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FOREIGN MARKET ENTRY MODE CHOICE OF HOTEL COMPANIES: DETERMINING FACTORS

Abstract

Decisions regarding firm internationalisation, especially when it comes to choosing which market entry mode to use, have been one of the most frequently discussed topics in academic literature in the last few decades. Many studies have been conducted from different perspectives, either focusing on one or several sectors or analysing companies from a specific country. Nevertheless, there are few studies dealing with the Chinese hotel industry. The aim of this study is to analyse the relationship between environmental and firm-specific factors and entry mode choice by the largest Chinese hotel chains. Using a sample of 185 entries, the results show that cultural distance, market attractiveness, firm international experience, asset intangibility, firm size and the number of Chinese outbound tourists visiting each country are determining factors of entry mode choice.

Keywords: internationalisation, Chinese hotel chains, entry mode, environmental factors, firm-specific factors.

1. INTRODUCTION

The interest in the Chinese economy has been on the rise ever since its spectacular growth process began. It started growing since the open door policy was implemented in 1978, tourism undoubtedly being one of the sectors that benefited the most from financial development (Aliouche and Shlentrich, 2011). During the last three decades, the tourist sector in China has experienced significant growth, and it is now one of the pillars of the country's economy (Tsang and Hsu, 2011). According to the statistics from China National Tourism Administration (CNTA) in 2015 there were 133.82 million inbound tourists (including foreigners and tourists from Hong Kong, Macau and Taiwan) and 56.89 million stayed overnight in China. Moreover, in 2015 China reached 120 million outbound tourists (including overnight and same-day visitors), an increase of 12% compared with 2014 (Travel China Guide, 2015).

The hotel industry rose in China as tourism grew stronger, also undergoing high-growth stages throughout the years. According to Zhang, Song and Liu (2011), the hotel industry is the most sensitive to changes in the type and amount of tourists visiting a country. Ever since the first international hotel joint venture was established in 1982[1], the Chinese hotel industry has grown quickly. It is clear to see that this sector plays a key role in the development of tourism in China, and therefore it is essential to conduct studies to analyse it (Gross, Gao and Huang, 2013).

One of the reasons why the hotel industry has experienced such a fast growth in China is the enlargement of multinational hotel groups within the country (Zhang, Guillet and Gao, 2012). International hotel chains such as Intercontinental Hotels, Marriott International, Accor, Starwood Hotels, Best Western, Hilton International and Hyatt Corporation, to mention just a few, have a strong presence in China (Aliouche and Schlectrich, 2011). Among the reasons that led these hotel companies to invest in China are the size of the country's market and the increase in tourist demand, its financial conditions and the impact of mega events such as the Olympic Games held in Beijing in 2008, the Expo 2010 Shanghai, and the 2010 Asian Games, celebrated in Guangzhou. The presence of international hotel companies in China has not only increased competitiveness, but it has also brought developed management practices into the country, and also improved market productivity and efficiency (Pine and Qui, 2004; Yu and Huimin, 2005). While large hotel multinationals continue their expansion process in China, the internationalisation of Chinese hotel companies is in an early stage (Gu, Ryan and Yu, 2012). As a consequence, research papers dealing with the internationalisation of Chinese hotel chains are still limited.

Chinese hotel chains have mostly developed within their home country, and therefore their international growth is limited when compared with other sectors of Chinese economy where international presence is stronger. The fact that managers in Chinese hotel companies believe that the domestic market is still far from saturated may be a reason (Gross and Huang, 2011). Another reason may be the ownership structure within the Chinese hotel industry, where state-owned hotels (SOHs) prevail (Law, Tavitiyaman and Zhang, 2015). Although the share of state capital has been reduced in the last two decades, SOHs still account for over two-thirds of the room inventory and assume indispensable functions in China’s hotel development (Xiao et al., 2014). SOHs are among the less competitive in the market (Xiao, O’Neill and Wang, 2008). In

[1] The first joint-venture hotel, Beijing Jianguo Hotel, was managed by the Hong Kong-based Peninsula Hotel Group. This hotel was a joint venture between China International Travel Service Beijing Branch and an American Chinese (Gu, Ryan and Yu, 2012) and was the first real market-oriented and profit driven hotel (Xiao et al., 2014).

general, they suffer from inefficient management, insufficient bureaucratic control, lack of fiscal discipline, low operating efficiency and lack of innovation, which ultimately limits their competitiveness (Yu and Huimin, 2005). Furthermore, state ownership may hinder firms' capability to detect opportunities in international markets (Mak, 2008).

In the last two decades we have started to witness the beginning of Chinese hotel chain's foreign expansion process. One of the reasons could be the booming of outbound tourism from China that can bring opportunities for their international expansion (Xiao et al, 2014). On the other hand, the reduction of the share of state capital in some Chinese companies could have boosted the internationalisation of China's hotel industry (Ryan and Gu, 2007). It is expected that Chinese hotel chains will increase their presence abroad in the future, as many SOHs become market-oriented companies (Xiao et al., 2014). Moreover, as mentioned above, the entry of international hotel firms in China promoted the development of managerial know how. The domestic industry gained hotel managers with abilities to access the global market (Gu, Ryan and Yu, 2012). This experience may facilitate the internationalisation of Chinese hotel firms.

The expected increase in the internationalisation of this sector requires further research in order to contribute to a more competitive international growth. One of the most important issues in the internationalisation process is the entry mode decision because it determines the resource commitment abroad and the foreign relationships required to be successful in international markets. This topic has been widely analysed in the literature. There is a large amount of studies focusing on entry mode choice in different countries and sectors. However, the foreign market entry mode decision of Chinese hotel chains is still not a popular topic among researchers (Andreu, Claver and Quer, 2010; Gross, Gao and Huang, 2013; Kong and Cheung, 2009). Thus, our paper aims to fill this research gap.

More precisely, our paper contributes to the literature by providing new empirical evidence on foreign market entry modes in the Chinese hotel sector. The results allow us to know if entry mode choice of Chinese hotel firms is in line with the proposals of the main theories that have been used in past studies on entry mode choice, such as the Transaction Cost Theory, the Resource Dependence Theory and the Uppsala Model. Moreover, our findings provide managerial guidance about the determining factors that must be considered when choosing the entry mode in a foreign country. These factors are related both with the environment and with the companies themselves. Some of these factors have already been thoroughly examined in previous studies focusing on other industries and home countries, which make it possible to compare the results. Others factors are specific of Chinese hotel chains, as the influence of state ownership, and may help to better understand the reality of China's hotel industry.

The theoretical background for hypotheses development on the factors that influence entry mode choice can be found in the next section. Then we will describe our research methodology and present our main findings. Finally, we will draw some conclusions and highlight the main contributions and limitations of our study.

2. THEORY AND HYPOTHESES

2.1. Entry mode in the hotel industry

The hotel sector is considered as a soft service industry. One of the distinctive characteristics of service industries is the simultaneity between production and consumption, which makes it impossible to export them, thus limiting entry mode options (Erramilli, 1990). There are two broad options available to hotel companies for international market expansion, depending on whether or not they are willing to make a foreign direct investment (FDI). Companies use FDIs whenever they wish to maximise control and are in a good position to engage into increased resource allocation (Brouthers and Hennart, 2007). If the company is not ready to make an equity investment, then contractual agreements are the way to go. Among these non-equity based entry modes, management contracts and franchising are the most usual options (Pla-Barber, León-Darder and Villar, 2011).

Many theories have been used in prior research to analyse entry mode choice. For the purpose of this study, we mainly use three theoretical frameworks that provide complementary arguments: the Transaction Cost Theory, the Resource Dependence Theory, and the Uppsala Model. Using these theories as a basis, we will now propose a series of hypotheses on how certain environmental and firm-specific factors may influence entry mode choice.

2.2. Factors influencing entry mode choice

2.2.1. Environmental factors

One of the key factors when making decisions on international strategies is host country risk. Political, financial and institutional instability increase the level of external uncertainty that a company has to face. According to the Transaction Cost Theory, if political risk and market uncertainty are high, foreign companies will choose an entry mode that requires the lowest possible resource allocation so as to minimise potential loss derived from adverse conditions in the host country (Pak and Park, 2004).

Hotels are service companies demanding investments in facilities and physical assets. In order to hold a flexible position in countries with high political instability, companies will choose an entry mode that does not require equity investments, thus minimising resource allocation (Pla-Barber, Sánchez-Peinado and Madhok, 2010). As Ekeledo and Sivakumar (2009) argue, soft service companies interested in entering high-risk countries will prefer a franchise or a management contract.

Furthermore, the Resource Dependence Theory claims that a company may not possess all the necessary resources to successfully enter a high-risk country. In such situations, companies may choose to cooperate with a local partner, which allows them to acquire market knowledge, to minimise asset exposure and to share the risks (Azofra and Martínez, 1999; Brouthers, 2002).

All these arguments suggest that there should be a negative relationship between host country risk and resource commitment. Thus, we propose:

Hypothesis 1: There is a negative relationship between host country risk and the use of entry modes demanding higher resource commitment.

According to Zhao, Luo and Suh (2004), along with host country risk, the most frequently used variable for analysing external uncertainty is cultural distance. Cultural distance refers to the differences in the way that people from different countries perceive certain behaviours, which will eventually have an impact on the transfer of work methods from one country to another (Hofstede, 1980). Despite the fact that no consensus has been reached in past research on the nature of the relation between cultural distance and resource allocation in the host country, there are arguments suggesting a negative relationship.

From the point of view of the Transaction Cost Theory, cultural distance creates uncertainty, which ultimately results in additional costs when it comes to obtaining information and disrupts communication processes (Pak and Park, 2004). In order to reduce these costs, companies can seek cooperation with a partner. Contractual agreements improve a company's flexibility to withdraw from a foreign market if adaptation to cultural differences turns out to be impossible (Kim and Hwang, 1992).

Moreover, the Resource Dependence Theory suggests that a higher cultural distance may force a company to seek local support in order to achieve product adaptation (Rialp, 1999), share risks and avoid mistakes (Azofra and Martínez, 1999; Chen and Hu, 2002), as well as learn how to be locally adapted and even delegate tasks that can be culturally sensitive (Contractor and Kundu, 1998; Hennart and Larimo, 1998; Pak and Park, 2004). Thus, we propose the following hypothesis:

Hypothesis 2: There is a negative relationship between cultural distance and the use of entry modes demanding higher resource commitment.

Regarding host market conditions, several studies have reported differences in entry mode choice depending on the degree of host market attractiveness, using different indicators related to the level of development, such as previous number of FDI in the country, Gross Domestic Product (GDP) per capita and market potential. Young, Hamill and Wheeler (1989) found that developed countries were the most commonly chosen markets for FDI. Similarly, Dubin (1975) proved that if the host country is less developed than the country of origin, companies will choose more flexible entry modes entailing lower resource allocation.

Focusing on the hotel industry, Driha and Ramón (2011) and Martorell, Mulet and Otero (2013) found a positive relationship between market attractiveness (measured as the foreign investment/GDP per capita ratio) and entry modes demanding an equity investment in the host country. More foreign investments mean that a country will be able to offer lower asset transfer costs and become attractive for hotel investors (Driha and Ramón, 2011). Similarly, Pla-Barber, León-Darder and Villar (2011) found a positive relationship between market potential and capital investments in the host country. These authors stated that countries with high market potential will be able to absorb additional production capacity, which will result in companies ultimately enjoying economies of scale and effectiveness, and eventually being ready to invest more resources. These ideas lead us to propose the following hypothesis:

Hypothesis 3: There is a positive relationship between host market attractiveness and the use of entry modes demanding higher resource commitment.

2.2.2. Firm-specific factors

With regard to the influence of firm-specific characteristics, many studies concluded that international experience is a key determinant factor when choosing an entry mode that requires a direct equity investment (Caves and Mehra, 1986; Gatignon and Anderson, 1988; Terpstra and Yu, 1988).

Companies without experience in foreign markets are likely to have more difficulties in managing foreign operations. These firms tend to exaggerate the potential risks and underestimate the potential benefits of operating in a foreign market. This may lead them to prefer non-equity based entry modes (Agarwal and Ramaswami, 1992).

If a company already has some experience abroad, then internal uncertainty about the internationalisation process will be lower. Firms with higher international experience may be expected to prefer equity based entry modes. The Transaction Cost Theory suggests that uncertainty is an important source of transaction costs (Williamson, 1981). Thus, firms with more international experience will be in a better position to carry out an investment abroad.

This argument is in line with the Uppsala Model (Johanson and Vahlne, 1977; 1990) that proposes a gradual internationalisation process. According to this model, at the beginning of the process companies would rather use an entry mode that entails a lower resource commitment. As firms gain more international experience, the perceived uncertainty decreases, allowing them to use entry modes demanding a higher resource allocation (León-Darder, Villar-García and Pla-Barber, 2011). Thus, we propose the following hypothesis:

Hypothesis 4: There is a positive relationship between firm's international experience and the use of entry modes demanding higher resource commitment.

In addition, the assets needed for firm's internationalisation process may also influence entry mode choice. In the case of the hotel industry, the required assets are often completely intangible, and so it might be more profitable to carry out the process internally (Martorell, Mulet and Otero, 2013). It is thought that the larger the number of intangible assets in a hotel, the greater the control that a hotel chain needs to exert in order to meet quality standards. Therefore, the hotel chain may decide to choose an entry mode that allows for greater control, instead of a contractual agreement. This relationship has been supported in previous studies on the hotel industry (León-Darder, Villar-García and Pla-Barber, 2011; Pla-Barber, León-Darder and Villar, 2011), leading us to propose the last hypothesis:

Hypothesis 5: There is a positive relationship between the intangibility of the assets and the use of entry modes demanding higher resource commitment.

3. METHODS

3.1. Sample and data

The companies analysed in our study were selected using *Hotels* magazine annual worldwide ranking. According to *Hotels* (2014), 33 Chinese hotel chains are among the 300 largest in the world, 17 of them being in the top 100 and 2 in the top 10. The 33 chains included in this global ranking were examined in the first stage of the study, but then the sample was narrowed down to 15: only chains that had one or more hotels outside China were studied, which by 2014 amounted to a total of 185 hotels.

Data were obtained from secondary sources, more specifically the websites of the 15 Chinese hotel chains and groups, as well as the websites of their foreign hotels. The websites were used to gather information on the year the hotels were inaugurated, the entry mode used, the chains' previous international experience in a specific country, the type of hotels they opened abroad, their number of stars or the hotel segment[2].

3.2. Dependent variable

Entry mode. Following previous studies, we created a dummy variable (Brouthers and Brouthers, 2003; Erramilli and Rao, 1993; Ekeledo and Sivakumar, 2004; Martorell, Mulet and Otero, 2013; Pla-Barber, Sánchez-Peinado and Madhok, 2010; Quer, Claver and Andreu, 2007): value 0 is allocated whenever the hotel chain has chosen an entry mode that does not entail an equity investment, and value 1 is allocated whenever entry mode does require an equity investment, and therefore calls for higher resource commitment. Entry modes that do not require an equity investment (that is, contractual agreements) include franchise, management and lease contracts. Entry modes entailing an FDI include joint ventures, acquisitions and greenfield

[2] Other websites were also visited in order to get information on entry processes that could not be found on the previously mentioned websites. In doing so, we searched for news related to the opening or acquisition of foreign hotels by Chinese chains. It allows us to contrast the information available on different websites.

investments. As mentioned above, contractual agreements (category 0) call for lower resource commitment than FDI (category 1).

3.3. Independent variables

3.3.1. Host country Risk

Host country risk was proxied using the ranking from the International Country Risk Guide report (Political Risk Service (PRS), 2013). This ranking is obtained from 30 indicators analysing different aspects of political, financial and economic risk in 140 countries. If a country's rating is high, then risk is low. For the purposes of this study, we transformed the variable using the opposite value, and so the higher the rating, the higher the risk in a specific country. This measure has also been used in previous studies (Buckley et al., 2007; Buckley, Forsans and Munjal, 2009; Duanmu and Guney, 2009; Rienda, Claver and Quer, 2013).

3.3.2. Cultural distance

In order to measure the cultural distance between China and each of the host countries, we created a dummy variable where 0 stands for Asian countries and 1 stands for non-Asian countries[3]. Therefore, the cultural distance is supposed to be higher if the host country is not located in Asia. This measure has already been used in previous research (Azofra and Martínez, 1999; Chang and Rosenzweig, 2001; Quer, Claver and Andreu, 2007; Rienda, Claver and Quer, 2013).

3.3.3. Market attractiveness

Two variables were used to measure host market attractiveness. First, the ratio between previous foreign direct investments and GDP (FDI/GDP), as reported in the World Investment Report (WIR), published by the United Nations Conference on Trade and Development (UNCTAD, 2014). This variable has been previously used by Driha and Ramón (2011) and Martorell, Mulet and Otero (2013). Second, United Nations World Tourism Organization's (UNWTO, 2014) data on income obtained from tourism in each country was also used to measure market potential (León-Darder, Villar-García

[3] Furthermore, we measured culture distance using Kogut and Singh's index based on the Hofstede, Hofstede and Minkov's (2010) dimensions. The weighted Mahalanobian index (Yeganeh, 2014) was also calculated. However, these two indexes were highly correlated with country risk. Therefore, we finally chose the above mentioned dummy variable that has been used in previous studies.

and Pla-Barber, 2011; Pla-Barber, León-Darder and Villar, 2011). Both variables were transformed by means of a logarithm in order to normalise distribution[4].

3.3.4. Firm international experience

This variable was measured using two different methods. First, by making an entry-to-entry calculation of the number of years that had gone by since a company's internationalisation process began (Driha and Ramón, 2011; León-Darder, Villar-García and Pla-Barber, 2011; Martorell, Mulet and Otero, 2013; Pla-Barber, Sánchez-Peinado and Madhok, 2010; Pla-Barber, León-Darder and Villar, 2011). Second, we used a dummy variable to measure previous firm's experience in each specific country. In this variable, 0 was used whenever the company was entering a country it had not made business in before, and 1 was used whenever the company had already entered the country (Driha and Ramón, 2011).

3.3.5. Asset intangibility

In relation to the intangibility of the assets, the number of stars of a hotel has been frequently used to measure the degree of intangibility of a hotel's services. Within the hotel industry, intangible services grow as the number of stars increases (Brown and Dev, 2000). Thus, we used the number of hotel's stars as a measure of asset intangibility, using a categorical variable where 1 stands for three-star hotels, 2 stands for four-star hotels, and 3 stands for five-star hotels. This variable has been used by León-Darder, Villar-García and Pla-Barber (2011) and Pla-Barber, León-Darder and Villar (2011).

3.4. Control variables

We controlled for several factors that might also affect entry mode choice. Firstly, firm size is essential for resource allocation. Several prior studies reported a positive relationship between firm size and equity-based entry modes, since large companies have more resources allowing them to carry out FDI (Brouthers, 2002; Driha and Ramón, 2011; Pla-Barber, Sánchez-Peinado and Madhok, 2010). Nevertheless, other researchers reported a negative relationship between firm size and equity investment in the foreign country, and so larger hotel chains may need to find partners in order to be able to make the necessary investments to open a new hotel in a foreign

[4] When some variables show high differences in their values, to make them nearly normally distributed, it is needed to take their logarithm.

market (Brown, Dev and Zhou, 2003; Contractor and Kundu, 1998; Martorell, Mulet and Otero, 2013). For that reason, we included firm size as a control variable, using the hotel rooms logarithm as a measure, available at *Hotels* magazine ranking (2014).

Secondly, due to the peculiarity of the ownership structure of many Chinese hotels, we decided to introduce the variable ownership structure as a control, using a dummy variable (0 for non-SOHs and 1 for SOHs). State-owned enterprises are, by definition, assets of home-country governments, which make them a part of their home-country institutions (Cui and Jiang, 2012). Several studies have analysed the effect of the state ownership on Chinese firm's FDI decision. Chen and Young (2010) analysed the effect of government ownership on cross-borders mergers and acquisitions by Chinese firms. Cui and Jiang (2012) studied the effect of state ownership on the strengths of external institutional pressures that influence firms' FDI ownership decisions, namely the choice between a shared ownership structure and a full ownership structure in their foreign subsidiaries. The latter study suggests that firms need to take their political affiliations into account when making FDI ownership decisions.

Finally, the number of Chinese tourists to visit each country was also included as a possible factor increasing the probability of a country being chosen as a location for Chinese FDI (Li, Huang and Song, 2017; Wang and Shao, 2016). It is expected that hotel chains gradually expand into host countries that Chinese tourists visit frequently (Xiao et al., 2014). If a country is one of the main Chinese outbound destinations, it could determinate if the firm is willing to commit more resources. Data on Chinese tourists was obtained from the CNTA (Travel China Guide, 2014) and transformed by a logarithm in order to make it nearly normally distributed.

4. RESULTS

Descriptive data is presented in Table 1. The analysis shows that equity-based entry modes prevail over contractual agreements among Chinese hotel chains covered by our sample. Besides, wholly-owned subsidiaries are the most usual ownership mode, since we only found four joint ventures. As per yearly data, 2011 was the year with more Chinese hotels established abroad, followed by 2012, 2014 and 2013. This result shows how internationalisation of Chinese hotel chains has been growing in the last few years. When it comes to the main destination countries for Chinese hotel chains, Indonesia leads the ranking, followed by the U.S., Malaysia, France and the Philippines[5]. These hotel chains have an average size of 40,764 beds and an average international experience of 21 years, 1994 being the year when more Chinese hotel chains began the internationalisation process by opening their first hotel outside China. Finally, non-SOH groups have opened more hotels abroad than their SOH counterparts. By category, the five stars hotels are the most frequent.

Table 1: Descriptive analysis

Entry mode	FDI (138 entries) Contractual agreements (47 entries)
Years with more hotel openings abroad	2011 (23 openings) 2012 and 2014 (19 openings) 2013 (17 openings)
Main destinations	Indonesia (36 hotels) USA (19 hotels) Malaysia (19 hotels) France (16 hotels) Philippines (11 hotels)
Firm size (average)	40,764 beds
Firm international experience (average)	21 years
Ownership structure	7 State-Owned Groups (with 81 hotels abroad) 6 Non-State Owned Groups (with 100 hotels abroad)
Category of foreign hotels	5 stars (97 hotels) 4 stars (53 hotels) 3 stars (34 hotels)

We used a binomial logistic regression (logit) model for hypothesis testing. This regression model has been extensively used in past studies on entry mode choice (Brouthers and Brouthers, 2003; Ekeledo and Sivakumar, 2004; Erramilli and Rao, 1993; Erramilli, Agarwal and Dev, 2002; Quer, Claver and Andreu, 2007). This statistical model allows us to estimate the effect that an increase in each independent variable may have on the probability of the dependent variable's (entry mode) value being 1 (FDI) instead of 0 (contractual agreement). Table 2 reports descriptive statistics and correlation coefficients between independent variables, whereas Table 3 shows the results of the binomial logistic regression used to test our hypotheses.

[5] These countries are among the main outbound tourism destinations for Chinese tourists in 2014. According to CNTA, South Korea ranked as number one destination country, followed by Thailand, Japan, Singapore, Malaysia, Indonesia, France, United States, Italy and Vietnam (Travel China Guide, 2014).

Table 2: Descriptive statistics and correlations

Variable	Mean	SD	1	2	3	4	5	6	7	8	9
1. Host country risk	65.22	11.04									
2. Cultural distance	0.59	0.49	0.57								
3. Market attractiveness (FDI/GDP)	1.50	0.36	-0.23	-0.28							
4. Market attractiveness (tourism income)	4.20	0.59	-0.54	-0.49	0.12						
5. International experience (years)	20.59	23.83	-0.24	-0.17	0.07	0.08					
6. Previous experience in the country	0.51	0.50	0.24	0.34	-0.13	0.01	-0.37				
7. Asset intangibility	2.34	0.77	-0.22	-0.12	0.1	0.05	0.38	-0.03			
8. Firm size	4.22	0.52	-0.18	-0.28	0.14	0.13	0.18	-0.37	-0.16		
9. Ownership structure	0.45	0.50	-0.17	0.07	-0.05	0.02	-0.13	-0.15	-0.08	-0.74	
10. Chinese tourists	5.80	0.32	0.00	0.36	0.16	0.08	-0.09	0.1	0.03	-0.00	0.026

Correlations over /0.16/ are significant with $p< 0.05$
Correlations over /0.22/ are significant with $p< 0.01$

Table 3: Binomial logit model estimations

Independent Variables	**Model 1** ***B***	**Model 2** ***B***	**Model 3** ***B***
Firm size (Control)	-1.863***		-2.533**
Ownership structure (Control)	0.212		0.658
Chinese tourists (Control)	-0.282		-2.997**
Host country risk (H1)		-0.004	0.014
Cultural distance (H2)		1.231*	3.699**
Market attractiveness (FDI/GDP) (H3)		1.757***	1.750**
Market attractiveness (tourism income) (H3)		-0.256	2.637**
International experience (years) (H4)		0.050***	0.067***
Previous experience in the country (H4)		-0.117	-1.238*
Asset intangibility (H5)		0.637**	0.673*
Chi-square	26.029***	44.503***	63.614***
Correctly classified percentage	82.1%	82.8%	83.3%

***p<0.01; **p<0.05; *p<0.1

Model 1 includes only control variables. This model is significant at a level of 0.001 and correctly predicts 82.1% of the cases. Model 2 includes the effect of country risk, culture distance, market attractiveness, international experience and asset intangibility on entry mode choice. This model is significant at the 0.001 level and correctly classifies 82.8%. The relationship is positive and significant for the variables cultural distance, market attractiveness (measured with the FDI/GDP ratio), number of years abroad and asset intangibility. Model 3, including all variables, is significant at a level of 0.001 and correctly predicts 83.3% of the cases. This model shows a positive and significant influence of cultural distance, market attractiveness (using both measures), international experience (using the number of years abroad) and asset intangibility on the choice of FDI as entry mode. Furthermore, the influence is negative and significant regarding firm size, the number of Chinese tourists and previous experience in the destination country.

Hypothesis 1 suggesting a negative influence of host country risk on the choice of entry modes demanding higher resource commitment is not supported, since we obtained that the relationship is quite the opposite of that expected, although is not statistically significant. The Transaction Cost Theory may provide arguments for this finding. As Aulakh and Kotabe (1997) suggest, in a high risk country, it would be advisable to avoid the opportunistic behaviour of a local partner. Thus, full control entry modes using FDI could be preferred over contractual agreements.

Hypothesis 2, proposing a negative relationship between cultural distance and the use of entry modes demanding higher resource commitment, is not supported either, since we did obtain a statistically significant positive relationship, just the opposite of that expected. Thus, Chinese hotel chains choose FDI if the destination country's culture is more different. This result, however, confirms the conclusions reached by some prior studies analysing hotel companies from other countries (León-Darder, Villar-García and Pla-Barber, 2011; Martorell, Mulet and Otero, 2013; Pla and León, 2002; Pla-Barber, León-Darder and Villar, 2011; Ramón, 2002). Building on the Transaction Cost Theory, Contractor and Kundu (1998) argue that cultural distance can not only make it difficult to find a local partner, but also generate costs when transferring know-how to that partner. It may lead to the company prefer high-ownership entry modes. On the contrary, implementing a contractual agreement can be easier in countries where cultural distance is lower. Given the specific nature of the hotel industry and its great dependence from employee skills, management systems and processes, it may be more difficult to transfer know-how to a host country with a different culture where local partners may have different business customs. Therefore, foreign companies may prefer an entry mode that allows them to obtain a greater control.

Moreover, the specific characteristics of Chinese companies may provide an additional explanation for the unconventional findings regarding host country risk and political distance. Chinese hotel chains may react differently than their Western counterparts when facing market uncertainty. Chinese companies have become international later than other companies from developed economies. This may lead them to make riskier decisions in order to catch up with incumbents (Ge and Ding, 2009).

The results support hypotheses 3. Therefore, it seems that Chinese hotel chains choose entry modes entailing an equity investment in host countries with a high attractiveness, where the foreign investment/GDP ratio and tourism income are higher. This finding is in line with that obtained in prior research focusing on hotel chains from other home countries (Driha and Ramón, 2011; Martorell, Mulet and Otero, 2013; Pla-Barber, León-Darder and Villar, 2011).

Our findings provide partial support for hypothesis 4. We obtained that Chinese hotel chains with more years of international experience tend to choose FDI (as proposed in hypothesis 4). This result is in line with the finding reported by Martorell, Mulet and Otero (2013). Nevertheless, previous experience in the host country is negatively associated with FDI, thus not supporting the gradual process proposed by the Uppsala Model (Johanson and Vahlne, 1977; 1990). This might be due to the fact that a greater knowledge of a specific host country makes it easier to sign contractual agreements and grant other partners partial control over market operations. The new global environment and the increasing cooperation opportunities within business networks may call for a revision of the original Uppsala Model, as proposed by Johanson and Vahlne (2009).

The intangibility of the assets is positively associated with FDI, thus supporting hypothesis 5. Therefore, as the intangibility of the services offered by the hotel increases, so does the company's interest in using an entry mode where more resources and control are allocated. This result is in line with those of León-Darder, Villar-García and Pla-Barber, (2011) and Pla-Barber, León-Darder and Villar (2011).

With regard to control variables, firm size and the number of Chinese tourists turned out to be negative and significant. The negative relationship between the size of Chinese hotel companies and entry modes requiring equity investments suggests that large hotel chains prefer to use contractual agreements. The reason for this choice may be that large hotel companies possess the capabilities and knowledge needed to choose a contractual agreement. In addition, large companies with higher debt ratio may prefer non-equity based entry modes in order to maintain their growth rate. The negative relationship between the number of Chinese tourists and equity based entry modes suggests that the main outbound tourism destinations for Chinese tourists may not be attractive destinations for FDI. Anyway, further research is needed in order to thoroughly analyse the influence of Chinese outbound tourism on entry mode choice of hotel chains in a specific host country.

Finally, ownership structure (state-owned or not) is not significant, although shows a positive coefficient. Thus, these findings do not support the results obtained by Cui and Jiang (2012), who argued that state-owned firms remain the dominant force in China's outward FDI. Our result might be influenced by the measure we used, namely a dummy variable (SOHs vs. non-SOHs). This measure does not capture differences in firm ownership structures. Some previous studies measured state ownership in a Chinese firm as the percentage of equity ownership by the Chinese government and its agencies (Xu and Zhang, 2008; Zou and Adams, 2008; Cui and Jiang, 2012). This measure was not available in our sample. Anyway, in the future it is expected that some Chinese SOHs will evolve to more market-oriented companies or even to non-SOHs (Xiao et al., 2014). Thus, Chinese hotel chains could prefer to choose cooperation agreements, which involve less control of international operations. Therefore, it would be interesting to further analyse the evolution of the ownership structure of Chinese hotel chains and its impact on their entry mode decisions.

5. CONCLUSIONS

International strategies have been extensively analysed in the literature. However, there are still few studies focusing on the specific case of Chinese hotel companies. This study aimed to fill this gap, thus contributing to the analysis of one of the key decisions of their internationalisation process: entry mode choice.

Data show a spectacular growth of the hotel industry in China, where the open door policy implemented in 1978 has had a very positive impact. The sector has mostly grown within the Chinese borders. Thus, internationalisation is still in its early stage. One possible reason may be the ownership structure of the Chinese hotel industry, dominated by SOHs that may be more oriented towards the domestic market. Our results confirm that non-SOHs firms have opened more hotels abroad than SOHs firms.

Nonetheless, more hotels are being opened abroad each year, especially in Asian countries that are geographically and culturally close to China. Chinese hotel chains seem to prefer entry modes that entail equity investments instead of signing contractual agreements. This seems to be the general trend of large Chinese multinationals of different sectors in their internationalization process. As reported by previous studies on Chinese multinationals, some of the reasons for this preference are the desire for greater control by state-owned enterprises as well as the aim of accelerating the internationalization process in order to catch up with their Western counterparts (Quer, Claver and Rienda, 2012). It also confirms the idea that soft services companies, such as hotels, prefer entry modes with more resource commitment than hard service firms (Erramilli, 1990; Blomstermo, Sharma and Sallis, 2006).

In our analysis we found that cultural distance, host market attractiveness, firm international experience, intangibility of the services offered by hotels abroad together with firm size and Chinese tourists travelling to each country, are the factors that have a statistically significant impact on the entry mode chosen by Chinese hotel chains in foreign markets. Overall, our findings suggest that Chinese hotel chains follow a conventional behavioural pattern regarding the positive influence of host market attractiveness, years of international experience and asset intangibility on the probability of choosing FDI instead of contractual agreements as a foreign market entry mode.

However, according to our results, the impact of host country risk, cultural distance and host country-specific experience on entry mode choice is not as expected. Thus, both host country risk and cultural distance have not a negative impact on the preference for FDI over contractual agreements in the case of Chinese hotel chains. Actually, contrary to our expectations, we have obtained that the greater the cultural distance between China and the host country, the greater the probability of choosing an FDI. Nevertheless, there is also empirical evidence within the Chinese context suggesting that, when making international decisions, host country risk and cultural distance do not affect Chinese firms in a conventional way (Buckley et al., 2007; Kang and Jiang, 2012; Kolstad and Wiig, 2012; Quer, Claver and Rienda, 2012). These studies provide some reasons for the unconventional behaviour of Chinese firms, such as the good bilateral diplomatic relations between China and the host country, the aim to exploit opportunities in countries regarded as too risky by developed-country companies, or the very idiosyncrasy of China's institutional framework. Moreover, as stated above, Ge and Ding (2009) suggest that, in order to catch up with incumbent developed-country competitors, some Chinese firms make international decisions based on their own strategic objectives, disregarding host country risk or cultural distance.

On the other hand, our results suggest that, contrary to what was expected, host country experience has a negative impact on the choice of FDI. In other words, the greater the firm´s host country specific experience, the greater the probability of choosing a contractual agreement. An argument for this unexpected finding may be that host country-specific experience can help to mitigate the difficulties involved in finding an appropriate local partner for signing contractual agreements. Thus, as we pointed out above, as the Chinese hotel chain gains more experience and becomes more familiar with the host country, it may find easier to grant other partners control over local business by means of a contractual agreement.

Our findings have both theoretical and managerial implications. From a theoretical standpoint, we contribute to the epistemological debate on the applicability of extant theories to explain the international behaviour of emerging-market multinationals (Buckley et al., 2016; Cuervo-Cazurra, 2012; Mathews, 2006; Rugman, 2010). Thus, we find support for the theoretical underpinnings of the Transaction Cost Theory, but not for those of the Resource Dependence Theory and the Uppsala Model when explaining foreign market entry mode choice of Chinese hotel companies.

This study also allows us to compare entry mode decisions of Chinese hotel companies with those of hotel companies from other countries as well as from Chinese multinationals belonging to other industries. Besides, we have considered specific determining factors of entry mode choice that could help to better analyse the reality of Chinese hotel companies' ownership structure. Regarding the possible preference of SOHs for entry modes involving greater control of international activities, we did not find statistical support in our analysis. Future research should advance the study of entry mode choice of these companies introducing new measures for ownership structure, thus allowing a better comparison between the international decision making process of Chinese SOHs and non-SOHs.

With regard to managerial implications, this paper highlights some factors and issues that should be considered when making foreign market entry mode decisions. Our study provides managers of Chinese hotel firms with useful information on the influence of these factors when choosing entry modes involving a higher resource commitment abroad, depending on the country of destination and the internal characteristics of the company.

Among the limitations of our study we can point to the limited information provided by some of the variables used, as has been discussed in the analysis of the results. The lack of available data also prevented us from including other variables that may also have an impact on entry mode choice, namely technological and commercial capabilities, and managerial perceptions. Besides, further research might differentiate among specific entry modes within each of the two broad categories analysed here: equity investments and contractual agreements. For example, within contractual agreements it could be analysed the different levels of risk that involve franchise, management or lease agreements.

Our study was also limited by the fact that these results could not be applied to the Chinese hotel industry as a whole, given that the companies analysed here may not be the only ones who have started an internationalisation process. Moreover, our measure of cultural distance between China and each host country is based on a dichotomous variable, since bilateral correlations prevented us from using an alternative measure as we explained above. Therefore, the distance among Asian countries could not be considered.

For all these reasons, further research on the internationalisation of Chinese hotel companies is needed. Several potential avenues for future research are open for analysing whether this tendency to use equity investments continues in the future or contractual agreements become more popular as Chinese hotel companies increase their international activities; or whether changes occur in the internationalisation strategies as the ownership structure of SOHs evolve and the hotel sector in China becomes more market-oriented. If this happens, it is possible that Chinese hotel firms will prefer contractual agreements involving less control of foreign activities.

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