente, 2009), retail firms (Doherty, 2000; Picot-Coupeya, 2006) and hotel organisations (Altinay, 2005, 2007; Lamminmaki, 2005). Finally, this study hopes to explore if the OC and TCE theories are complementary. As this complementarity is not widely established in the literature, a qualitative approach is an appropriate way to examine this suggestion (Edmondson & McManus, 2007).

3.2 Instrumentation and Data Collection

In qualitative research, instruments, if used at all, are traditionally derived from the properties of the setting and its actors' views of them. Relatively little standardised instrumentation is used at the outset of a qualitative research project. The researcher is essentially the main 'instrument' in the study (Miles, Huberman & Saldana, 2013). However, Miles et al. (2013) also point out that we are almost always endowed with some kind of pre-existing knowledge. At a minimum, our skills as

researchers influence us to interpret events in different ways than others might. Lee and Lings (2008) state that having some kind of framework allows researchers to structure their later analysis more easily as they have a good idea of what concepts and categories are going to be there. However researchers have to be careful to ‘let the data speak for itself’, and not bend it to fit their existing model.

Punch (2014) suggests that in qualitative research, only general questions are usually set up in advance. The argument being that until some empirical work is carried out, it is not possible (or, if possible, not sensible) to identify specific research questions. They will only become clear as the research unfolds, and as a specific focus for the work is developed. In qualitative research methods, the data are usually unstructured at the point of collection (Punch, 2014). No pre-established categories or codes are used. The structure of the data, the categories and the codes, emerge from the data during the analysis. This point about data has implications for instrumentation in qualitative data collection.

The instruments used in qualitative research have a major influence on the data collected. If only a few prepared instruments are used (i.e. interview questions, observation log books and schedules etc.), there is a risk of not being able to differentiate between useful data and irrelevant data. However, if there is too much structure it can leave researchers blind to the situational context and overly influenced by previous models. Lee and Lings (2008) recommend that it’s usually best to settle somewhere in the middle; the more exploratory the study, the less instrumentation is used. If the aim of the research is to compare multiple cases or situations, however, instrumentation will be of considerable help (Lee & Lings, 2008).

Based on the discussion above, we opted for multiple levels of interview questions moving from a general perspective to a more specific one (Yin, 2013). Although we were pursuing a consistent line of enquiry, we also allowed for the actual stream of questions to be fluid rather than rigid (Rubin & Rubin, 2011). When initially contacting the participants, we informed them that the general aims of the project are as follows:

- To gain insight on how international hotel organisations choose between franchising and management contracts when expanding internationally.

- To gain insight on how the (New Zealand business) environment affects the choice between franchising and management contracts.

An initial open-ended discussion on these two key topics was conducted in the first stage of the interview, in which we opted for general questions to facilitate the exploratory nature of the qualitative study design, as seen below:

- 1) Which entry modes has your organisation used to enter the New Zealand market?
- 2) Why did your organisation choose this/these entry mode(s)?
- 3) How does this/these entry mode choice(s) compare relative to the entry mode choices your organisation uses in other markets internationally?
- 4) How did the New Zealand business environment (i.e. political and legal and fiscal factors) affect the choice of non-equity entry mode?
- 5) If the hotel chain has entered the New Zealand market under different brands, how does the entry mode choice compare across these brands? Why is this the case?

In the second round of questions, partly incorporating responses of the interviewees from the first round of questions, we probed deeper with more specific research questions related to our research framework, as seen below:

- 6) How did the assets/resources/capabilities being transferred into New Zealand, like your management and training techniques and your specialised industry knowledge, affect the entry mode choice?
- 7) How did the ease/difficulty of transferring your brand and capabilities to New Zealand affect your entry mode choice?
- 8) How did your local partners affect the choice of entry mode?
- 9) Was there a large number of possible local partners to choose from? How did it affect your entry mode choice?
- 10) How did uncertainty about the business environment of New Zealand (such as taxation, legal factors and fiscal factors) affect your entry mode choice?
- 11) How do you perceive the development of New Zealand's business environment? How did it affect your entry mode choice?

3.3 Research Sample and Data Analysis

Initially some definitions are needed in this section:

1) Hotel chain

A hotel chain in this study, refers to either a hotel organisation that operates under only one brand name globally or a chain of a larger 'hotel group'.

2) Hotel group

A hotel group is defined in this study as an organisation, which operates more than one hotel chain globally.

The research sample was concentrated in Auckland, New Zealand's largest city and commercial hub. It was identified that seventeen international hotel organisations operate in the Auckland region (Yellow Pages Group, 2010). Of these seventeen, eight have entered or have had one or more of their chains enter New Zealand on a non-equity basis. These hotel organisations were all included in the initial sample and sent a participant information sheet. Out of these eight, four agreed to be interviewed, one of which is a single chain and three of which are hotel groups. The hotel organisations will be referred as organisation A, B, C and D. All four interview participants were top managers or executives with experience and insights into the entry mode decisions of their organisations. Please see Table A.1 for more detailed characteristics of the organisations and participants.

The qualitative data collected was analysed through the four step process suggested by Phillips (2010). The four steps are as follows:

Step 1: Observing and Searching

Remaining objective when reading through the data, keeping an open mind and reserving any prior judgement.

Step 2: Sorting and Coding

Identifying single words and short phrases i.e. meaningful units or segments of text (Hruschka, Schwartz, St. John, Picone-Decaro, Jenkins & Carey, 2004), which repeated themselves. These units/segments were then coded.

Step 3: Discovering and Coding

Establishing if any patterns arise and evaluate what the similarities and the differences are.

Step 4: Re-observe and Re-read

Re-observing the data and evaluating if any new insights present themselves.

Step 2 is captured in Table A.1. It highlights in *italics* the meaningful segments of text, which repeat themselves. Furthermore Table A.2 summarises Step 3 with the patterns, similarities and differences analysed through the lense of the conceptual framework i.e. the constructs identified in section 2. The predictions and complementarity of the main theories (TCE and OCP) are also put into focus.

4. Findings and Discussion

4.1 Asset Specificity and Imperfect Imitability

Determining if asset specificity and/or imperfect imitability have an effect on the choice between franchising and management contracts in the hospitality industry was a central aim of the paper. These constructs were explored in the interviews by examining the tacit assets possessed by the organisations such as their brand, experience, industry knowledge and their established organisational routines. Initially asset specificity was probed and a central theme, which emerged from all the interviews was the importance placed on protecting the brand/brands of the hotel organisations and how this affected their entry mode choice. The respondent from Organisation A indicated that as the organisation operates only one brand internationally, it therefore creates its competitive advantage through having the same standard across all the hotels in the chain commenting that:

“Brand standards are difficult to control, we use management contracts [because] we have a certain brand reputation we have to up keep”

Organisation C, although operating two brands (chains), and introducing a third, has also opted to use management contracts across the whole group to assure a consistent standard. It strives to keep the same standard across not only all the hotels of the various chains, but also a constant standard across the whole hotel group. The respondent comments:

“We decided we wanted to be a four star plus group and keep a consistent standard unlike other groups, which diversify and operate various star level chains”

Organisation C indicated that the only way to efficiently keep a constant standard is by retaining strategic control of their operations. Organisation D also claimed to use management contracts to assure a consistent standard across the chain in New Zealand and globally. Its respondent comments:

“We use management contracts so that the guest always receives what he or she expects from an ‘Organisation D’ Hotel”

These respondents all highlighted that management contracts were chosen to protect the reputation of the brand by assuring consistency. Brand being one factor, Organisation D further indicated that each department has its own ‘brand standard’ (organisational routines associated with the brand). This could for example be that a phone is answered in or before three rings or that a guest is addressed within twenty seconds of approaching the front desk. These brand standards have been developed over a long time frame to be what the customer would appreciate/expect in a quality hotel. However this brand and the brand standards associated with it are assets that are only valuable in the context of hotel management, i.e. they are highly specific. The experience and knowledge that the organisation has amassed to improve its operation give the organisation a competitive advantage in the international hospitality industry. The potential dissemination of this knowledge through franchising therefore prompts protection against opportunism through a management contract. The respondent from organisation D comments:

“We don’t wanna give away the tricks of the trade”

Organisation B differs from Organisation A, C and D as it has employed a diversified strategy in New Zealand (by entering with several chains operating under different star ratings). The various chains of the group consequently have all used varying entry modes. The respondent indicated that Organisation B generally uses management contracts in the higher star chains to retain control of their operation, the lower star chains conversely are more likely to be franchised. There were three reasons for this. Firstly for the higher star chains, management contracts are used to ensure the required service delivery associated with the brand and the protection of the processes developed by the organisation, as with Organisation A, C and D. Secondly the larger hotels in the organisations are more likely to be operated under management contracts to retain control of the property and because the extra cost and resource commitment of management contracts decreases relative to the increasing size of a hotel. Finally the respondent pointed out that the higher star chains in the group further have physical requirements that must be met, in terms of the facilities and aesthetic consistency among the chains. Due to this the hotels of the higher star chains are often greenfields. The asset specificity in these situations, unlike in the lower star chains, is high not only in terms of the service but also the physical surroundings in which it is delivered, consequently the use of management contracts is favoured. The lower star chains conversely are not bound to the same strict standards. This consequently lowers the importance of protecting the processes developed by the organisations and also allows for acquisitions of established properties as the facility and aesthetic requirements across those chains are more relaxed.

Asset specificity in terms of protecting their brand reputation and established processes/routines clearly affected the entry mode choice of all the organisations interviewed. The majority of the organisations operating only higher star chains with specific processes, knowledge and experience have used management contracts to enter New Zealand. This supports the arguments of Anderson and Gatignon (1986), Erramilli and Rao (1993), Gatignon and Anderson (1988) Hennart (1994) Rindfleisch and Heide (1997) and Williamson (1991, 1985) that where the specificity of an asset is

high in terms of the brand and the service, management contracts are preferred. Where the specificity is lower and there is a larger variance between the hotels of a chain, franchising is preferred.

We further explored how imperfect imitability of the firms' capabilities (the combination of the brand with the specialised processes developed by the chain) and the efficiency of transferring them, affected entry mode choice. Organisation A pointed out that it had specialised knowledge and skills in managing hotels and could not expect every partner to have the same capabilities:

“If we had just one partner it might be different but it's impossible to expect that the various owners of the hotels all have the capability to deliver our standard of service as well as we do”

Organisation B preferred franchising in the lower star hotels because it would be inefficient to use management contracts to transfer the capabilities that could be easily absorbed and replicated by a partner. Furthermore it indicated that the use of a management contract in the lower star hotels, which are generally also the smaller in size, would make the transfer even more inefficient in terms of resource deployment. However Organisation B pointed out that in the properties where the star rating is higher, management contracts are also favoured because:

“[In franchising,] it can be difficult to transfer the culture”

According to the Organisation D, effectively transferring the capabilities of a well-known brand coupled with the before mentioned 'brand standards' is best done when under the control of a management contract. The respondent indicated that even under a management contract the employees of the hotels are checked on a yearly basis by the headquarters of the organisation to ensure that they are performing to the expected standard. According to the respondent, if the operation was to be franchised, the control measures to ensure that the service is constantly delivered as expected of the brand would be too complex and management contracts are considered more efficient. This was also pointed out by Organisation B, which uses 'mystery guests' to check on the operations of their franchisees. Organisation C conversely, focusing more on the staff that deliver the service, commented that management contracts were chosen:

“[As franchising] wouldn’t allow for the philosophy of chain to be transferred as intended. This organisation has the philosophy that not only the customers are 100% satisfied but also that the staff are treated like family, with caring and commitment”

Organisation C indicated that ultimately the organisation believes that its human resources contribute to the competitive advantage of the organisation and a management contract allows for that high level of commitment to the organisations’ employees, leading to successful service delivery:

“The directors of the chain have set a style that is not bottom line oriented, we’re not focusing on immediate profit but instead focusing on the long term profitability of the organisation by building the reputation of the brand”

The respondent pointed out that this mentality would be almost impossible to transfer to third parties who have no motivation to share this ideology. Overall, imperfect imitability in terms of efficiently transferring the organisations’ capabilities to the host country did affect the entry mode choice of the organisations. The majority of them use management contracts to operate the chains where the capabilities are perceived to be more embedded and less likely to be absorbed/replicated appropriately through an external transfer, supporting the arguments and findings of Barney (1991), Dev et al. (2007), Erramilli et al. (2002), Lam (1997) and Madhok (1996, 1997, 1998).

4.2 Behavioural Uncertainty and Host Country Management Capabilities

A further aim of the study was determining if behavioural uncertainty and/or the availability of host country management capabilities affected the choice between franchising and management contracts. These constructs were probed by examining the various partners of the organisations that own the hotel properties and how these partners affected the entry mode choice. A theme that ran through all the interviews was that the relationship with the partner had a central effect on choice of entry mode. The respondent from Organisation A commented:

“It has to be a match”

This was supported by the respondent from Organisation B:

“The relationship [between the partners] is paramount”

Both behavioural uncertainty (bounded rationality and opportunism) and the efficient transfer of capabilities to a capable partner are major considerations for service firms (Altinay, 2007; Brouthers & Brouthers, 2003; Contractor & Kundu, 1998, b; Dev et al., 2007; Erramilli & Rao, 1993; Erramilli et al., 2002; Fladmoe-Lindquist & Jacque, 1995; Feller et al., 2009; Hu, 1995; Madhok 1997; 1998). It was therefore expected that the organisations would place high importance on lessening behavioural uncertainty and ensuring the efficient transfer of their capabilities and this did prove to be the case. We probed how behavioural uncertainty affected the entry mode choice of the organisations interviewed. Organisation A indicated that the uncertainty surrounding the local partner is mitigated by the use of management contracts:

“Through the use of management contracts we are able to protect our processes”

Organisation A stated that outside of New Zealand the organisation had chosen to end the relationship with a partner where the uncertainty was too high and experiences such as these have discouraged the organisation from considering franchising. Organisation D also indicated that the use of management contracts decreases the behavioural uncertainty over the partner. Its respondent pointed out that the expertise of the organisation, which has been proven to work and the established processes explored above such as the brand standards, would encourage opportunistic behaviour from the organisations’ partners:

“The use of management contracts means we don’t have to worry about creating a new world class competitor”

For Organisation B the behavioural uncertainty also affected the entry mode choice of several chains. The behavioural uncertainty of opportunism is not as significant in the lower star chains and therefore franchising is preferred. However the respondent indicated that if the partners had worked well with the organisation in the past and had proven themselves as trustworthy, the behavioural uncertainty would be lowered enough for the organisation to consider franchising even in the higher star chains. The respondent comments:

“If we have a good relationship with them and they respect the brand, franchising would be considered”

In these occasions it could be seen that behavioural uncertainty did affect the entry mode choice of the hotel organisations and supports the predictions made in our literature review (Brouthers & Brouthers, 2003; Erramilli & Rao, 1993). However in some instances the organisations employed strategies, which no longer made the behavioural uncertainty construct a direct link to entry mode choice. For example, Organisation B has strategic alliances with large partners with whom they operate internationally, entering markets jointly through franchising. Here behavioural uncertainty is a lesser consideration, as the two partners have an established mutually beneficial relationship, where opportunistic behaviour by either party would harm the long term relationship between the partners and ultimately their profitability. For Organisation C having chosen to use management contracts across the whole group and also a strata ownership structure consequently eliminates the possibility of any opportunistic behaviour. The partners/owners of the hotels each own such a small share that they have minimal involvement in the operation of the hotels and are essentially silent partners. The use of strata titles therefore allows Organisation C to retain strategic control while still receiving the benefits of a non-equity entry i.e. less risk/less resource commitment while totally reducing behaviour uncertainty. The behavioural uncertainty of opportunism is however traded for the uncertainty of having to find and deal with a large number of owners. The respondent indicated that the organisation decreases these uncertainties through the use of minimum lease rentals and further indicated that there is always willing investors wanting to own part of a hotel:

“...[because] owning a hotel is sexy”

Organisation D also uses a strata ownership structure at times and therefore in these cases behaviour uncertainty also doesn't affect the entry mode choice as with organisation C. In these instances the proposed theory cannot be adequately applied to explain entry mode choice as in the case of Organisation B, behavioural uncertainty is lessened through the use of large international partners. In the case of Organisation C and to some extent Organisation D, through the use of a strata title

ownership structure behavioural uncertainty is no longer a factor to be considered. In terms of the OC perspective's availability of host country management capabilities construct, these cases also lie outside the applicability of the theory. This is because in the case of Organisation B there is no *local* partner in some franchise agreements, in the case of Organisation C and partly Organisation D the strata ownership structure only allows for the use of a management contract and the availability or non-availability of capable local partners therefore had no effect on the entry mode choice. It was explored if the availability of host country management capabilities affected the entry mode choice of the organisations. Organisation A indicated that the brand standard is most easily up kept through the use of management contracts:

“If you want something done right you have to do it yourself”

The respondent pointed out that it would be inefficient to transfer the capabilities of the organisation to various partners. To ensure a consistent service, management contracts would be much more efficient than continually enforcing the actions of the potential franchisee. This was also pointed out by organisation D where a consistent standard is also of high importance to the group. The respondent pointed out that due to the size of the organisation consistency would be impossible to keep up under franchise agreements. For organisation B, excluding the incidents mentioned above, there could be a link drawn between the availability of host country management capabilities and the entry mode choice. The respondent indicated that in the lower star chains the capabilities could efficiently be transferred externally without affecting the competitive advantage of the chain and franchising would consequently be chosen. Furthermore the respondent highlighted that if an established partner, who has dealt with the organisation for some time and is able to replicate the capabilities of the chain appropriately, showed interest in being a franchisee, then the organisation would consider franchising even in their higher star chains. Overall, the capabilities of the host country management do affect the entry mode choice of the hotel organisations interviewed supporting the arguments of Dev et al. (2007), Erramilli et al. (2002), Feller et al. (2009), Hu (1995) and Madhok (1997, 1998). However the theory can become inapplicable under certain circumstances (e.g. those related to international alliances and strata titles).

4.3 Environmental Uncertainty and Development of the Host Country's Business Environment

Determining how environmental uncertainty and/or the development of the host country's business environment affect the choice between franchising and management contracts was the final aim of the paper. The assumption that environmental factors would have a lesser effect on service firms than on manufacturing firms, which have higher investment in physical assets, proved to be well founded (Brouthers & Brouthers, 2003; Erramilli & Rao, 1990). Furthermore the organisations interviewed all generally use non-equity entry modes, reducing the capital investment of their entry further. The market exit of the organisations is therefore greatly facilitated and is consequently a lesser factor for concern. The organisations all indicated that the environment had a limited or no effect on entry mode choice.

Organisation A indicated that the environmental uncertainty was low in New Zealand but the entry mode choice was still a management contract and not franchising as the theory would suggest. Organisation B indicated that often the entry into a country is just opportunity based and as all the brands of the chain are present in New Zealand under different entry modes, it also appears that environmental uncertainty has not affected the entry mode choice of the organisation. Organisation C also indicated that the environmental uncertainty was low in New Zealand yet the organisation operates under management contracts. For organisation D environmental uncertainty also appeared to have no effect on entry mode choice. All the organisations indicated that this would not be a concern, when considering the minimal risk of non-equity entry modes, a larger consideration is where the guests want to go on holiday. Thus environmental uncertainty, in the case of this particularly low risk non-equity strategy, has virtually no link to the entry mode choice of the organisations. The respondent from Organisation D summarised:

“We are where our customers expect us to be”

As with environmental uncertainty the development of the host country's business environment also had no effect on the entry mode choice of the organisations. Although all organisations thought that

New Zealand's business environment was well developed, all of them apart from some chains in Organisation B used management contracts. Thus our findings show that there is no real link between the development of New Zealand's business environment and the entry mode used by the organisations interviewed.

5. Conclusions

Service firm entry mode literature has in the past predominantly focused on the choice between equity and non-equity entry modes. The focus of this study is on the less examined choice between different non-equity entry modes. TCE and the OC perspective are the theoretical lenses used in this study. We find that these two schools of thought complement each other in our research context (see Table A.2). Three constructs from each theory were examined through interviews with industry representatives to evaluate how relevant they are as determinants of non-equity entry mode choices.

While examining asset specificity and imperfect imitability, all the organisations used management contracts where asset specificity was high and organisation B used franchising where asset specificity was lower. Furthermore all the organisations used management contracts where their capabilities are perceived to be imperfectly imitable and organisation B used franchising in the lower star chains where the organisations' capabilities are not perceived as imperfectly imitable. This suggests that both constructs are determinants of entry mode choice and they had the same effect on all the organisations interviewed.

Examining behavioural uncertainty and the availability of management capabilities showed that behavioural uncertainty was a factor affecting the entry mode choice of Organisation A and B but not organisation C (and partly D) due to their use of strata titles. The availability of host country management capabilities was a factor affecting the entry mode choice in the same instances for Organisation A, B and D (partly). The applicability of both constructs was further lessened in the case of Organisation B as it uses large international alliance partners (for franchising).

This research contributes to the literature by building on underrepresented service firm entry mode research (Brouthers & Brouthers, 2003; Canabal & White, 2008; Werner, 2002). A number of recent studies called for more development in service firm entry mode literature (Leon-Darder et al., 2011; Pla-Barber et al., 2010). A further contribution is that the study addresses the disparity in the literature between equity and non-equity entry mode studies, as the choice between different non-equity modes has been largely overlooked by researchers, apart from some notable exceptions (Dev, Erramilli & Agarwal, 2002; Dimou et al., 2003; Erramilli et al., 2002). This is surprising as non-equity entry modes have become increasingly popular, especially among service firms (Contractor & Kundu, 1998, a, 1998, b; Cunill & Forteza, 2010; Dev et al., 2007; Erramilli et al., 2002; Sanchez-Peinado & Pla-Barber, 2006, a, 2006, b). According to Cunill and Forteza (2010), Erramilli and Rao (1990) and Pla-Barber et al. (2010), there is a distinction between investment and control in the service sector as a high level of control can be achieved without a large investment. The ability to expand internationally at lower cost and risk, while still being able to retain control, increases the attractiveness of non-equity entry modes. The hotel sector specifically, being capital-intensive, has tended to separate ownership of the physical hotel and the managerial skills to operate it (Brown et al., 2003; Contractor & Kundu, 1998, a; Cunill & Forteza, 2010).

Finally this research contributes to the literature of transaction cost economics (TCE) and the organisational capability (OC) perspective (and more broadly, the resource based view), leading theories in entry mode research (Villar et al., 2012). Cho (2005), Dev et al. (2002) and Erramilli et al. (2002) used TCE and the RBV as their theoretical foundation in non-equity entry mode research. However, they used TCE and the RBV independently and did not consider them in unison. Espino-Rodriguez et al. (2008) combined TCE and the RBV to examine hotel outsourcing decisions. However they did not focus exclusively on non-equity entry modes and made asset specificity the central determinant, not focusing on imperfect imitability.

Besides the contributions to the literature, this study also has practical implications. The research is relevant to the hotel industry, which has observed an increasing propensity of international hotel

organisations growing their portfolios through non-equity rather than equity entry modes¹. Entry mode choice is a nuanced decision and it is important for practitioners to understand that non-equity entry modes have their own variations that will affect the applicability of the determinants that explain their choice. Notably, while the availability of managerial capabilities and behavioural uncertainty related to the foreign subsidiary's management are important determinants of foreign non-equity entry mode decisions, the importance of these factors can be lessened through the use of strata titles and international strategic alliances.

This moves us beyond Chen and Dimou (2005) who found that although there were similarities between franchising and management contracts, the distinguishing features, in terms of control over the hotel's operation and the content of tacit knowledge, are strong enough to justify a different evaluation and treatment of these modes. The use of strata titles allows organisations to retain strategic control while still receiving the benefits of a non-equity entry mode, significantly reducing behavioural uncertainty as small owners have minimal involvement in the operations of the hotel. Moreover where the firm has international strategic alliances with large partners, the risk of opportunism and behavioural uncertainty is lower, encouraging franchising. It is in fact possible that contractual agreements in the hotel industry will evolve from simple franchise and management contracts to more complex resource-sharing, non-equity agreements based on strategic alliances (Chathoth & Olsen, 2003).

¹ InterContinental Hotels Group (IHG), for instance, has increased the share of its rooms under franchised/managed operations from about 93% to over 99% in the last ten years, with the profit share of franchised/managed operations increasing from 67% to over 88% in 2004-2013, according to InterContinental Hotels Group (2004, 2013). Interestingly, over 50% of IHG's global new room pipeline is management contracts, while in 2013 managed contracts constituted 26% of rooms compared to 19% in 2004. A similar trend toward non-equity entry modes can be observed at Accor, which has been actively disposing of its owned properties. The strategy employed by Accor is that after the sale, the hotel remains in the Accor network under a management contract or franchise agreement. In 2012, 57% of new openings were under management contracts and 28% under franchise agreements comprising portfolio of 43% owned/leased, 25% franchised and 32% managed hotels. By 2016, Accor has committed that 80% of their hotels will operate on a non-equity basis, aiming for a portfolio of 20% owned/leased, 40% franchised and 40% managed hotels, according to Accor (2013).

Furthermore the research highlights that franchising can also be considered for higher star chains if the hotel organisation builds a good relationship with a local partner and the partner respects the brand standards. This goes beyond the simple recommendations of some authors to use franchising only in lower star chains (Chen & Dimou, 2005). It also contributes to the arguments of Whitla, Walters and Davies (2007), that global strategies are more appropriate for the high (rather than low) end of the hotel sector, which is a potential implication for corporate-level growth strategies i.e. both franchising and management contracts can be suitable expansion modes for high-end hotels in global markets.

Finally, our study offers a unique perspective of the Asia Pacific region, one of the fastest growing and potentially most value enhancing regions for the global hotel industry in the decade to follow (Lee, 2008)². Our research highlights the importance of firm-specific factors over country-specific factors in entry mode choice, even in this geographical context. Hotel organisations should therefore consider focusing on how to transfer their services to the host country, without affecting the competitive advantage of the firm through potential opportunism or inefficiency, as opposed to focusing too heavily on the factors related to the business environment.

The limitations of the study include investigating only one industry, through a qualitative methodology where the results may not be generalisable and doing so with an arguably limited sample. As we interviewed only one manager/executive from each organisation we were moreover not able to triangulate our findings through interviews with other stakeholders. Furthermore qualitative methods are not traditionally used in studies aiming to validate or confirm theories but

² InterContinental Hotels Group (IHG), for example, has 18% of its global new room pipeline coming from the Asia Middle East and Africa region that constituted 9% of its 2013 room count, with another 30% of new room count coming from China that constituted 10% of its 2013 room count, according to IHG (2013). Accor highlights even more strongly the increasing interest of large hotel organisations in the Asia Pacific region. While Accor's home base of Europe still has the largest share of the organisation's hotel portfolio with 61%, there are only 31,000 rooms in the pipeline for the region. In contrast, the Asia Pacific region, which with 24% of the hotel portfolio has the second largest share, has a staggering 67,000 rooms in the pipeline, according to Accor (2013).

rather in studies aiming to develop new theories. Future research may test how the studied theories apply across several industries in a quantitative study. It should also be evaluated whether and how well these theories complement each other when it comes to other types of entry modes.

Appendix A

Table A.1: Description of the sample and key findings/comments from the participants

Organisation (Key characteristics)	Franchising (Key findings/comments)	Management Contracts (Key findings/comments)
<p>Organisation A</p> <p>Interviewee: General Manager of the flagship hotel in NZ</p> <p>1 brand internationally</p> <p>4*</p> <p>Only management contracts in New Zealand</p>	<p>Too high <i>behavioural uncertainty</i> in this entry mode resulted in termination of franchise agreement in one other country</p>	<p>Chose this because of <i>brand reputation</i> (and because they only have one brand internationally)</p> <p>They also chose it because they have specialised knowledge and skill in managing hotels and would not expect other owners to have the same <i>capability</i></p> <p>Management contracts (MCs) allow us to <i>protect our processes</i></p>
<p>Organisation B</p> <p>Interviewee: Regional director of the organisation (highest-level executive for NZ and Australia)</p> <p>A number of chains globally and in New Zealand</p> <p>Various star ratings</p> <p>Mix of franchising and management contracts</p> <p>Use of international strategic alliances for franchised operations in New Zealand</p> <p>Some use of strata titles in New Zealand</p>	<p>Used for lower star chains</p> <p>Used for acquired physical facilities</p> <p>Used for facilities where aesthetic requirements do not have to be <i>rigidly uniform</i></p> <p>Franchising preferred because it would be inefficient to use MCs to <i>transfer capabilities</i> that could be easily <i>absorbed and replicated</i></p> <p>The <i>behavioural uncertainty</i> of <i>opportunism</i> is not as significant in the lower star chains</p> <p>If we had a <i>good relationship</i> with a partner and they <i>respect the brand</i>, franchising would be considered for higher star chains too</p> <p>Where the firm has international <i>strategic alliances</i> with large partners, the risk of <i>opportunism</i> and <i>behavioural uncertainty</i> in franchising is lower</p>	<p>MCs in the higher star chains to <i>retain control</i> of their operation, assure required service levels and <i>protect processes</i> developed by organisation</p> <p>Used for larger hotels</p> <p>Used for higher star hotels which are often greenfield builds</p> <p>Used where it is important to <i>transfer the organisational culture</i>—this is difficult in franchising</p>

<p>Organisation C</p> <p>Interviewee: Regional director of the organisation (highest-level executive for NZ)</p> <p>3 brands in NZ, all positioned at 4.5*</p> <p>Management contracts for all of these brands in NZ</p> <p>Strata titles for all of these in New Zealand</p>	<p>Franchising wouldn't allow the philosophy of the chain to be <i>transferred as intended</i> (especially when it comes to how staff are treated—i.e. like family)</p> <p>It would be <i>impossible to transfer</i> long-term orientation to franchisees</p>	<p>Used MCs to assure <i>consistent standards</i> (chose to have 4* for all three chains); they thought the only way to achieve this is to <i>retain control</i></p> <p>The use of <i>strata titles</i> allows the organisation to <i>retain strategic control</i> while still receiving the benefits of non-equity entry, totally reducing <i>behavioural uncertainty</i> as small owners have minimal involvement in operations</p>
<p>Organisation D</p> <p>Interviewee: General Manager of the flagship hotel in NZ</p> <p>A number of chains globally</p> <p>4 to 5*</p> <p>1 of these in NZ (5*)</p> <p>Management contracts only in New Zealand, with these types:</p> <ul style="list-style-type: none"> -One investor -Group of investors -Strata titles 	<p>If the operation was franchised, the <i>control</i> measures to ensure <i>service consistency</i> would be too complex</p> <p>Franchising would encourage <i>opportunistic behaviour</i></p>	<p>Used MCs to meet global <i>customer expectations</i> and ensure <i>organisational routines (brand standards)</i> are followed</p> <p>They do not want to give away the tricks of the trade related to the <i>organisational routines</i></p> <p>Management contracts ensure that “we don't have to worry about creating a new world class competitor”</p>

Table A.2: Main constructs and a summary of the results for how these constructs matter for the four organisations i.e. for explaining the choice between franchising and management contracts.

Transaction Cost Economics (TCE) Constructs	Organisational Capability Perspective (OCP) Constructs	Org. A	Org. B	Org. C	Org. D
<p>Asset specificity (AS)</p> <p>Tacit assets such as brand, experience, industry knowledge and organisational routines</p>	<p>Imperfect imitability (II)</p> <p>Firm's capabilities—such as brand and specialised processes—and the efficiency of transferring them</p>	<p>AS matters</p> <p>II matters</p>	<p>AS matters</p> <p>II matters</p>	<p>AS matters</p> <p>II matters</p>	<p>AS matters</p> <p>II matters</p>
<p>Behavioural uncertainty (BU)</p> <p>Bounded rationality and opportunism</p>	<p>Host country management capabilities (MC)</p> <p>Efficient transfer of capabilities to a capable partner</p>	<p>BU matters</p> <p>MC matter</p>	<p>BU matters</p> <p>MC matter</p> <p>Except for international strategic alliances where both BU and MC don't matter</p>	<p>BU and MC don't matter (because of exclusive use of strata titles)</p>	<p>BU matters</p> <p>MC matter</p> <p>Except for strata titles where neither BU nor MC matter</p>
<p>Environmental uncertainty (EU)</p> <p>Political, economic, legal and cultural factors</p>	<p>(Development of the host country's) business environment (BE)</p>	<p>EU doesn't matter much</p> <p>BE doesn't matter much</p>	<p>EU doesn't matter much</p> <p>BE doesn't matter much</p>	<p>EU doesn't matter much</p> <p>BE doesn't matter much</p>	<p>EU doesn't matter much</p> <p>BE doesn't matter much</p>

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