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The influence of family character on the choice of foreign market entry mode: An analysis of Spanish hotel chains

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ABSTRACT

Many studies have addressed how family character can influence the internationalisation process of family businesses. Nevertheless, the results obtained have not been conclusive. Depending on the perspective adopted, family businesses can be more or less averse to risk, more or less willing to relinquish their control, have a higher or lower limitation of resources, etc. Moreover, all these factors may influence the international strategies of family businesses. Drawing on the stewardship theory, this study analyses how family character affects the choice of foreign market entry modes by Spanish hotel chains.

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1. Introduction

International strategies have received extensive attention in the family businesses (FBs) literature (Lin, 2012; Sciascia, Mazzola, Astrachan, & Pieper, 2012). FBs have certain characteristics that can make their international strategies different from those implemented by non-family businesses (NFBs).

Previous studies on the internationalisation of FBs have not reached conclusive results on whether these firms have a higher or lower propensity to internationalise than NFBs. The wide variety of theories used by past studies, the different measures of the family character they employed, and the influence of other factors, such as those industry-specific, may be some of the reasons for these inconclusive findings. Hence, Kontinen and Ojala (2010) claim that more studies on FBs focusing on a single industry are needed, especially in the service sector, since it has been less studied. Therefore, our study aims to fill this research gap, focusing on a single service industry: the Spanish hotel sector.

Even though there is a high percentage of internationalised FBs in the Spanish hotel sector (Andreu, Claver, Quer, & Rienda, 2018), there are very few studies that analyse how the family character of these organisations influences their international strategies. In addition, although entry mode choice has been extensively addressed in the international business literature (Claver, Rienda, & Quer, 2007), few studies have analysed this topic in the case of FBs, whose characteristics may affect that choice (Gallo, Arino, Manez, & Cappuyns, 2002). For this reason, drawing on the stewardship theory, our aim is to provide new evidence on how the family character of a business may influence the international entry strategies of Spanish hotel chains (Davis, Schoorman, & Donaldson, 1997; Donaldson & Davis, 1991).

The following section carries out a theoretical review of entry mode decisions by FBs in the hotel sector, and proposes several hypotheses. Then, the empirical study is described and the results are presented and discussed. Finally, we highlight the main contributions and limitations of our study, as well as its limitations and future lines of research.

2. Family character and internationalisation

Although there is no consensus about the relationship between family character and firm internationalisation, in the case of the Spanish hotel sector, we could expect a positive relationship, given the high level of internationalisation of Spanish hotel chains and the high percentage of FBs in this sector (Andreu, Claver, & Quer, 2017; Andreu et al., 2018).

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The stewardship theory provides useful theoretical underpinnings for this positive relationship. One of the basic ideas of this theory is that the interests of the managers may be aligned with those of the owners (Lee & O'Neill, 2003). According to this theory, FBs have unique characteristics due to the socio-emotional connection of owners and managers with the business (Sciascia et al., 2012). The business is considered as a way to support the family in the future, thus giving continuity and security to future generations (Miller & Le Breton-Miller, 2006; Miller, Le Breton-Miller, & Scholnick, 2008). In order to guarantee their long-term continuity and survival, FBs will tend to implement fast growth strategies, which may lead them to go global (Zahra, 2003).

Gallo, Tapies, and Cappuyns (2004)) suggest that the strong desire to maintain control and a specific attitude towards risk are internal characteristics of FBs that influence their international strategies. The desire to preserve the company for family members of future generations leads to the adoption of strategies that enable them to continue maintaining the majority control, although this implies a greater risk (Strike, Berrone, Sapp, & Congiu, 2015). Some previous studies observed that FBs are more willing to take risk, that is, they are less risk-averse in order to create value and protect the family wealth (Fernández & Nieto, 2005; Peng & Jiang, 2010).

Within the family character of the business, we can make a distinction between family ownership and family involvement in management. FBs can be defined by the percentage owned by family members and by the degree of control of the management (Arregle, Duran, Hitt, & van Essen, 2017). The levels of ownership and family control influence business decisions (Christman, Chua, & Sharma, 2005).

2.1. Family ownership and entry mode choice

Several studies suggest that family ownership conditions strategic decisions, particularly when the percentage of participation in the capital is significant (Zahra, 2003). Internationalisation can be essential for the long-term success of the FB and increase employment opportunities for family members. Therefore, the owners will pursue this strategy even though there is a high risk. In short, family participation in the capital of the business reduces risk perception of international activities.

The choice of foreign market entry mode is a key decision of the internationalisation process. In general, the options that hotel companies have to establish themselves in other countries can be grouped into two large groups, depending on whether foreign direct investment (FDI) is carried out or not. The firms opt for modes that imply FDI when they want to maximise control and are in a position to assume a greater commitment in terms of resources and risk (Brouthers & Hennart, 2007). Conversely, when the firm does not make an investment, it will opt for a contractual form, with management agreements and franchises being most common modes in the hotel sector (Dimou, Chen, & Archer, 2003; Kruesi, Kim, & Hemmington, 2017). Lease agreements are also extensively used by hotel companies. Although being contractual modes, they are closer to equity-based entry modes as they usually imply capital investment as well (Kruesi, Hemmington, & Kim, 2018).

As we pointed out above, FBs that have a family participation in their capital tend to perceive a lower risk in the internationalisation strategy. Therefore, they tend to use risky entry modes that involve a larger resource investment, enabling them, in turn, to gain greater control of international activities. This leads us to propose:

Hypothesis 1. The percentage of capital in family hands is positively related to the choice of foreign market entry modes that involve a higher resource commitment.

2.2. Family involvement in the management and entry mode choice

Family involvement in management helps to curb the opportunism of managers and reduces information asymmetries between the owners-managers and other members of the family (Zahra, 2003). The stewardship theory suggests that family involvement increases the identification with the business and motivates managers to make decisions that improve firm's competitive position (Pierce, Kostova, & Dirks, 2001).

This involvement in the management aligns the objectives of the managers with those of the business. Therefore, owners and managers will work together to define the company's mission, design its strategy and develop effective forms of achieving its objectives. This may lead managers to pursue internationalisation as a form of preserving the business, increasing its legitimacy and improving its profitability for future generations.

Furthermore, as family involvement in management increases, the risk perception associated with complex investment decisions of the internationalisation process decreases (James, 1999). This leads us to expect that as the number of family members involved in the management of the business increases, the perceived risk associated with entry strategies that imply a greater resource commitment will decrease. Thus, we propose:

Hypothesis 2. The involvement of family members in the management of the business is positively related to the choice of foreign market entry modes that involve a higher resource commitment.

3. Methodology

3.1. Sample

In order to test our hypotheses, we focused on the Spanish hotel chains included in the 2016 Alimarket Hotel and Catering Yearbook. Only those chains with at least one hotel abroad were considered. In 2016, there were 76 internationalised Spanish hotel chains with a total of 981 hotels abroad, this being the sample of our study.

As for business type, 40 out of the 76 internationalised hotel chains are FBs (52.6 %), that is, with some degree of family involvement in the ownership and management, while 36 (47.4 %) are NFBs. The 40 FBs have 596 hotels abroad, while the 36 NFBs have 385 hotels overseas.

3.2. Variables

3.2.1. Dependent variable

3.2.1.1. Entry mode. This is a dummy variable with two values: (0) for those entry modes that do not involve an investment, such as franchises and management agreements; and (1) for those entry modes involving a higher level of resource commitment and risk, such as lease agreements and FDI. As stated above, the latter entry modes allow greater control over international activities (2018, Dimou et al., 2003; Kruesi et al., 2017). Past studies on entry mode choice used a similar variable (Andreu, Claver, & Quer, 2017; Brouthers & Brouthers, 2003; Ekeledo & Sivakumar, 2004; Erramilli & Rao, 1993; Martorell, Mulet, & Otero, 2013; Pla-Barber, Sánchez-Peinado, & Madhok, 2010).

3.2.2. Independent variables

3.2.2.1. Family ownership and management. According to Abdellatif, Amann, and Jaussaud (2010)); Kraus, Mensching, Calabròb, Cheng, and Filser (2016)) and Lin (2012), the two most commonly used criteria for determining the family character of a business have been the ownership and management in family hands. Hence, these two variables were measured using the

Table 1
Descriptive statistics and correlation matrix.

Variables	Mean	SD	VIF	1	2	3	4	5	6	7	8	9
Entry mode	0.69	0.46	–	1								
Family ownership	45.98	42.29	3.53	0.111**	1							
Family management	18.71	28.54	2.89	0.099**	0.580**	1						
Cultural distance	7.13	3.84	1.73	0.021	0.165**	0.002	1					
Institutional distance	1.06	1.01	2.68	0.342**	0,108**	0.049	0.574**	1				
Market attractiveness	4.09	0.59	1.93	0.344**	−0.004	−0.108**	−0.134**	−0.621**	1			
Firm size	4.33	0.62	1.84	0.106**	0.073*	−0.247**	0.031	−0.033	0.083**	1		
International experience	20.83	9.03	3.71	0.142**	0.425**	−0.300*	0.183**	0.043	0.105**	0.639**	1	
Hotel category	4.24	0.74	1.18	0.005	0.184**	0.103**	0.336**	0.281*	−0.191**	0.087**	0.210**	1

** $p < 0.05$.
* $p < 0.1$.

percentage of the firm's equity held by family members and the percentage of family members in board management positions, respectively. Both measurements have been used in previous studies on FBs (Sciascia et al., 2012; Zahra, 2003).

3.2.3. *Control variables*

We have also included several control variables associated with environmental- and firm-specific factors, which may also affect entry mode choice.

3.2.3.1. Cultural distance. Zhao, Luo, and Suh (2004)) suggest that cultural distance is one of the most commonly used variables for measuring external uncertainty. Cultural distance refers to the possible differences existing in the way in which the individuals of different countries observe certain conducts, which will influence the feasibility of transferring work practices and methods from one country to another (Hofstede, 1980). The cultural distance between Spain and each host country was measured using the Kogut and Singh's (1988) index, based on the six dimensions of Hofstede, Hofstede, and Minkov (2010)).

3.2.3.2. Institutional distance. The institutional distance refers to the differences or similarities in the regulations and standards established in the host country with respect to those of the home country. The larger the institutional differences, the greater the difficulties that the firm will have to establish in the host country, due to the higher economic risk, political uncertainty, information asymmetries, administrative and organisational costs, and riskier relationships with local institutions (Pinto, Ferreira, Falaster, Fleury, & Fleury, 2017). We measured institutional distance using the six dimensions of the *Worldwide Governance Indicators* (WGI) of the World Bank (Kaufmann, Kraay, & Mastruzzi, 2009). Based on these dimensions, we calculated the institutional distance between Spain and each host country using the same methodology employed in the Kogut and Singh (1988) index.

3.2.3.3. Market attractiveness. In order to measure the attractiveness of the destination, we used the income from tourism activities in each country. These data are published by the *United Nations World Tourism Organization* (UNWTO, 2017). This measure has been used in previous studies focused on the hotel sector (Andreu et al., 2017b; León-Darder, Villar-García, & Pla-Barber, 2011; Pla-Barber, León-Darder, & Villar, 2011). We applied a logarithmic transformation to normalise the distribution of this variable.

3.2.3.4. Firm size. The size of the firm determines the availability of resources and this may affect the choice of entry modes involving a higher or a lower resource commitment (Contractor & Kundu, 1998; Martorell et al., 2013). To measure firm size we considered the total number of rooms of the hotel chain, with a logarithmic transformation (2017b, Andreu et al., 2017a; Camisón, 2000).

Table 2
Binomial logit model estimates.

Variables	Model 1 *B*	Model 2*B*	Model 3 *B*
Family ownership (H1)		0.001	−0.018***
Family management (H2)		0.018***	0.026***
Cultural distance (*control*)	0.146***		0.159***
Institutional distance (*control*)	−1.023***		−0.926***
Market attractiveness (*control*)	0.612***		0.763***
Firm size (*control*)	−0.458***		−0.808***
International experience (*control*)	−0.039***		0.026
Hotel category (*control*)	0.315***		0.253**
Chi-squared	359.366***	60.539***	360.732***
% correctly classified	76.1 %	68.1 %	77.4 %

*** $p < 0.01$.
** $p < 0.05$.

3.2.3.5. International experience. Agarwal and Ramaswami (1992) pointed out that firm international experience is another determinant of entry mode choice. A greater international experience reduces the internal uncertainty of international activities (Driha & Ramón, 2011). This reasoning is associated with the gradual internationalisation process suggested by the Uppsala Model (Johanson & Vahlne, 1977; 1990). Firm international experience was measured using the total number of years since the opening of the first hotel abroad by each company (2011, Driha & Ramón, 2011; León-Darder et al., 2011; Martorell et al., 2013; Pla-Barber et al., 2010).

3.2.3.6. Hotel category. It is expected that the higher the level of the intangible assets offered by the hotel, the greater the control that a hotel chain needs to exert in order to keep the quality standards. In the hotel industry, the intangibility of services increase with the number of stars (Brown & Dev, 2000). Thus, we measured the importance of the intangible assets using a variable with 5 categories, depending on the number of stars of each hotel.

4. Results and discussion

Table 1 shows the main descriptive statistics of the variables, the bivariate correlations and the variance inflation factor (VIF). The highest VIF is 3.71, which is below 10, the cut-off point recommended by Kutner, Nachtsheim, Neter, and Li (2005). This enables us to rule out the presence of multicollinearity in our data.

In order to test our hypotheses, we employed a binary logistic regression, widely used in past studies on entry mode choice (Andreu et al., 2017b; Brouthers & Brouthers, 2003; Ekeledo & Sivakumar, 2004; Erramilli, Agarwal, & Dev, 2002; Quer, Claver, & Andreu, 2007). Table 2 reports the results.

Model 3 shows a negative relationship between family ownership and the use of entry modes involving a higher resource commitment and risk. Therefore, we obtained the opposite result to that proposed in Hypothesis 1. This suggests that as family ownership in the hotel chain increases, family members become more risk-averse and prefer entry modes that do not imply capital investment abroad, although this means losing control of the international activity. Therefore, in this case, the ideas proposed by the stewardship theory are not applicable. This result is in line with that obtained by Arregle et al. (2017) who found a negative relationship between family ownership and level of firm's internationalisation. A possible explanation for this result is that as family ownership increases, using entry modes that involve a greater resource investment could put the firm's results at risk, at least in the short term, and this could affect the profits and dividends to be shared between owners and shareholders.

With regard to Hypothesis 2, family involvement in the management of Spanish hotel chains does seem to positively influence the decision to enter new markets through high-commitment entry modes. Thus, Hypotheses 2 is supported. This finding suggests that family's involvement in the management minimises the perceived risk of these entry modes—namely, lease agreements and FDI—, prioritising the desire to maintain the control of international activities and ensuring the continuity of the business in the long term, as proposed by the stewardship theory.

As for control variables, all of them turned out to be statistically significant except for international experience. When there is a greater cultural distance, Spanish hotel chains opt to enter through high-commitment entry modes, possibly due to the greater difficulties when working with local partners. Conversely, regarding institutional distance, the greater differences in terms of regulations and standards lead Spanish hotel chains to enter with a local partner, maybe due to the instability and uncertainty that this environment generates. The influence of market attractiveness turned out to be positive. Hence, the greater the tourism income in a country, the more willing the Spanish hotel chains will be to commit resources, given that they will have more possibilities to get a return on the investment. Finally, firm size and hotel category have also been related to entry mode choice. Firm size shows a negative relationship with the dependent variable, thus suggesting that larger sized hotel chains can have difficulties to keep growing assuming the ownership or lease of the new hotels. This may be due to the fact that these hotel chains already own a high percentage of hotels in their portfolio and their indebtedness level may be high, together with the high capital investment that a new hotel property requires. With regard to the hotel category, our findings suggest that as the number of stars of the hotel abroad increases, the importance of maintaining the quality levels and brand image of the hotel chain may lead it to opt for assuming greater control through entry modes requiring a higher resource commitment.

5. Conclusion

Drawing on the stewardship theory, this study has analysed whether family character influence the choice of foreign market entry mode of Spanish hotel chains, The results show that a relationship exists between family involvement—in the ownership and management—and entry mode choice. More precisely, we found that hotel chains with a lower percentage of family ownership and those with a higher family involvement in the management opt for entry strategies that involve a higher risk and resource commitment.

Our study provides new empirical evidence to support that FBs differ from NFBs in their internationalisation strategies, more specifically with respect to entry mode choice, a research topic that has received less attention from the literature on FBs' internationalisation (Claver et al., 2007). Furthermore, it also contributes to the study of the choice of entry mode in the hotel sector, which has received less attention in comparison with manufacturing industries (Kruesi et al., 2018; Pla & Ghauri, 2012).

As for managerial and administrative implications, our study allows managers of hotel FBs to learn about different host country factors that may condition the choice of entry strategies, such as institutional distance, cultural differences, and market attractiveness. Learning about these factors and knowing how they affect the business can help managers to make decisions on entry modes abroad. Family involvement also conditions this choice, so it should be taken into account to prevent family character from hindering the internationalisation process.

Finally, we should point out the limitations of our study which open future lines of research. First, our study is based on secondary data sources. For this reason, we have not considered the strategic objectives of the managers when making decisions about international expansion, as well as their real interests, level of professionalisation, and the number of years that they have been working in the company. FBs can be very heterogeneous given that they have different corporate cultures, values and behavioural patterns. Therefore, it would be necessary to analyse these differences in more depth, gathering information based on primary sources. Furthermore, our study is focused on one single industry and on one specific home country. This implies that the results cannot be directly extrapolated to other industries and countries.

Moreover, future studies could consider other variables that may determine entry mode choice, such as family generation, whether the CEO is a family member, the number of years that he/she has held the position, and the level of indebtedness as an indicator of resource availability (Peng & Jiang, 2010; Zahra, 2003). Further research is also needed in order to analyse the relationship between family character, strategy and performance, in line with past studies such as those by Boyle, Pollack, and Rutherford (2012)); García-Castro and Aguilera (2014), and Kim and Gao (2013).

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