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Effective International Expansion Strategies for Hotel Companies

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A research report submitted to the Faculty of Business, Economic Science and Management, University of the Nelson Mandela Metropolitan University, in partial fulfilment of the requirements for the degree of Master of Business Administration

Port Elizabeth, 2009

ABSTRACT

This study investigated the expansion strategies of hotel companies that want to expand away from their local market. Due to the growing importance of services in economic development, there is an impressive body of knowledge on the process of internationalisation and service industries. Due to the major changes impacting upon the industry due to the effects of technology and globalisation, it would be useful to establish the important key factors and processes involved during internationalisation. Expanding cross border for a hotel group signifies a number of challenges that must be focused on at the same time.

Markets need to be identified, political stability needs to be scanned and cultural differences must be taken into consideration. Logistics and supply chain have to be developed together with operational issues from financial reporting, marketing and human resources. Organisational structures must be adapted to take into account the new levels of responsibility.

An in-depth review of the literature regarding internationalisation was conducted, which evidenced that the most useful model for answering the questions was the eclectic paradigm as developed by John Dunning (1993). The paradigm has been used in many manufacturing and service sector studies, including that of the hotel sector (Contractor and Kundu, 1994).

A questionnaire was compiled and interviews were set up with the directors and executives tasked with the respective companies' expansion programmes.

Due mainly to the effects of new technology and globalisation on the hotel industry, there have been many changes in the last decade, including increasing consolidation and concentration and an increasing importance upon branding and financial performance.

It was apparent from the research that the time taken to internationalise by hotel chains has reduced significantly in the last decade, especially if one looks at the performance of hotel companies such as Accor Hotels.

Only two of the three companies studied in this treatise had undertaken expansion into Africa with the third company ready for entering soon. Non-equity involvement in general was the most favoured form of involvement with majority of their expansions based on management contracts, joint partnership or franchises. The role of the functional departments, the importance of a global outlook and the necessary structural changes during international expansion was also explored. In order to answer the various research propositions that are posed, the researcher chose to base this research on a phenomenological approach through case study analysis.

DECLARATION

I, J.A. Pienaar declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Nelson Mandela Metropolitan University of Port Elizabeth. It has not been submitted before for any degree or examination in this or any other university.

J.A. Pienaar

Signed at …………………………………………………

On the …………………………….. day of ………………………… 2010

DEDICATIONS AND ACKNOWLEDGEMENTS

To my wife Ronel and son Regardt, my all, my everything.

To my parents for my “balanced and normal” childhood.

To the model C schools prior to the outcome-based curriculum.

To my company, for allowing me the means and stimulation to further my education.

To my promoter Dr. Cullen for her drive towards endless deadlines.

To my Creator from above.

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CHAPTER 1: INTRODUCTION

1.1.1 Purpose of the study

The purpose of this research treatise is to highlight which are the most effective international expansion strategies for the Hotel Industry. Companies that operate on a national level only, have found many new market entrants arriving in their competitive environment. In the South African landscape the current competitors are continuously re-aligning their strategies and branding to compete in the current market whilst at the same time, adding new properties to their national footprint.

This all adds pressure on the local demand and supply system. Oversupply is becoming a reality in certain areas of the country. Geography no longer stands in the way of a growing company's aspirations but at the same time it also no longer serves as a barrier to protect the local market share. Travellers have also become more educated and are continuously scanning the environment for the best value proposition. Companies are thus becoming increasingly vulnerable to losing market share to competitors.

One solution to enable the increase in size and turnover of the organisation is to expand aggressively, not only locally, but also into international markets. International expansion for businesses has become crucial to assist in the growth of companies. In 1945 only 25 million people crossed international borders. This number had increased by a factor of 17 to 425 million people in 1990 and climbed to 699 million ten years later. By the year 2020 it is anticipated that there will be 1.6 billion international tourists (WTO, 1999, 2000, 2002).

The global context to business has created a borderless and boundary free world. Services are not easily reproducible across national borders, and therefore not easy to internationalise (Segal-Horn, 1990). Various hotel groups have ventured into the foreign landscape with various degrees of success and failures. Then, what are the best practices during international expansion? Can there be a common approach or a one size fits all? This study will evaluate the various strategies and expansion models available to the hotel industry and make recommendations to companies that want to expand internationally. It will also take into consideration other important aspects that need to be taken into account when deciding to internationalise.

1.1.2 Expansion opportunities in South Africa since 1994

With the abolishing of sanctions in 1994, South African companies all found themselves with opportunities to expand their products and services. Organisations have also been forced to become more competitive to protect their market share against international competitors, as well as to ensure that they are able to compete internationally (Munro, 1997). With international boundaries lifted, managerial concepts have had to follow those of the international arena. The question would then remain; which are the best expansion strategies to follow and how different are the services sector from the production sector?

1.1.3 Targeting developing economies

Developing economies in Africa and countries in the sub-continent such as India have become very attractive for developers. The Accor group has decided to expand its hotel network in India with 48 hotel developments. These would be a mix of Accor hotel brands - Sofitel, Pullman, Novotel, Ibis, Mercure and Formula I (Weinstein, 2008). This would result in the addition of 9,980 rooms across the country. The group plans to open three hotels with 522 rooms across India at the end of 2009. The group's luxury brand Sofitel has planned three hotels with 711 rooms in Mumbai while the upscale Pullman brand is set to launch two properties at Gurgaon in 2010.

In Rwanda, Dubai World Africa (DWA) is investing US$230 million over three years on a tourism master plan. In total, DWA is active in eight African nations, investing US$1 billion in Cape Town and another US$1.5 billion across the continent. To say the company is bullish on the future of the underdeveloped, often politically instable “Dark Continent” would be an understatement (Weinstein, 2008).

Many major hotel developers are in lockstep in believing oil economies and tourism can drive development and long-term returns. Everyone from Dubai-based Kingdom Hotel Investments and IFA Hotels & Resorts, to global giants Accor (the biggest player on the continent with about 125 hotels and 21,000 rooms in 21 countries), Marriott International, IHG, and Hilton Hotels Corp., regional players such as Corinthia Hotels International and locals such as Zimsun Leisure Ltd. and the recently acquired Protea Hotels. Hotel companies have lofty goals in sub-Saharan Africa that they finally believe are sustainable (Weinstein, 2008).

“From an economic and political perspective, Africa has never been better. Several countries are making strong moves to introduce or strengthen their democracies and clamp down on corruption—the bane of many of them,” says Trevor Ward, managing director of W Hospitality Group (Weinstein, 2008:3). The continent is a provider of a multitude of primary products, the most important being oil, which the newly developing economies need. In Africa there are 53 countries, which mean 53 capitals. A hotel for every capital in Africa. This is the strategy that is being followed by Hilton, according to Jean-Paul Herzog, president of Middle East and Africa for Hilton Hotels Corporation (Weinstein, 2008).

A local player with new ownership is Protea Hotels, which was acquired by Australia’s Stella Group and a BEE consortium from South Africa. With 121 hotels at the end of 2006, the group now has more than 25 hotels on the continent outside of South Africa and has been very successful developing in oil-rich Nigeria (Weinstein, 2008).

1.1.4 Challenges in expanding cross border

The challenge still facing many other developers relates to a lack of financing, as home-grown investors don’t have the patience for long-term returns and many overseas investors still see too much risk such as issues with land title, some unstable economies and governments, high interest rates (20 percent or more in Nigeria), lack of long-term local debt (maximum five years in many cases) and corruption. In some countries, working with government is essential (and in some cases compulsory); in others, steer clear if at all possible. But the rewards can be worth the wait, as returns can be very high with strong room rates (upwards of US$250 in Lagos and Luanda) and low labour cost. Ward says (cited in Weinstein, 2008:4) a large hotel can easily achieve 60 percent plus gross operating profit; a smaller one 45 percent plus. “But this can be upset by extraordinary costs such as energy, as every hotel in Nigeria has to have full backup power, and will use that probably 50 percent of the time—and diesel is expensive. All things being equal, in many markets a return of 20 percent on investment is not too difficult” (Weinstein, 2008:4).

1.2 Problem statement

Operating in an international context requires a firm to have a broader scope and to manage a much greater degree of complexity than is the case for a company with a solely local focus. There are various expansion strategies with various entry modes for global expansion. The hotel industry is also a very closed industry with little research available on the many facets of this industry.

To expand cross border a hotel group needs to take a number of challenges into account and must be focused on at the same time. Markets need to be identified, political stability needs to be scanned and cultural differences must be taken into consideration. Logistics and supply chain have to be developed together with operational issues from financial reporting, marketing and human resources. Organisational structures must be adapted to take into account the new levels of responsibility.

1.2.1 Main problem

The research will investigate the various strategies in the field of global expansion. The hotel industry finds itself in the services industry but global expansion would include initial setup of hotels according to the current blueprint of the particular group.

Entry strategies and management processes need to be effectively planned and executed. There are many pitfalls in the initial stages of cross border development due to the venturing of the unknown. A company's risk appetite will also greatly influence the speed and success ratios. With all the variables involved in these expansion programmes what best practices can be identified to streamline this process?

1.2.2 Sub-problems

The first sub-problem is to determine what effective strategies or expansion models need to be explored during international market entry and development for the hotel industry in South Africa.

The second sub-problem is to determine the importance of effective functional strategies for expansion. The successful implementation of an organisation's international business strategy requires the key functional areas of the business to be effectively and efficiently organised in order to operationalise the strategy. Ineffectiveness of these key departments will be detrimental to the future growth plan.

The third sub problem is to determine the main drivers of the expansion programmes and why companies need to develop a global mindset and remain focused on aligning its local strategies to that of a global one.

The fourth sub problem is to identify the structural levels of the organisation and the levels of communication.

1.3 Delimitation of the research

Globalisation and international expansion is a very wide subject. This research will focus primarily on expansion strategies best suited for the hotel and services companies. These strategies will be focused on the corporate level strategies as this relates to forward integration, expansion and operational issues. This research will not focus on business level strategies as the different role players already understand their markets and products as their competitive advantage.

1.3.1 Industry

The focus will be on three of the more recognised brands from the Hotel Industry in South Africa. The hotel chains have a combined total of 158 hotels in their portfolio. Executives in charge of their respective companies' international expansion programmes were approached and interviews were set up to gather information in the field.

1.3.2 Size of the Industry

The hotel groups that will be surveyed hotel companies that compete in the domestic market and that have already ventured into various levels of cross border expansion.

1.3.3 Geographic demarcation

The hotel chains' home base is in South Africa with hotels that are operated throughout Africa and development plans in the sub-continent. There will be no limitation to geographic demarcation.

1.4 DEFINITION OF KEY CONCEPTS

1.4.1 The term Globalisation

Globalisation enables investments in financial markets to be carried out on an international basis, largely as a result in deregulation and improvements of technology. It is also a process by which a company expands to operate internationally.

Braibandt (2002) states that the process of globalisation includes the opening up of world trade, the development of advance means of communication, the internationalisation of financial markets, the growing importance of multinational corporations (MNC's), population migrations and more generally increased mobility of persons, goods, capital, data, and ideas.

1.4.2 Strategy

The Oxford dictionary (2000) defines strategy as "a long term plan or policy". "A firm's strategy can be defined as the actions that managers take to attain the goals of the firm" Hill (2005:410).

It is a pattern or plan that integrates the organisation's major goals, policy and action into a cohesive whole. A well formulated strategy helps to marshal and allocate organisations' resources into a unique and viable posture based on its relative internal competences, shortcomings and anticipated changes in the environment (Quinn, Mintzberg & James,1988).

1.4.3 Location economies

Location economies can be defined as the location of facilities anywhere in the world that yield the lowest production or distribution costs or that best improve the quality of service offered to customers (Griffin & Pustay, 2005). According to Hill (2005) location economies are cost advantageous from performing a value creation activity at the best location for that activity. The location specific advantage needs to be tapped for factor (that is land, labour, capital and entrepreneurship) and demand conditions, along with other qualities, that a country can offer domestic and foreign investors which are favourable to the production or service product (Daniels, Radebaugh and Sullivan, 2004).

1.4.4 Learning effects

Learning effects refer to cost savings that come from learning an activity by doing it (Hill, 2005). Learning effects are improvements in the rate at which goods and services are produced. As workers repeat particular tasks they become more dextrous and learn improvements which increase their collective efficiency (Abel & Hammond, 1979). This is similar to the experience curve where there is a systematic decline in production costs as experience on a particular process increases.

1.4.5 Core competencies

These are unique resources and capabilities that serve as a source of competitive advantage for a firm over its competitors (Hitt, Ireland & Hosskinson 2005). Hill (2005) defines core competencies as unique abilities within the firm that competitors can not easily match.

1.4.6 Global learning

Differences in operating environments cause the firm to operate differently in one country than in another (Griffin & Pustay, 2005). An astute organisation may learn from those differences and transfer this knowledge to its operations from foreign subsidiary to home country and from foreign subsidiary to foreign subsidiary.

1.4.7 Competitive advantage

Porter (1986) views competitive advantage as a function of either providing comparable buyer value more efficiently than competitors (low cost) or performing activities at a comparable cost but in unique ways that create more buyer value than competitors at a premium price.

1.5 Significance of the study

The study fills a gap in that it will identify the most salient strategies for companies in the hotel industry to use during expansion programmes. The hotel industry differs from other industries in that during expansion it is not only the transfer of skills and know-how but also that of its products which would mean construction of buildings with enormous set up costs.

The correct strategy needs to be applied during all the phases including the managing of foreign subsidiaries which are going to be responsible for the sustainability of the company. What are the correct strategies and where does one begin? This research will gather insights from executives currently tasked with international expansion. Coupled with research into this field, it will ensure that important issues that need to be taken into consideration are identified.

There are currently limited sources available to assist in international expansion, specifically for the hotel industry. The focus is predominantly turned on the manufacturing sectors, due to the intensity and speed at which these organisations have expanded in the past and the present.

The research explores the key issues and concepts that influence the success of expansion strategies. In addition, it critically analyses and evaluates the effectiveness of these strategies in assisting international hotel chains to achieve business development and competitive advantage in the global marketplace.

Against the above background, it is important that research be conducted or existing research be expanded on how to improve the growth of hotel companies in South Africa. The study will provide guidance to the management of the companies that are taking on the international expansion drive.

1.6 Limitations to the study

Due to the vast differences in industries and company goals the study will be limited to expansion strategies and limited to the organisation effectiveness and its market entry modes for the hospitality industry. No emphasis will be given to research and product development or the correct products. The study will also exclude market scanning and feasibility of entering into various markets. There is also no elaboration on specific key functions for the respective functional departments.

1.7 Conclusion

This chapter focused on the introduction of the research that will be undertaken. The research problem was also highlighted and the propositions were discussed specifically alluding to the importance of expanding internationally with the stumbling blocks that can be expected for hotel companies. These potential stumbling blocks do not mean that expansion is ill advised. This research will represent some of the basic elements necessary for a successful for successful expansion. There is currently great emphasis placed on the developing countries with companies targeting these areas in search of markets away from their home base.

The key terminology that will be used in this treatise was identified and also discussed in this chapter.

CHAPTER 2: A LITERATURE REVIEW ON STRATEGIES USED BY INTERNATIONAL BUSINESSES

2.1. Introduction

Over recent decades the world economy has undergone considerable transformation (Spekman & MacAvoy, 1999). Influenced by advances in technology and the spread of global capitalism, the shrinkage of geographical and cultural distances has allowed companies to substantially widen their geographical markets and sources of supply. This in turn has served as the catalytic focus for the creation of new business opportunities, yet at the same time creating an enormously more complex environment for businesses to operate in. Across virtually all sectors of the global economy, all sectors of business are competing and at the same time transforming and reshaping traditional ways of operating, expanding and reshaping the interactions of traditional business rivalry (Spekman & MacAvoy, 1999)

This chapter will critically evaluate the existing literature on international expansion. It provides a theoretical and conceptual foundation necessary for the understanding of the international hotel industry. Major theories, schools of thought and expansion models will be discussed. Attention will also be given to one of the most influential models of international development.

2.2 Expansion strategies

Any intended movement away from a purely national business focus represents a fundamental shift in the business development of an organisation. “No longer does the company have to concern itself only with its national market, but now needs to look at wider horizons” (Ellis & Williams, 1995:222).

Various strategies are used by organisations to compete internationally and these depend on the size of the organisation, the position in the world market and the resources it has to exploit to gain the opportunities of globalisation. Thus global competitiveness can only be achieved by companies that see themselves as citizens of the world and not of a particular country, states or provinces. The idea of having a global mindset enables companies to exploit the opportunities which are unhindered by man made political boundaries (Gupta & Govindarajan, 2004).

2.2.1 The establishment or stages model of internationalisation and expansion

According to this model internationalisation is a process which follows an orderly sequence of growth in incremental stages. Two of the major elements are knowledge and commitment (Johanson & Wiedersheim, 1975). Knowledge of the foreign market is crucial to determine the level of commitment of the company to enter them. As the company learns more about the market the more resources are committed. Expansion first takes place in those countries that have the least psychic distance from the home country in terms of consumer, market and industry structure.

Some of the major criticisms are that the model does not take into account the operating environments that the companies operate in nor the managerial strategies of the companies which have shown to be crucial in the internationalisation process.

Although popular at the time, with the “born global” outlook of contemporary companies it is clear that the sequential process is not very popular anymore. Among service companies the “instantly international” outlook is also becoming more prevalent (Mcauley, 1999). In addition, transnational hotel corporations pursue a mixture of expansion strategies combining both equity and non-equity concurrently (Contractor & Kundu, 1998).

2.2.2 The internationalisation, foreign direct investment and eclectic paradigm

<u>The internationalisation paradigm</u>

Central to the paradigm is the avoidance of transaction costs by companies "internalising" the intermediate product market. Growth in companies continues until the benefits of further internalising are outweighed by the costs.

<u>Foreign Direct Investment</u>

Foreign direct investment postulates that in addition to the internalisation advantages there must also be some unique firm specific advantages (FSA), that must be exploited before competitors copy them, with the inevitable erosion that follows. When FSA's are combined with advantages derived from international locations and by internal exploitation, international companies then gain an edge over indigenous operators (Dunning, 1993).

In the hotel industry examples of firm specific advantages are global reservations systems and brand equity that allow international operators economies of scale and scope in their offer to business people when travelling abroad. Some of the criticism of the FDI approach is that whilst it explains patterns of investment it does not clarify a long term process of international expansion (Dunning, 1993).

<u>The eclectic paradigm</u>

This all encompassing version of FDI has been advocated and tested in numerous manufacturing and service industries. The eclectic paradigm considers internationalisation within the framework of three different interrelated advantages defined as ownership, location and internalisation (OLI) advantages (Dunning, 1993). Table 2.1 identifies some of these advantages that Dunning proposed.

Ownership advantages are competitive advantages that the firm owns versus its competitors. Location advantages consist of political, natural and economical factors that a company will consider prior to expansion. Internalisation advantages derive from a firm deciding to integrate various assets and skills within the framework of the company rather than to trade them in the market place.

Dunning (1993) acknowledged that some of the shortcomings to the paradigm are the static nature of the model and the need to integrate the strategic intent of companies into it. According to the paradigm the extent of these activities is dependant on the value of interaction between the main variables or advantages associated with ownership, location and internalisation or co-ordination (Dunning, 1993).

Ownership advantages may be of structural or of behavioural nature. The eclectic paradigm divides competitive advantage in two categories:

- O_A – ownership advantages that are gained by owning individual assets that are available to the hotel group before it embarks on international expansion;
- O_T – ownership advantages that are developed though economies of scale through repeating the same activity in different countries.

According to Porter (1986) location specific advantages are factors that make the specific location attractive to the company. The hotel company will do environmental scanning and audits of the chosen country and then decide on the specific location, product to be developed and mode of entry. In helping to determine country specific advantages it is helpful to look at this paradigm, Porters Diamond (discussed in 2.2.5).

Internalisation lies in the advantages that companies derive from the modality of foreign involvement selected by the company. The trends mostly explored are those of mergers and acquisitions and non equity utilisation.

A summary of the various forms of company, location and internalisation advantages as applied to the international hotel industry may be seen in the following table:

Table 2.1 Examples of OLI advantages in the international hotel industry

Ownership	Location	Internalisation
Company size	Size and growth rate of economy	Economies of scale
International experience	Govt. policy to FDI	Economies of scope
Brand name	Perception of region as attractive business/leisure Destination	Utilisation of parent company expertise
Technological advancement	Country infrastructure	Minimising regulations and day-to-day control
Management expertise	Size and nature of city in which hotel is located	Using activities of parent company
Knowledge of guest needs		
Proprietary reservation systems		

Source: Adapted from Contractor and Kundu (1998)

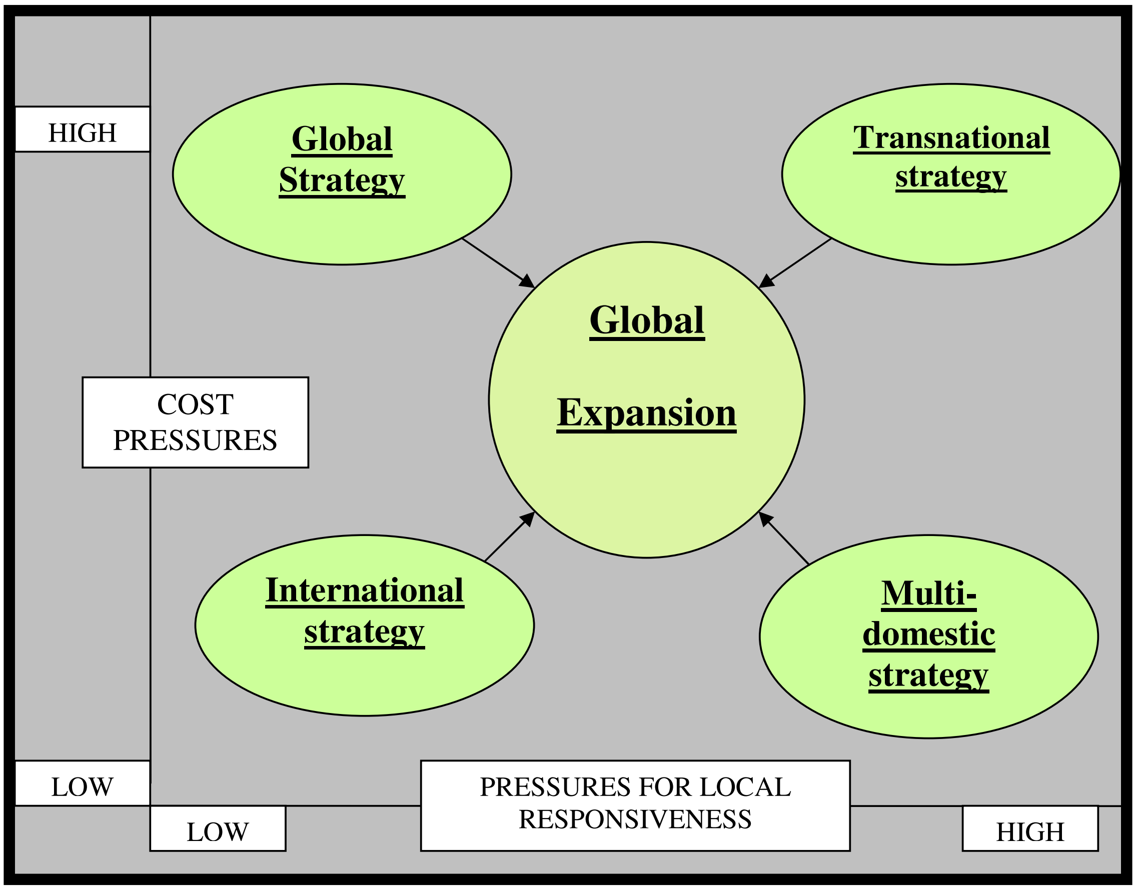
2.2.3 The strategy of international business

Expanding globally allows companies to increase their profitability when the domestic market becomes saturated. Companies that expand internationally earn a greater return from their distinctive skills or core competencies. They can realize location economies by dispersing particular value creation activities and can realize a greater experience curve economies.

Business growth strategies need to be build around a global vision as depicted in Fig. 2.1. Quality, pricing, service, and distribution are globally competitive and are also customer tailored to meet the local responsiveness and conditions of the respective market.
According to Bartlett and Ghoshal (1987) companies can use four strategies to enter and compete in the international environment: an international-, multidomestic-, global- and transnational strategy.

The appropriateness of each of these strategies will depend on factors such as the relative strength of pressures for cost reductions and pressures for local responsiveness. Each of these strategies has its advantages and disadvantages.

Fig. 2.1. Strategies for global expansion.



(Adapted from Hill, 1997)

International strategy is when the company wants to create value by transferring valuable skills and products to foreign markets where indigenous competitors lack those skills and products. Majority of functions remain centralised and tight controls are retained for marketing and product strategy.

Multidomestic strategy is when a company wants to orientate themselves toward achieving maximum local responsiveness through customising their product offerings and marketing to different national conditions. This is normally associated with low levels of cost pressures where pricing is not of great concern.

Global strategy is where the company focuses on increasing profitability by realising cost reductions from experience curve effects and location economies. No customization is offered as this increases cost. Associated with high cost pressure markets and thrive competition.

Transnational strategy is when a company pursues all the above objectives in exploiting experience based cost economies and location economies, transfer distinctive competencies within the company, through paying attention to pressures for local responsiveness and cost reductions (Hill, 1997).

Decisions will vary in order to pursue the correct entry mode, based on the variety of products that different hotel organisations develop. Depending on the market segment it wants to attract and pursue, selected service and budget hotels can explore the benefits of a global strategy as there will be no customisation in its products. As a whole the transnational strategy seems best as it encompasses all the benefits and objectives from the strategies mentioned (Hill, 1997).

2.2.4 Strategic entry modes

Equally important to which cross border markets are to be served, is the decision to determine how to effectively enter and develop international markets. Certain elements that need to be taken into consideration when selecting entry modes is the speed necessary for development, degree of control needed, the level of risk appetite, available opportunities, available resources and expected return.

Another relevant factor to international expansion in the hotel industry is the expanding firm's knowledge, which enables the firm to develop a competitive advantage. A firm's knowledge can be classified into two main types, namely, codified knowledge and tacit knowledge. A firm's codified knowledge is knowledge that can be easily identified, structured, and communicated. This includes the firm's characteristic design features and signature service offerings.

Its tacit knowledge is less easily communicated. This would be the company's culture, workplace routines, and business processes. A company's competitive advantage rooted in its codified and tacit knowledge will affect decisions regarding its foreign-market entry strategy. The need to make the right decision in respect of market entry is crucial in order to avoid loss of management time and financial loss. Market entry failure can lead to shareholders loss of confidence. In determining how best to apply its knowledge-based competitive advantage to an international market, the company must understand how best to use that market's resources (Kogut and Zander, 1992).

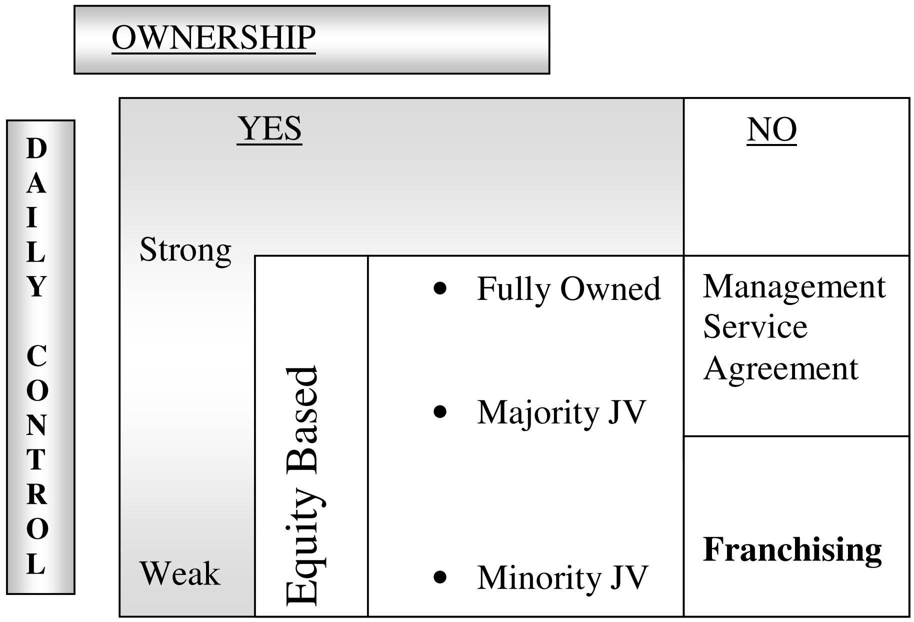
The choice of entry strategy therefore depends on aligning the firm's advantages (and shortcomings) with the market's resources and business conditions. For each business activity the firm plans to conduct in the foreign market, it must decide the best sorts of local partnerships to establish. An entering company can fill gaps in its understanding of a local market by collaborating with local partners, while at the same time the local partners tap into the company's know-how to develop a competitive advantage for themselves (Kogut and Zander, 1992).

When the entering company has little experience with or lacks knowledge about a foreign market or potential partners, the exposure to the company's resources and capabilities are at risk and the firm may fall victim to local opportunism. To protect itself under such conditions, the company will likely maintain control over its operations and ownership of its resources (Contractor and Kundu, 1998).

An entering firm has little choice but to make an equity investment if the local market lacks trustworthy, reliable investment partners. Unqualified investment partners expose the entrant to an increased risk of opportunism and incompetence. Consequently, when a local market offers a pool of qualified investment partners, an entering firm can choose an entry strategy that requires a lower level of equity participation (Contractor and Kundu, 1998).

Hotels are location bound and only have limited number of entry modes available. Figure 2.2 depicts the relationship between control and ownership. The degree of ownership required and the availability of equity.

Fig. 2.2 Control and ownership relationship



Source: Contractor and Kundu, 1998

Fig 2.3 Entry modes and their various advantages and disadvantages.

Entry mode	**Advantage**	**Disadvantage**
Franchising	Low development costs and risks	Lack of control over quality Inability to engage in global strategic coordination.
Licensing	Low development costs and risks	Lack of control over technology. Inability to engage in global strategic co-ordination. Inability to experience location and curve economies
Joint ventures	Access to local partners knowledge. Sharing development costs and risks	Lack of control over technology. Inability to engage in global strategic co-ordination. Inability to realise location and curve economies
Wholly owned Subsidiaries	Protection of know how Ability to engage in global strategic co-ordination. Ability to realise location and experience economies.	High costs and risks

Source: Adapted from Hill, 1997

Due to these advantages and disadvantages highlighted in Fig 2.3 certain trade-offs are inevitable when selecting an entry mode. According to Hill (1997) many service firms including Hilton Hotels Corporation base their competitive advantage on management of know-how. The risk of losing their management skills to franchisors or joint ventures is very low. Their most valuable asset is their brand name. As a result many service companies prefer a combination of franchising together with subsidiaries in a specific country or region to regulate and control the service and operations elements. These subsidiaries may be wholly owned or joint ventures.

Past history shows that joint ventures are often politically more acceptable and bring with it a degree of local knowledge to the industry. Cost and financing risks are shared and the opportunity is created to work with a local partner who might have a more established presence in the market. This is offset by sharing profits, control and know how together with that a companies' image that might be hurt by an ineffective partner.

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

2.2.5 Environmental analysis

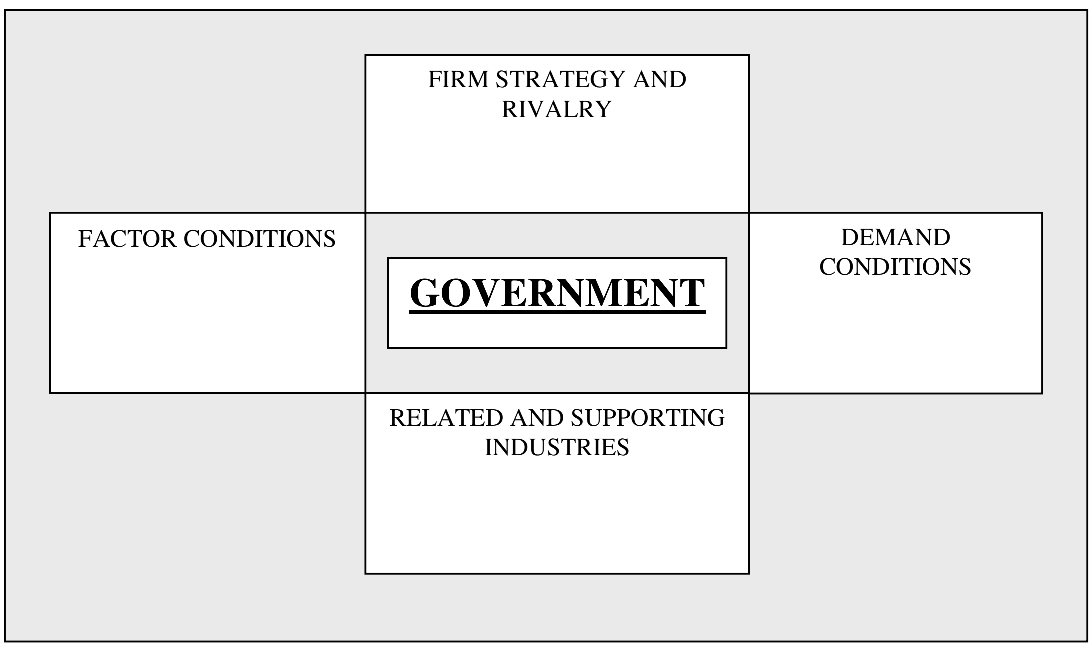
Analysis of the external environment is a major factor in determining the strategy adopted by a business. Strategic planning is made more difficult by the rate of change, complexity and associated uncertainty in the environment.

According to Heene and Sanchez (1997) it is therefore evident that successful strategy and associated competence development must be informed by a detailed understanding of the business environment.

There are numerous external forces at work outside of the organisation's control with which the business must usually adapt to. The external environment is dynamic, complex and turbulent (Stonehouse and Pemberton, 2000). Analysis of the macro environment is a fundamental prerequisite to the formulation of global strategy.

Porter's (1990) model of competitive advantage illustrated in Fig 2.4 examines the factors that are most likely to make a country attractive as a market and base for its business. Four sets of circumstances are crucial to determining a nation's competitive advantage. Porter argued that a government can affect national competitiveness by influencing the said four factors.

Fig 2.4 Determinants of competitive advantage Porter's diamond



Source: Adapted from Porter (1990)

The analysis must be defined according to the industry and markets in which the organisation wants to compete in. History has shown that movements in social, demographic, political, legal, technological, economic and financial factors can drastically change alter existing markets and even create new ones.

From the above literature review it is clear that there are various strategies that can be adopted during international expansion. But despite these differences in approach, Buckley and Ghauri (1993) found that companies there are essential differences in the way expand locally versus when they expand cross border.

Propostion 1

The following proposition arises from the above literature review.

It is critical to evaluate and implement the most effective expansion models and all factors related to entry strategies during international expansion. This will greatly enhance expansion success.

2.3 Effective functional strategies for international expansion

In order to avoid a partially successful strategy it is important to co-ordinate all the functional departments according to the chosen expansion and entry strategies.

One of the more important conditions for the implementation to succeed is that sufficient managers are committed to the company's international business development and that they are prepared to work to ensure the success of the market entry strategy. This emphasises the need for senior management to move the organisation forward and still ensuring a sufficient match with the internal context.

Hamel and Prahalad (1994) suggest that senior managers will need to balance the tensions between change and continuity. The implementation of the market entry strategy will focus on the following key functional areas shown in Fig 2.5 below.

Fig 2.5 Functional drivers to international business performance

Source: Ellis & Williams, (1995)

Regardless of the selected entry mode, the detail and co-ordination of each function will vary and must be carefully configured and managed. It is important to understand that the existing knowledge and procedures of executing tasks might vary considerably in the new market. A third party such as a joint venture partner can offer local insights and accelerate the expansion process with fewer complications. Ellis and Williams (1995) elaborated in short on the functional areas and suggests the following;

2.3.1 Marketing

The company's product must be carefully matched to the customers' needs and the following key elements form part of an appropriate marketing strategy:

- Determining the promotion and communication strategy – recognising and balancing the effectiveness of alternative media within the budgeted resources available.
- The developing of pricing strategy and structures, reflecting local demand, costs, competition and product positioning.
- The extent to which new or existing brands can be promoted.
- The initial target market to be focused on.
- Successful branding strategies (Thomas, 1986).

2.3.2 Human resources

This functional department is central to the success of any strategy and must ensure that staff at all levels are committed to the entry strategy and are prepared to commit fully to its success. The following can assist in ensuring an effective human resources strategy:

- The recruitment of skilled personnel and development of the existing management and workforce;
- Appropriate training such as language training, international selling skills and cultural awareness programmes;
- The adjustment of personnel policies and procedures to accommodate local employment laws.

Human resources are central to achieving global competitive advantage so they must be managed strategically by ensuring that an organisation has a human resources management strategy which is full integrated with its expansion strategy (Stonehouse et al, 2000).

2.3.3 Operations

Focus needs to be placed on the extent of the product adaptation for the chosen market. More specifically the company must manage its operations to ensure that:

- International development must meet local specification, legal or otherwise:

- Focus on the international operations and continue to ensure the local demands are met;
- The setting of standards;
- The development and implementation of policies and standards;
- The comparison of actual performance measures to planned performance measures.

A company that expands internationally must not only support the company's strategy; it must produce behaviour and flexibility by subsidiary managers to manage within various host country environments (Chan and Mauborge, 1993).

2.3.4 Logistics

For the hotel industry the decisions on logistics in its initial phases of development is important until such time as local markets can assist with the following:

- Procurement, distribution and supply chain management;
- Development of support systems and management information system. With the internet these functions have been simplified through technology (Stonehouse et al, 2000).

2.3.5 Finance

The finance function will need to manage any initial and ongoing investment costs associated with establishing the international operation; determine the basis on which income from cross border sales is remitted back to the company. Ensure appropriate arrangement is in place for all banking and financial transfer and capital needs. Some key components to the financial strategy include:

- How the international operation is going to be funded;
- Establishing budgets for the international operation bearing in mind fluctuations of currencies and pricing parity;
- An arrangement for translating sales of the foreign currency into the organisation's reporting currency;

- Terms and contracts for debtors;
- Management of bad debts and credit control according to the company's financial policies (Stonehouse et al, 2000).

The functional areas and guidelines are not exhaustive but rather highlight a few of the complexities that need to be planned and structured before the international development and entry strategies are entered into.

This is one of the reasons that so many company's find cross border expansion difficult and very demanding. By aligning the functional departments the chances of success becomes a reality.

Proposition 2

The effective aligning of functional departments is fundamental to ensure successful international expansion.

2.4 A global mindset

A global mindset and a holistic global strategy should create conditions to build the worldwide organisation, characterised by specialisation, interdependency, and coordination. A global outlook is a process of moving an organisation's structure, process, people, and culture from a set of highly autonomous business units to one that becomes an integrated and effective global network (Gupta, et al. 2008).

Why are some companies highly successful in spotting and exploiting global opportunities, while others mismanage them or miss them entirely? "For companies operating on a global scale, developing a global corporate mindset presents a formidable managerial challenge. The corporate mindset determines to what extent management encourages and values cultural diversity, while simultaneously maintaining a certain degree of strategic cohesion. Developing a global corporate mindset and a group of global managers as its main flag bearers has become a key prerequisite for successfully competing and growing in worldwide markets" (Kedia and Mukherji, 1999).

2.4.1 Background discussion on the drivers of globalisation

Two intertwined considerations are driving companies to make decisions on global expansion; developing cross border is becoming increasingly feasible; globalisation is becoming increasingly attractive (Hill, 2005:5-32). The following trends explain why:

- More countries are embracing and realising the benefits of accepting the free market ideology. Barriers to trade and investment continue to decline rapidly and are making globalisation more practicable and less expensive (Daniels, Raudebach & Sullivan, 2004);

- Technological advances continue their onward march (Hill, 2005);

- The economic centre of gravity is shifting from developed countries to developing countries. Economic liberalization promotes competition increase efficiency and attracts new capital investment as is seen by countries of fast economic growth such as China and India (Gupta & Govindarajan, 2005).

2.4.2 Developing a global mindset

A global mindset is a way of approaching the world, a tendency to scan the world from a broad perspective. Persons who think globally have a tendency to be open to themselves and others by rethinking boundaries and changing their behaviour (Rhinesmith, 1995). It is individuals with a high stock of global mindset that can navigate cross-cultural issues and understand the nuances of global business. They understand the complexity associated with global integration, know how to manage global supply chain relationships, are aware of political and economic influences, and understand global competitors and customers. The global mindset has sometimes been thought of as an inherent personality trait that is open, interested in others, with positive regard, self-confident, flexible and professionally competent (Kealy & Rubin, 1983).

According to Rhinesmith (1992) the difference between people who have global mindsets and those who do not is an individual that has a longer time perspective than other and constantly view the world with a broad perspective, search for context, is open to surprises and is industrious when it comes to learning new things. Moreover a global manager is creative and sees possibilities where others might see conflicts. They have an extensive knowledge about different cultures and how to make the best use of diverse teams. All of this must be coupled with paramount knowledge about technology, business and the industry.

This concept has been difficult to prove and it has been difficult to find the correlation between a global mindset and the ability to manage, but there are six characteristics as shown in the figure below that are closely related to a global way of thinking (Rhinesmith, 1992).

Fig 2.6 Personal Characteristics of global managers

PERSONAL CHARACTERISTICS

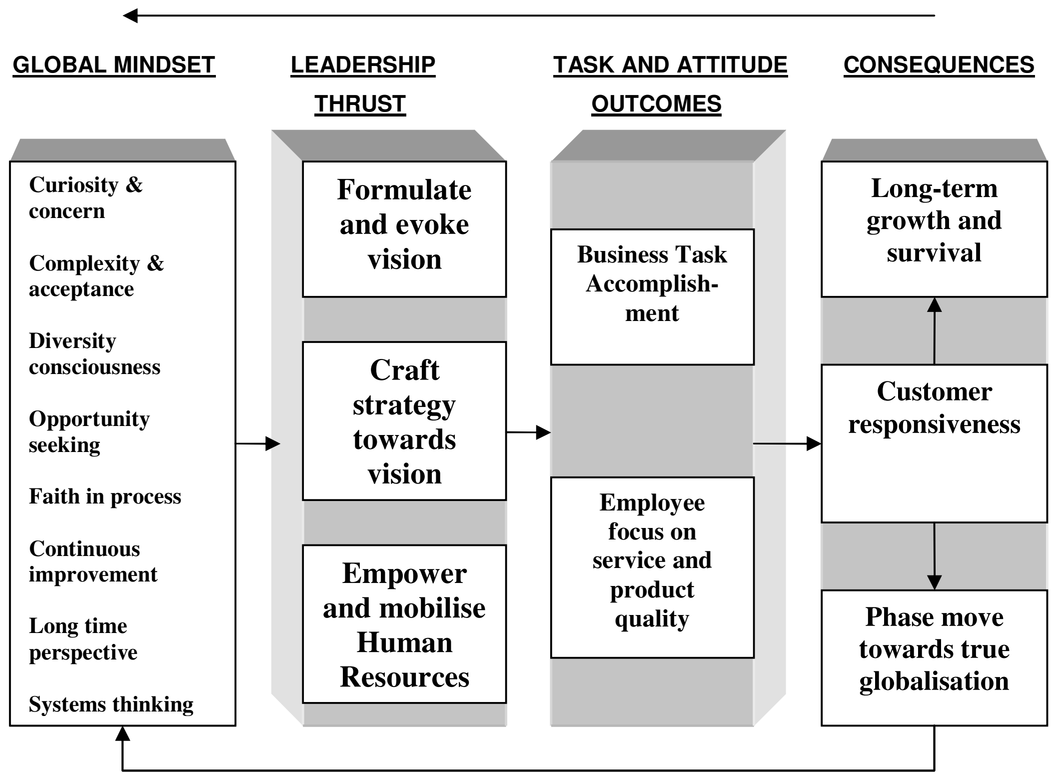
KNOWLEDGE	CONCEPTUALISATION	FLEXIBILITY	SENSITIVTY	JUDGEMENT	REFLECTION
Broad perspective Extensive Knowledge	Analytical skills Understanding of Global influences	Open minded Willingness to change old habits	Accept different values and beliefs	Self confidence Experience	Awareness Strive to learn

Source : Rhinesmith, 1992

Global managers tend to have exceptionally open minds. They respect how different countries operate and they have the imagination to appreciate why it is so. Nevertheless, they are also incisive; they push the limits of the culture. “They sort through the debris of cultural excuses and find opportunities to innovate where other see chaos “(Gupta & Govindarajan, 2004:102).

According to Srinivas (1995:32) a global mindset translates into organisational consequences.

Fig. 2.7 How a global mindset impacts on the organisation.



Source: Srinivas (1995:32)

2.4.3 Road map for smart globalisation

International management experts Gupta and Govindarajan (2004) recommend the following road map for smart globalisation:

- Ensure that your company leads the industry by identifying market opportunities worldwide and in pursue in these opportunities by establishing the necessary presence in all key markets;

- Convert global presence into global competitive advantage. Presence in strategically important markets gives you the right to play the game. This requires the identification and exploitation of opportunities for value creation that global presence offers. A multinational company is not necessarily a competitive one and being a small business does not mean that you can not successfully exploit the opportunities that globalisation offers;

- Global mindsets can be cultivated. View cultural and geographic diversities as opportunities to exploit and be prepared to adopt successful practices where they come from;

- Constantly strive to reinvent the rules of the global game. This process is improved by continuously revisiting the three perennial questions; Who are our target customers; What value do we want to deliver to these customers; how will we create this value (Gupta & Govindarajan, 2004).

What a global mindset does is enable the company to outpace its rivals in assessing various market opportunities, in establishing the necessary market presence to pursue the worthwhile opportunities — and in converting its presence across multiple markets into global competitive advantage.

According to Gupta et al (2008) the central value of a global mindset lies in enabling the company to combine speed with accurate response. It is easy to be fast, simplistic and wrong. It is also easy to become a prisoner of diversity, be intimidated by enormous differences across markets, and stay back and indefinitely and unnecessarily holding back on expansion.

Proposition 3

The following proposition arises from the literature review relating to a global mindset.

Companies need to focus on the drivers of international expansion and must develop a global mindset and remain focused on aligning its local strategies to that of a global one. This will assist local hotel companies with their international expansion initiatives.

2.5 Structural levels and control mechanisms

In order to succeed with cross border expansion an international business must have appropriate formal and informal organisational structure and control mechanisms (Hill, 1997). These structure and control systems must match its strategy in discriminating ways. Decisions need to be made on its horizontal differentiation and its vertical differentiation.

In addition, "an international firm must address its coordination needs. A company must link and integrate functions and activities of different divisions of the company" (Griffin and Pustay, 2005:404).

2.5.1 Vertical differentiation

A firm's vertical differentiation determines where in its hierarchy the decision making power is concentrated. The choice between centralisation and decentralisation is not obsolete. A combination of the two can be achieved depending on the strategy the company decides to pursue. Transnational companies need to realize location and experience curve economies and this requires a degree of centralised control. However the need for local responsiveness dictates the degree of decentralization of the many operating decisions that ensues at the international subsidiaries (Hill, 2007).

2.5.2 Horizontal differentiation

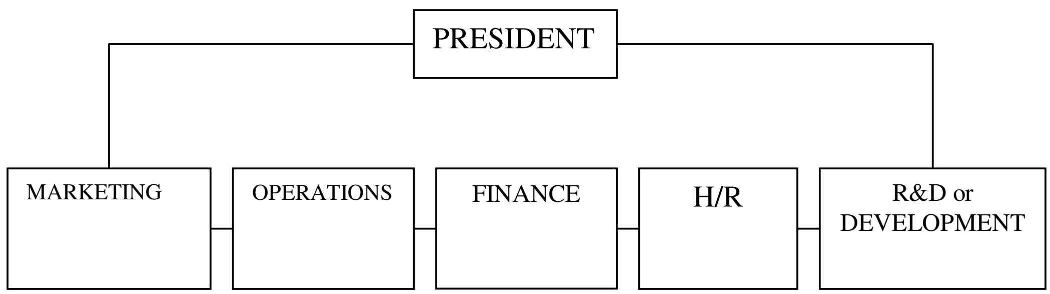
Horizontal differentiation is concerned with how the company decides to divide itself into subunits during the cross border expansion programmes. Some of the challenges are when international companies have conflicting demands to organise the company around its different products and also markets (Hill, 2007).

2.5.3 Organisational structures

The four common types of organisational structures are: Functional Structure, International Division Structure, Worldwide Area Structure and Worldwide Product Division Structure (CTU, 2005).

The traditional functional structure in Fig 2.6 is organised around the functional department and is common in companies which operate in relatively stable environment with little uncertainty. It works best for small to medium sized companies. By its very nature decision making tends to be relatively centralised.

Fig. 2.6 Functional Organisational Structure



Source: Adapted - Katsioloudes (2002)

Strengths of the Functional Structure include:

- Allows for economies of scale within functional areas;
- Enables in depth skill development;
- Is best with only one or few products;

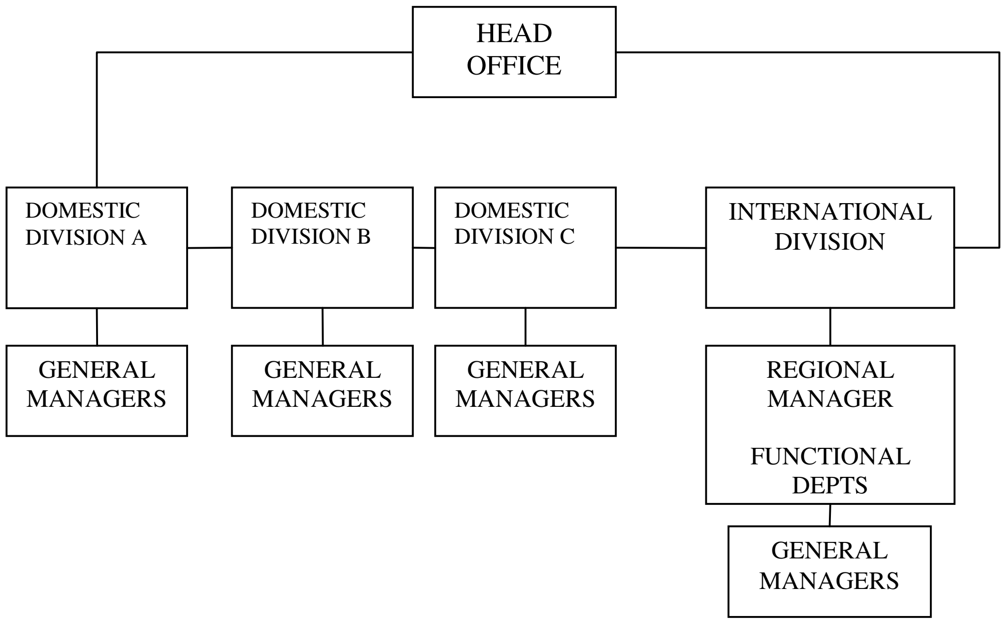
Weaknesses include:

- Allow decisions to pile up on top of the organisation;
- Lead to poor horizontal coordination among departments;
- Results in less innovation;
- Involves restricted view of organisational goals;

(Daft, 1995).

When international subsidiaries expand they are commonly grouped into a international area or division structure. This structural arrangement is useful as it takes pressure of the chief executive officer in monitoring both the international as well as the domestic operations. The head of the international division will co-ordinate all the activities and this person will report directly to the chief executive officer (Hill, 1997).

Fig. 2.7 International Area/Division Structure



Source : Adapted; Hill (1998:383)

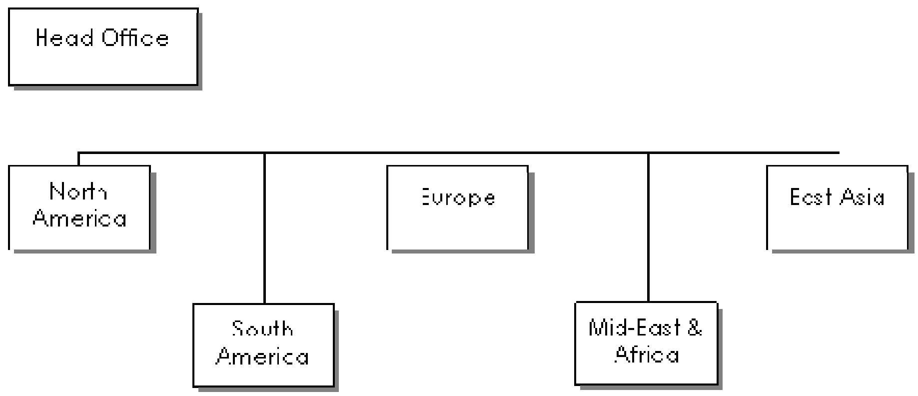
This organisational structure illustrated in Fig 2.7 would be optimal for a company that is expanding its international operations. This would allow the organisation to focus on the region of the world they are selling to and tailor the needs of mobility products to that area (Griffin and Pustay, 2005).

When companies start their international expansion they typically group all their international activities into an international division. Regardless of the companies' domestic structure they tend to be organised on geography.

According to a Harvard study (Bartlett and Goshal, 1989) sixty percent of companies that expand internationally use the international division structure coupled to its current horizontal differentiation. This dual structure do however create its own problems, through the inherent potential for conflict and coordination issues between domestic and foreign operations. The heads of international divisions don't get the same voice as the domestic function heads.

If the firm has a domestic structure based on function and has a low degree of diversification (that is, relatively few products), it will probably adopt a worldwide area structure as illustrated below.

Figure 2.8 A worldwide Area Structure

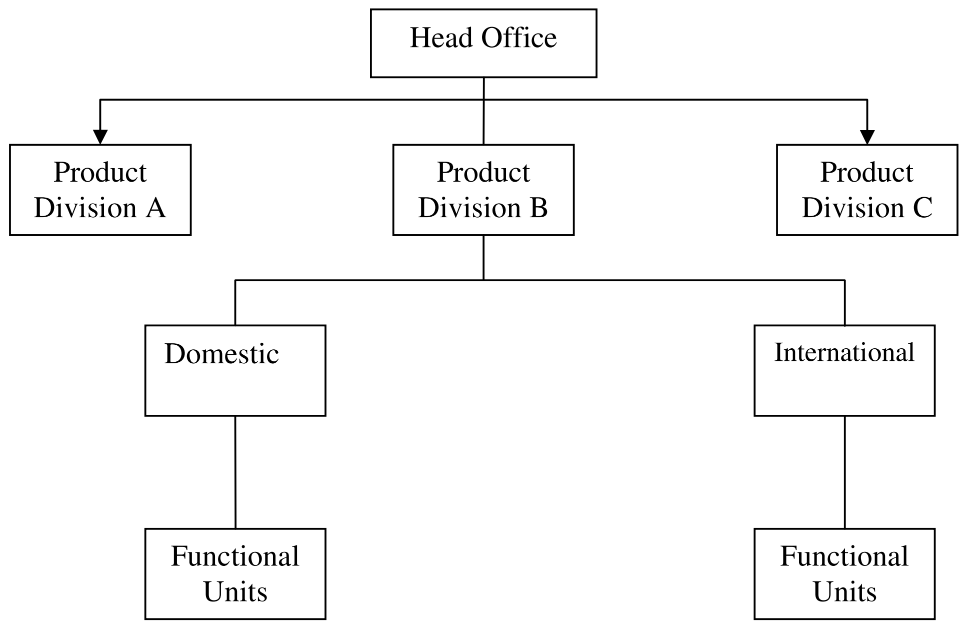


Source : Hill (1998:385)

As a company grows exponentially in size internationally it can be expected that a companies' organisation will grow and move towards the Worldwide Area Structure as shown in Fig 2.8. This will allow a company to hire managers who specialise in understanding the cultural, commercial, social and economic conditions they wish to expand to (Griffin and Pustay, 2005).

If the firm has a domestic structure based on product and is relatively highly diversified (that is, has many products) the solution according to Hill (1995) is to adopt a matrix structure that divides the company on the basis of products and national markets. When different brands are being developed problems of coordination and control need to be resolved. Most companies at this stage switch to product division structure with each division responsible for a specific product.

Figure 2.9 A Worldwide Product Division Structure



Source : Hill (1998:386)

The basic idea of a worldwide product division structure as shown in Fig. 2.9 is that each division is self contained and autonomous with full responsibility for its own value creation activities. The head office will still maintain control over its strategic development and financial control. Strengths of this structure are that it is easier to realize location and experience curve economies. The main weaknesses is that it gives less voice to the country manager as they are seen as subservient to division managers (Hill, 1998)

This effectively relegates each country's manager to a second tier of the hierarchy which is inconsistent with a company that pursues a strategy of expanding internationally towards a true multinational organisation.

Another potential issue is the lack of coordination between domestic operations and foreign operations which are isolated from each other. This can inhibit the worldwide introduction of products, policies and the transfer of core competencies.

As a result of the above mentioned problems most companies that have expanded to a certain size tend to abandon this structure and adapt to worldwide structures.

2.5.4 Importance of structural strategies

Companies that pursue international expansion can find obstacles due to the impediments of co-ordination as discussed. A major task of the leaders are to control the various sub-units to ensure their actions are consistent with the firms overall strategy and vision.

Companies go through stages as they evolve towards fully fledged global operations. In the initial stages, the domestic stage*,* the firm is domestically oriented but may want to consider some initial foreign involvement to expand their horizons. The structure is domestic, typically functional or divisional and foreign development is handled through an international department.

In the subsequent stages, the international stage*,* the firm becomes multi-domestic and foreign subsidiaries may be established. A fully operational international division will oversee these subsidiaries. As expansion progresses to that of the global stage, the alternatives are to move to a worldwide area structure of worldwide product division structure (Hill, 2007).

PROPOSITION 4

Based on the literature above it is clear that companies must identify and deal with the issues relating to structural levels of the organisation and the levels of coordination during its international expansion programmes.

2.6 Conclusion of Literature Review

To reduce the risks inherent in international expansion, hotel companies must decide the appropriate balance between maintaining their own control or permitting local control of the physical assets, management, and marketing. The ownership and operating decisions should be made separately.

One decision depends on the company's strengths in operating knowledge and the other on the resources available in the local market. Thus, the entering company could use one of four possible approaches in developing its new property, with each variation depending on the relative resources of the local partners and the international investors. This analysis will make it clear which party should own the assets and which party should manage and market it.

When hotel firms expand internationally, they must determine the ownership strategy and the management strategy that will best maintain the firm's competitive advantage. Those decisions are made separately from each other and depend on the expanding company's own strengths and the strengths found in the local market. That interplay between the company's strengths and local resources drives the type of partnership or affiliation arrangement that the company uses to enter the foreign market.

The decision regarding who controls management and marketing, for instance, depends to a large extent on whether the expanding company can rely on local interests to maintain the firm's customer service standards. If the firm does not use customer service as a competitive advantage, it can make more use of third-party interests to operate the hotel. If the hotel facility is itself a point of competitive advantage, the decision on the extent of equity investment by the firm rests on whether local interests have sufficient resources to build and maintain the property.

Hotel companies that want to enter into foreign markets face several decisions regarding the most appropriate entry strategy. In particular, the firm must determine what is the best ownership structure and how best to manage the property in conjunction with local resources. Academic research suggests that the best entry strategy aligns the entrant's strengths and weaknesses with the local market's environment as well as with the firm's own structural and strategic characteristics (Ekeledo and Sivakumar, 1998).

Again emphasis must be placed on companies to separate ownership decisions from control decisions. The hotel industry has long separated ownership and management in its international locations. However, analysis shows that current industry structure means that the decisions regarding ownership and management involve two steps (Pan and Tse, 2000). First, entrants must decide whether to own the facilities in which their businesses will operate.

The second step is to decide whether the chain itself will manage the property, whether the property will be operated by a management company, or whether it will be locally managed. To be sure, the ownership and control decisions in entering foreign markets are strongly correlated (Anderson and Gatignon, 1986).

The implementation of the successful market entry strategy will focus on the following key functional areas, marketing, finance, logistics, human resources and operations. These functional departments are the backbone of any organisation and will largely affect the successful expansion strategy. They need to be effectively and efficiently organised in order to execute the chosen strategies.

Various stage models exist for companies to evaluate international expansion. According to these models companies must first establish a solid home base and then expand stepwise starting off with neighbouring countries. Expansion can then be made further away from home using this evolutionary process. This in itself will take years and even decades to become fully international (Rasmussen & Madsen 2002).

Born global companies approach expansion with a totally different concept. According to Mckinsey (1993) they view the world as a market place for their business and view their domestic market as support for their international market. New developments in transportation and communication, management with international experience have given rise to this new approach.

Management's commitment to internationalisation and their own experience and knowledge are key drivers of this born global concept.

Factors like spans of control, the need for formalisation, centralisation or decentralisation, and planning systems should be logically configured into internally consistent groupings. Excellent organisational performance depends on the Mckinsey seven S framework. His argument based this performance upon strategy, systems, shared value (culture), skills, leadership, staff and structure (Peters and Waterman, 1982).

As these organisational features are interdependent, each was thought to play an important role in determining the others so that structure will be affected by strategy, systems culture etcetera. Therefore structure again will help to shape strategy, culture, systems etcetera. Numerous factors will determine the shaping of the company's structure. Factors in the hotel industry will include global strategy, age and history, size of the business and the limitations of control, geographical span and the leadership and leadership style.

According to Stonehouse et al (2000) the international division structures are mostly used at the early phases of expansion. This allows for greater control and co-ordination of foreign operations as well as ensuring that the interests of foreign subsidiaries are taken into account in the corporate planning process.

The international division therefore creates a focal point for growing the foreign involvement of the company, through foreign direct investment (FDI), by concentrating the international knowledge and expertise in a single division.

International divisions are also very short lived. "The very success of the international division in stimulating FDI may sow the seeds of its own destruction. The continued foreign expansion of the company through FDI will result in the need for closer control and planning of foreign activities by the parent company" (Stonehouse et al, 2000:319).

These divisions will eventually be replaced by global structures which can exercise greater co-ordination and integration of worldwide activities, usually organised on functional, product or geographical lines of responsibility.

Proposition 1: **It is critical to evaluate and implement the most effective strategies during international expansion. This will greatly enhance expansion success.**

Proposition 2: **Effective functional strategies are fundamental to ensure successful international expansion.**

Proposition 3: **Companies need to focus on the drivers of international expansion and must develop a global mindset and remain focused on aligning its local strategies to that of a global one.**

Proposition 4: **Companies must identify and deal with the issues relating to structural levels of the organisation and the levels of coordination during its international expansion programmes.**

CHAPTER 3: RESEARCH METHODOLOGY

Most qualitative studies are directed towards building theory. The purpose of theoretical studies is the understanding or explanation of features. “In these studies, researchers actively interpret and point out what is important to their audience (Taylor & Bogdan, 1998). This chapter describes and explains the research methodology used by the researcher, the research design and tools used, questionnaire set up and analysis of the data. It describes how the research fits the theory and also identifies the shortcomings and ways to overcome these.

The aim of this chapter is to discuss the research methodology that will be followed by the researcher. The paradigm is described with the various aspects that are involved. This includes the ways of collection of primary and secondary data. A description is given around the methodological approach that will be followed and why it is appropriate for this study. Further design aspects are discussed together with the significance, advantage and disadvantages of the procedures.

3.1 Research methodology / paradigm

Qualitative research is used typically to answer the questions about the complex nature of phenomena, often with the purpose of describing and understanding the phenomena from the participant’s point of view (Leedy and Ormrod, 2001).

The qualitative approach is also often referred to as the interpretive, constructivist or postpositivist approach and can reveal the nature of certain situations, relationships, systems or people. Validity of certain assumptions can be tested through verification and also allows the researcher to evaluate certain policies, innovations or practices (Leedy and Ormrod, 2001).

Through interpretation it enables the researcher to gain new insights into a particular phenomenon and develop new concepts or theoretical perspectives. Leedy and Ormrod (2001) outline the process of research methodology as comprising of the clear articulation of a goal. The research also originates with a question and that it usually subdivides the principle problem into more manageable sub-problems.

In order to answer the various research propositions that are posed, it is important to choose the correct research method. This research will be based on the phenomenological approach. Primary and secondary data will be collected. Furthermore the researcher has studied the different expansion and entry strategies, models and data collected from companies, in order to create a link between all the data.

3.1.1 Primary data

Primary data is original data collected for the research problems at hand, especially when secondary data is not available to answer research questions (Ghauri, 2005). There are several choices in collecting primary data and since this dissertation is formulated by using the qualitative approach, it was necessary to schedule in depth interviews with the departments and executives tasked with expansion in the sample of chosen companies. This is considered one of the best techniques of collecting data (Ghauri, 2005). The interview questions are formulated to be direct and to the point in terms of the information that the researcher wants to gain. This also acts as a source of verification to the secondary data.

3.1.2 Secondary data

Secondary data are widely used in solving research questions. Secondary data are collected and can be obtained by personal negotiation or through public access. It's data that can enhance the understanding and comprehensiveness of the results (Ghauri, 2005).

Secondary data sources include: books articles and online data, academic paper etcetera (Ghauri, 2005).

3.2 Research Design

This research will report on the findings of a case study approach. It needs to be recognised that the primary aim of research study is a theory with specific components: a central phenomenon, causal conditions, strategies, conditions and context, and consequences (Strauss and Corbin, 1998). Case study is an ideal methodology when a holistic, in-depth investigation is needed (Feagin, Orum, & Sjoberg, 1991).

By following a case study approach, the enquirer should have clearly identifiable cases with boundaries and should seek to provide an in depth understanding of the cases or draw comparisons. Cases may involve an individual, individuals an event or activity (Stake, 1996). Data collection is usually extensive and explores sources such as observations, interviews, documents, physical artefacts and archival records Yin (2003).

That methodology will follow the recommendation of Yin (1994) and has four stages:

1. Design the case study;
2. Conduct the case study;
3. Analyse the case study evidence;
4. Develop the conclusions, recommendations and implications.

To overcome certain obstacles during case study research a researcher must identify his or her case.

This case study approach is best applied when there is not enough theory to explain a certain process. “The literature may have models available, but they were tested on samples and populations other than those of interest to the qualitative researcher” (Cresswell, 2007). There may also be incomplete theories or they might not address the potentially valuable variables of interest to the researcher. By following a case study approach it can provide a general framework to explain how people are experiencing a phenomenon.

Data collected from individuals can consist of semi-structured in-depth interviews. Polkinghorne (1989) recommends that researchers interview from five to twenty five individuals who all have experience in the phenomenon. The research questions will probe for information relating to understanding how individuals experience the process and identifying the steps in the process. (What was the process? How did it unfold?).

In an attempt to focus on more specifics of expansion strategies, strategic management, operating and internal structures of international hotel chains, the available literature proved rather limited, reflecting the advocated lack of sophistication of the industry in this field (Dev & Klein, 1993).

The point is to gather enough information to fully develop (or saturate) the model. This in part is one of the problems associated with this approach; the difficulty of determining when categories are saturated and when the theory is sufficiently detailed. Through discriminant sampling the move towards saturation can be overcome through gathering additional information from individuals similar to those initially interviewed to determine if the findings and theories hold for the additional participants (Cresswell, 2007). Case studies are designed to bring out the details from the viewpoint of the participants by using multiple sources of data.

The data analysis proceeds in stages. "The result of this process of data collection and analysis is a theory, a substantitive-level theory, written by the researcher close to a specific problem…" (Cresswell, 2007).

This study may be tested for its empirical verification or alternatively the study may end with the generation of a theory as the goal of the research (Cresswell, 2007).

Therefore, general management, international strategy and strategic marketing books and journals supported the secondary research conducted, and were critically reviewed, incorporating a global market perspective, to identify and examine the key issues on expansion strategy. These key issues thus constituted the basis for the primary research. The primary research findings were analysed and synthesised with the findings of the secondary research leading to the concluding remarks presented at the end of the paper.

3.3 Population and sample

3.3.1 Population

The population of the study consisted of three hotel companies of which two have already ventured extensively into foreign operations. A consulting firm tasked in assisting foreign operations for hotel companies was also asked to participate in the interview process. Five directors charged with cross border expansion were targeted and interviews set up.

3.3.2 Sample and sampling method

Collins and Hussey (2003) described a sample as a subset of a population. There are various sampling methods but the one chosen was that of judgemental sampling and theoretical sampling. Judgemental sampling is chosen when participants are selected on the strength of their experience of the phenomenon under study. Theoretical sampling can be used as a guide for selecting people to interview (Glaser and Strauss, 1967 in Taylor and Bogden, 1998:93).

In theoretical sampling, the actual number of people and cases studied is relatively unimportant. “What is important is the potential of each case to aid the researcher in developing theoretical insights into the area of social life being studied” (Taylor & Bogdan, 1998) The participants that are interviewed should be consciously varied until a broad range of perspectives are uncovered.

Participants were selected through the approach of the industry itself, personal contacts and agencies.

Table 3.1 indicates the number and also the range of positions held by the participants of this study.

Table 3.1 Profile of respondents

Chief Executive Officer	1
Director of Operations – Africa	1
Sales and Marketing Director	1
Financial Director	1
Manager of International business development	1
Managing Director	1

3.4 The questionnaire design and structure

A questionnaire was designed and send to a executive in charge of international business development for critique. Recommendations were made and changes were done, prior to the scheduling of interviews with the responsible executives in charge of strategy and international expansion.

The questionnaire was designed into different sub sections. The first section required information on the company, its current size, nature of ownership, years established and the date of its first foreign expansion. Operational data were also asked in terms of existing and future markets being exploited, entry strategies that are being pursued and any forms of strategic alliances and competitors in the same markets.

The following sections probed questions pertaining to the literature review and research propositions. Section two of the questionnaire turned the focus to the research question from chapter two. Questions were formulated to gain insight and knowledge on the current expansion strategies and models followed by the respective companies. Critical location considerations were also included.

The time frames from formulating to actual expansion were also included in the questionnaire for companies who ventured and, also to the companies who have not yet expanded internationally. Where no clear strategy or models were adopted the questions were formulated to reveal the direction in which the respective company is moving.

Section three's questions were based on the formulation of the research proposition two and the functional strategies that are followed by the organisation to ensure a smooth transition when expanding its horisons.

Section four's questions were based on the research proposition three; the drivers of the global mindset and who sets the tone for the global mindset. Questions were also asked to determine how the company is inspired to attune to a global outlook and possible ways of influencing stakeholders to align with foreign expansion.

The concluding section in the questionnaire was based on the research proposition four. The current structural levels of the organisation, the previous levels of reporting prior to the expansion and reasons for structural change and the effectiveness achieved.

3.5 Procedure for data collection

Semi-structured in-depth interviews were deemed appropriate to narrow the wider issues down to a more focused outcome. Interviews are one of the most important sources of case study information. The interview could take one of several forms: open-ended, focused, or structured. In an open-ended interview, the researcher could ask for the informant's opinion on events or facts. This could serve to corroborate previously gathered data (Tellis, 1997). Initial contacts were made with ten regional executives and international hotel directors around the world (South Africa, United States of America, United Kingdom and France), marketing directors, consultants and academics. A self-selection process then followed, whereby six key industry players from three companies presented themselves for interview.

Although the number of people interviewed is small, the gathering of enough secondary information counter-balanced this limitation. This said, the semi-structured in-depth interviews were of 45-60 minutes duration, allowing for a flexible approach so as to stimulate debate on many of the issues raised. Initially the researcher introduced the subject of the research to the interviewees, outlining its aim and objectives, as well as key areas and issues of interest so that they would understand the purpose of the interview.

All the interviews were recorded verbatim to allow the interviewers to follow and control the discussion more easily, and were later transcribed.

Researchers suggest that the essentials for good practice in qualitative analysis are continued reference to the study objectives, since the analytic objective is normally to show how what is being said relates to the issues and practices being raised in the literature review (secondary data) and the development of logical and structured approaches.

Analysis of qualitative data may accrue propositions that may as a minimum generate possible hypothesis for testing or verification with further research, which may prove to be stimulating more future researchers to continue research on the topic (Holstein & Gubrium, 1999). The sections and categories of the main body of this research were specifically chosen in order to make this multifaceted research domain more transparent.

3.6 Data analysis and interpretation

Data collection and analysis proceed together. Yin (1994) suggested that every investigation should have a general analytic strategy, so as to guide the decision regarding what will be analyzed and for what reason. In general, the analysis will rely on the theoretical propositions that led to the case study.

Glaser and Strauss (1967) proposed the constant comparative method in which the researcher simultaneously analyse data in order to develop concepts. Through this constant comparison, concepts can be refined, their properties identified, their relationships explored to another and then to integrate them into a coherent theory (Taylor & Bogden, 1998). In qualitative research, data collection and analysis go hand in hand. Through participant observation, in depth interviewing and other qualitative techniques, researchers are constantly theorising and making sense of their data (Taylor & Bogden,1998).

Some suggestions proposed by Taylor & Bogden (1998) includes:

- Collect all field notes, read and re read to know your data inside out;
- Keep track of interpretations and ideas;
- Search through the data for emerging themes, patterns and topics.

The respondents and the researcher might bring beliefs assumptions and biases to the study. Strauss and Corbin (1998) emphasises that it is not possible to be completely free of biases. Through the technique of waving the red flag, it can enable a researcher to stand back and examine the data at least somewhat objectively. Some of the indicators of bias intruding are the face value acceptance of the words or the complete rejection without questioning what is said. Terms such as “always” and “never” and phrases like “no other way” and “it can’t possibly be” should wave a red flag.

3.7 Validity and reliability

Yin (1994) suggested the using of multiple sources of evidence as the way to ensure validity. The current study used multiple sources of evidence; survey instruments, interviews, and documents. During the evaluation of a qualitative study questions need to be asked around the validity of the research and findings and also by whose standards. According to Cresswell, J.W (2007) the answers to these questions will provide many perspectives on the validation of the study. It is not enough to gain perspectives and terms. The rationale for using multiple sources of data is the triangulation of evidence. Triangulation increases the reliability of the data and the process of gathering it. In the context of data collection, triangulation serves to corroborate the data gathered from other sources (Tellis, 1997).

Creswell (2007) stipulates that these ideas are translated to practice as strategies or techniques. To establish the trustworthiness of a study terms can be used such as credibility, authenticity, transferability, dependability and objectivity (Lincoln and Guba, 1985).

Lincoln and Guba (1985) propose techniques such as triangulation of data and member checking. Creswell, J.W (2007) recommends at least two techniques during any qualitative research.

- Triangulation of data - involves the use of various sources, methods, investigators and theories to provide corroborating evidence (Lincoln and Guba, 1985)
- Member checking – according to Lincoln and Guba (1985) this is “the most critical technique for establishing credibility”. This involves taking all the analysed data back to the participants so that they can judge the accuracy and credibility of the conclusions.

This study will apply both these techniques mentioned.

3.7.1 External validity

External validity involves the extent to which the results of a study can be generalised (applied) beyond the sample. In other words, can you apply what you found in your study to other people (population validity) or settings (ecological validity) (Gall, Borg and Gall, 1996).

3.7.2 Internal validity

The use of prior theory and probe questions which was introduced in the interviews and good listening techniques support the issue of internal validity (Perry, 2001). The researcher used multiple sources of data to triangulate the data to confirm emerging findings and to support the theory. The findings are described in sufficiently rich detail so that the readers are able to draw their own conclusions. The researcher will not let his biases, view, opinions and relationship to the sample affect the investigation process.

3.7.3 Reliability

From a reliability perspective Leedy and Ormrod (2001) stipulate that reliability is the consistency with which a measuring instrument yields a certain result when the entity being measured hasn't changed. According to Straits and Straits (1993) in Jonker (2003) this reliability can be improved through conducting a pre-test on a small sample of persons similar in characteristics in the sample group. A literature survey was done in chapter two and a pilot study will be done to test whether all questions are relevant and understandable.

3.8 Limitations of the study

The research has the following limitations:

- Limited available respondents with extensive knowledge in the field of expansion strategies specific to the hospitality industry in South Africa;
- The sample size may remain questionable;
- Key assumptions that there is one model that can fit all cross border campaigns.

CHAPTER 4: PRESENTATION AND DISCUSSION OF RESULTS

4.1 Introduction

The discussion and reporting aspect of a case study is perhaps most important from the user/reader perspective. It is the contact point between the user/reader and the researcher. A well designed research project that is not well explained to the user/reader, will cause the research report to fall into disuse. In this section, the researcher should refrain from technical jargon and resort to clear explanations. These explanations are necessary to help the user/reader understand the implications of the findings.

The results from the primary research will be linked to the secondary research. Common findings will be linked and differences explained. The propositions posed will help to analyse the collected data. Findings and recommendations will be given on finding the correct fit when it comes to strategic choices during international expansion. Other important considerations will also be discussed such as the involvement of functional departments, developing a global mindset and arranging the correct structure during such expansion programmes. The information would especially be beneficial for companies that want to establish a global footprint.

The key importance of this study was to research the various strategies and processes that companies follow during their international expansion programmes, with the focus on hotel companies. During this primary data collection a constant link was maintained with the secondary data collection.

The feedback from the respondents posed will be noted based in the order of the propositions posed in the preceding literature review chapter. The researcher acted as facilitator of the interview sessions and used open ended questions to prompt the participants to discuss the questions freely. Probing techniques was used to gather further information on certain questions to gain clarification.

4.2 Research methodology and respondent profiles

Case study is an ideal methodology when a holistic, in-depth investigation is needed (Feagin, Orum, & Sjoberg, 1991). Case studies have been used in varied investigations, particularly in sociological studies. The researcher researched the various strategies that companies follow to get a better understanding of the processes that are involved during such developments. Case studies are designed to bring out the details from the viewpoint of the participants by using multiple sources of data.

A fact that is agreed upon by all the major researchers in the field, including Yin (2003), Stake (1995) and Feagin (1991) is that case study research is not sampling research. Individual cases must be selected in order to maximize the information that can be gathered in the limited time span. Three companies eventually agreed to the interviewing process. The selected focus technique was used and only executives tasked with development programmes were interviewed. Their positions ranged from chief executive officers, marketing and sales directors and international managers.

The researcher developed the questionnaire according to the findings of the literature review. The questions were directed during the interview process and sufficient time was allocated to ensure discussions and elaboration on the topics rose. Although sufficient information was gathered, the researcher hoped to obtain more information specific to the processes that are followed during expansion developments.

The respondents interviewed came from three hotel companies in South Africa that are either amid international expansion or have already done so successfully.

4.3 Results pertaining proposition one

The results from the questions related to proposition one will be discussed in this section. Questions were formulated around the proposition of the **critical evaluation and implementation of the most effective expansion strategies**

during international expansion. Many variables contribute to the success and failures of expansion efforts. Executives tasked with such expansion programmes shared their knowledge and beliefs based on their own experiences. The research questions highlighted and exposed their beliefs and practices. The literature review and findings during the secondary research will raise any discrepancies and contradictions.

4.3.1 Implementation of effective expansion strategies

One of the most critical decisions and practices during expansion should be a clear strategy aligned with the respective company's values and beliefs. This strategy should also include a well formulated plan to address the various pitfalls associated with these endeavours. This strategy should also link with available expansion models and market entry decisions best suited for the company. This will be dictated by the company's risk profile, expertise and available funding.

Of the three companies it was evident that clear goals had been set in terms of what it wanted to achieve. All the respondents turned their focus on the developing economies. Looking at the table below it is clear that the developing economies are still very unexploited when compared to the developed countries.

Table 4.1 Worldwide hotel room capacity % share by region, 1990-1998.

	1990	1992	1993	1994	1995	1996	1997	1998
The Americas	35.2	35.5	36	35.4	32.9	33.1	33.3	33.5
North America	29.9	31.7	31.1	31.2	27.5	27.4	27	26.8
Caribbean	1.1	1.3	1.3	1.3	1.2	1.2	1.2	1.3
Central America	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
South America	4	4.2	4.1	4.3	3.9	4.2	4.6	5
Asia Pacific	20.5	20	20.6	20.3	22.5	22.9	23.3	23.7
Oceania	1.6	1.8	1.6	1.8	1.6	1.7	1.5	1.5
Europe	40.2	40.3	39.3	40.1	40.4	39.7	39.1	38.5
Middle East	1.3	1.4	1.3	1.3	1.3	1.4	1.4	1.4
Africa	2.7	2.8	2.8	2.9	2.9	2.9	2.9	2.8
Worldwide	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: TTI (2001)

It is evident from the above figures that in Europe and North America, which started the decade with a combined market share of over seventy percent, had less than two thirds of the market just eight years later. Some regions of the world have remained largely static in their hotel supply, for example the Middle East and Africa, while there has been a low level of growth in South America.

It also highlights that Africa still has less than three percent of the supply of hotel rooms. This indicates the lack of development in the tourism industry, and perhaps to the potential for growth in future. Although these figures are approximately ten years old, it paints a picture that the three companies in this research study want to benefit from the opportunities that Africa and the sub-continent can offer.

However the actual strategies and formulation of the achievement of these expansion goals by the three companies were not always clear. None of the companies researched based any of its expansion programmes on a specific model, but instead their approach contained various elements of the respective models.

One of the companies is clearly basing its development on the Stages or Uppsala model. According to this model internationalisation is a process which follows an orderly sequence of growth in incremental stages. Two of the major elements are knowledge and commitment (Johanson and Wiedersheim, 1975).

Knowledge of the foreign market is crucial to determine the level of commitment of the company to enter them. As the company learns more about the market the more resources are committed. Although outdated and not meant for fast growing industries, it can provide certain positive elements for companies with a lower or calculated risk appetite.

Company two lends itself to the eclectic paradigm. This is due to its expansion efforts that contained a mix of expansion ventures. The eclectic paradigm considers internationalisation within the framework of three different interrelated advantages defined as ownership, location and internalisation (OLI) advantages (Dunning, 1993).

Ownership advantages are competitive advantages that the firm owns versus its competitors. Company two's respondent said that the thread that runs throughout all their business dealings is the fact that they are responsible for sales and marketing, management, human resources and training. They consider their sales and marketing team to be one of their strongest assets.

Location advantages consist of political, natural and economical factors that a company will consider prior to expansion. As with the other respondents, company two also based location advantages as their main reason for expanding/not expanding into a specific market.

Internalisation advantages derive from a firm deciding on the modality of foreign involvement selected by the company when going international. Company two managed to balance their portfolio and expanded with several of the market entry strategies that included less capital due to franchising and on the other scale joint ventures and wholly owned subsidiaries which required more capital.

The third company focused solely on management contracts. This has enabled them to expand with a rapid pace into Africa. Today this group is the largest hotel group in Africa with the most extensive network - over 100 establishments in nine countries on the African continent. They trade their management expertise and brand name in partnership with landlords that lack the skill and knowledge to operate a hotel.

They also have a property division that is separated from the holding company with whom they also enter into a management contract. This concept does not lend itself to any particular expansion model but there are benefits in expanding using less equity to enter the markets. They are also in the real estate business. This rapid expansion of hotels was achieved in less than twenty five years using these various expansion techniques.

Equally important to which cross border markets are to be served, is the decision to determine how to effectively enter and develop international markets. Certain elements that need to be taken into consideration when selecting entry modes is the speed necessary for development, degree of control needed, the level of risk appetite, available opportunities, available resources and expected return.

Due to the nature of the services industry, entry modes in the hospitality industry are limited to franchising, management contracts, joint ventures and wholly owned subsidiaries. As discussed in the literature review it is imperative to make the correct market entry decision to avoid loss of time and financial loss. By evaluating ones resources decision, strengths and weaknesses, then decisions can be reached on a much easier basis.

4.3.2 Strategic choices to enter and compete in the international environment

According to Bartlett and Ghoshal (1987) companies can use four strategies to enter and compete in the international environment: an international-, multidomestic-, global- and transnational strategy. The appropriateness of each of these strategies will depend on factors such as the relative strength of pressures for cost reductions and pressures for local responsiveness.

Company one has always relied on competitive pricing. This was possible due to non customisation of its products and low development costs. The international markets however can be very demanding and the respondents from this particular company accepted the fact that they'll expand with a transnational strategy that factors high cost pressures and high pressure for local responsiveness which would mean adapting to the various market needs. Transnational strategy is when a company pursues all the above objectives in exploiting experience based cost economies and location economies, transfer distinctive competencies within the company, through paying attention to pressures for local responsiveness and cost reductions (Hill, 1997).

Company two's response is that they find themselves in the four and five star markets with international travellers comprising 71 percent of their rooms sold. They are less price sensitive but demand high end market services and furnishings. Market strategy is therefore multi-domestic of nature but could also adapt to that of a transnational nature due to other competitors in their field.

Multidomestic strategy is when a company wants to orientate themselves toward achieving maximum local responsiveness through customising their product offerings and marketing to different national conditions. This is normally associated with low levels of cost pressures where pricing is not of great concern.

Company three finds itself in a spectrum of products and can compete in a wide range of price responsiveness and has products that fit in with local responsiveness. This is especially the case with their branches in Africa where returns on investment are higher due to higher average room rates that can be achieved. Their products are upgraded to gain a better star grading and are custom made according to the needs of the specific needs of the travelling client. They therefore also pursue the strategic entry choice of a transnational company.

4.3.3 Markets for expansion

All the respondents at the time of the interview mentioned that their focus is solely on the emerging markets with countries that indicate a high rate of percentage growth. High density populated cities with potential of sustainability were usually identified first. One respondent said that they identify sites in various countries according to three tiers. Tier one would be a vibrant city with lots of businesses and high growth rate, tier two outer lying industrial areas and tier three the smaller villages and towns with growth potential or upcoming industries.

All respondents did understand their current competitive advantages and kept it top of mind during the scanning and segmentation of markets for possible opportunities. Market analysis was done in-house at all three companies with most desktop research done within its international or development division. Two of the three companies have to date not used any external specialists to assist with its market analysis and has abstained from outsourcing this integral part of international expansion.

The third company selectively used specialist field researchers in the initial phases of expanding in certain markets. This information would then form part of the bundle of research and is used in collaboration with all other findings and information.

Proximity to the home country was of great importance to only two of the companies. The third company has already established itself in the SADEC regions and is aggressively focusing on the rest of Africa. Company one felt that proximity is important and is currently turning its focus on SADEC countries during their current phase of expansion.

This is due to the current uncertainties faced in some of the emerging markets. The one respondent indicated that by expanding in close proximity to its home country it can still allow for growth but with less set up costs and risks associated with far away markets.

Company respondent two did mention that they want to only focus on Africa at this stage, using their established foundation in South Africa a springboard. They are expanding close to home in Angola and also further away into Nigeria. The respondents that did not factor close proximity as an issue also indicated that the “closer” markets that have not yet been exploited do not hold any viable option to expand in at the current moment.

4.3.4 Market Entry

A hotel company’s competitive advantage based on its management and organisation can be transferred to local markets using the several entry modes as discussed in the literature review. Market entry strategy for company one is at this stage solely focused on joint ventures. Although no exploration has been initiated, their choice of market entry remains firm on equal partnership. The respondents were at one that they do not want to lose control over ownership and strategic decisions. One of the respondents said that if the company needs to refurbish the hotel, then they would want to do so, without hindrance or lack of funding which can be the case in minority stake holding. They are currently exploring suitable companies to join forces in the respective countries.

Currently they are not considering franchising due to the lack of control and lesser income streams associated with this avenue. Wholly owned subsidiaries would be too costly and will also cause a lack of co-ordination in the host country due to the assistance and know how of the bureaucracy that a joint venture partner can contribute.

Company two turned their market entry strategies on a combination of franchising, management contracts, wholly owned and joint ventures. This combination of entrant strategies allows the company to focus on acquiring or establishing the best properties at the best sites with the best service. This allows for a certain element of speed in development of brand establishment. Future management, marketing and operational contracts for smaller boutique hotels and lodges are key to this company's expansion and a focus on outstanding sites in suitable locations, for both corporate and leisure hotels is being considered.

Company three as discussed earlier is turning its focus on management contracts only. Agreements are entered into the property owner once the bill of rights has been agreed upon. This relationship is mutually beneficial and this has been this company's strength throughout the years with minimal risk.

Contractor and Kundu (1998) regard location (country-specific variables) and firm specific variables as the most important considerations behind the firm's market entry choice. Firm specific variables are classified into structural factors, such as size of the company, international experience and the extent of the company's globalisation, and strategy and control factors such as the importance of economies of scale, control over quality, need for size, global reservation systems and investment in training in the firm's overall strategy.

4.3.5 External environment

Most elements of Porter's Diamond affected the respective companies' decisions to expand into specific markets or not. The analysis of the external environment is one of the most critical stages during development in foreign countries. Strategic planning is made more difficult by the rate of change, complexity and associated uncertainty in the environment. According to Heene and Sanchez (1997) it is therefore evident that successful strategy and associated competence development must be informed by a detailed understanding of the business environment.

Factor endowments were rated as the least determining factor. Only one of the three respondents weighted it as a determining factor due to huge costs associated with arranging own basic infrastructure and advance factors such as communications infrastructure. Their products and revenue generating departments would not be able to ensure a good enough return on investment to deal with these challenges and costs.

Company two's products generate a much higher average room rate and can factor the extra costs into the room rate. Company three who focuses on management of contracts only would also not rate factor endowments as a deciding barrier to entry as this would be up to the land and building owners to fret about initially.

Related and supporting industries also played a role, relevant to suppliers in the supply cycle. This would ensure greater service delivery at better costs. Although not a major factor in market entry decision, supporting industries could assist in providing a better service offering.

Firm strategy, structure and rivalry were also not high on the list to affect market entry. No apparent reason was given by any of the respondents for not considering this aspect.

The last attribute to Porter's Diamond of demand conditions on the other hand played a greatest factor especially in the early desktop research stages and will ensure the market has a sustainable demand for its product and services.

The role that governments play especially in the emerging markets was also high on the barriers to entry list for all the respondent companies. One of the respondent companies confirmed its complete interim withdrawal from a country that did not regulate its ideologies, leaders and its instability of peace. Company respondent two acknowledged that they are currently in loggerheads with one of their foreign country hotels in which they can't obtain an operating permit, even though most of the building has been completed. Corruption and red tape is the biggest market entry obstacles for them.

The respondents from the two companies that have ventured into Africa say that registering a company and putting the finances together are also a major obstacle. In general though, they agree that there is a willingness in these developing economies to do business and that most governments realise the win-win situation.

The threat of indigenous competitors in the developing countries is at this stage also not of a great factor. Two of the most important strategic advantages which international hotel operators had over indigenous operators is that the international market entrants had a strong brand name and knowledge of international guests' requirements and preferences (Dunning and McQueen, 1982). In the case study all three companies had similar advantages as proposed above.

4.3.6 Conclusion

No two countries are alike. When a company expands into different markets it must adapt some features of its products and processes to the local market it serves. This adaptation requires local expertise. Some of this knowledge may be too individualistic to be relevant outside the particular market. Some of these changes in processes and products can eventually lead to world leading innovations and can have the potential to generate global competitive advantage (Gupta and Govindarajan, 2004).

When decisions are made to expand globally the next logical step would be to create an international division to relief some of the pressures of the chief executive officer. When markets are identified as is the case with all three companies in this research, then the focus must be turned to expand and to keep the momentum.

Low risk appetite companies seldom venture far from their host country's proximity. If your competitors start to enter markets through more efficient market entry strategies, then one can become vulnerable to a two pronged attack. First is the obvious of first mover advantage in capturing the market growth. This is possible by pursuing global scale efficiencies, profiting from knowledge arbitrage and providing a coordinated source of supply to international customers. Secondly the competitors can use their multimarket presence to cross subsidize and wage a more intense attack in the respective home markets (Griffin & Pustay, 2005).

4.4 Results pertaining Proposition 2

The results from the questions related to proposition two will be discussed in this section. Questions were formulated around the proposition of the **effective alignment of functional departments that are fundamental to ensure successful international expansion.**

4.4.1 Effective alignment of functional departments

The alignment of the functional departments is key and critical to the success of the implementation of any strategy that a company wants to pursue. The implementation of the successful market entry strategy will focus on the following key functional areas, marketing, finance, logistics, human resources and operations.

These functional departments are the backbone of any organisation and will largely affect the successful expansion strategy. They need to be effectively and efficiently organised in order to execute the chosen strategies.

Due to the early stages of expansion of company one, none of its functional departments have thus far been involved in its foreign expansion programmes. To date only the Finance department together with its International division have taken part in its environmental scanning.

Company two places lots of emphasis on its sales and marketing, management training and human resources department. Their responsibilities particularly with the expansion programmes are limited until such time that an agreement has been reached or new sites have been identified. The respective departments would then in a logical sequence become involved throughout the process.

There is no decentralised office and all decisions in respect of the different departments occur from the central office. It does however utilise the services of marketing agents in various parts of the world and this is the driving force behind their philosophy of looking after key accounts. The general managers of each property will co-ordinate and communicate all its requirements to its central office who in turn will decide on the actions to be taken by the respective functional departments.

Company three's functional departments are also based in their host country that in turn supports its foreign affiliates. They are part of the process from the start and add their input throughout the process of expansion. The new business development department oversee and co-ordinate the activities required during expansion. The functional departments remained committed throughout irrespective of whether the developments were cross border or not.

The functional departments of all the companies during the interviews had similar outlooks and not too much emphasis was placed in either involving them nor to strategically align them to the expansion strategy of the company. Communication filtered through on a need to know and need to action basis.

4.4.2 Conclusion

Companies need take this alignment seriously as without the buy and co-ordination of these departments the expansion strategy can experience problems. None of the companies during this research had any international organograms or structures and therefore the alignment of functional departments were not an issue as yet.

4.5 Results pertaining to Proposition 3

The results from the questions related to proposition three will be discussed in this section. Questions were formulated around the proposition of the constant

focus needed of companies to develop a global mindset and remain focused on aligning its local strategies to that of a global one.

4.5.1 Developing a global mindset

How is it possible for organisations to manage the fast paced changes and imperative demands that increased globalisation implies? In order to become successful in the global market, it is vital to be aware of cultural influence on business and how to approach diversity. Consequently, management plays a significant role, and the challenge is therefore to cultivate a global way of thinking among managers (Karlsson and Udden, 2007).

A global manager would not accept the phrase of it "can't be done here". The manager would need to use his or her broad cultural knowledge to overcome cultural excuses such as that. Even though the hotel industry would be building or acquiring management contract, their management teams would still be responsible for the successful expansion and operation. Consequently, this highlights the importance of managers to obtain a global mindset (Rhinesmith, 1995).

In a study undertaken by Karlsson and Udden (2007) they found that in order to stay successful internationally, increases must be made to global communication, strive for a more diverse workforce and attain a better balance between local and global focus. Managers should more actively have to look for improvements and stay open-minded when facing diversity. This would contribute to the development of their global mindsets, which in turn would improve the company's global outlook.

Global mindsets can be cultivated. Companies can view cultural and geographic diversities as opportunities to exploit and be prepared to adopt successful practices where they come from. This constant awareness from the leaders who think globally has a tendency to be open to themselves and others by rethinking boundaries and changing their behaviour (Rhinesmith, 1995). Thus, importance is placed on this school of thought as is recognised in the literature review.

The global mindset has sometimes been thought of as an inherent personality trait that is open, interested in others, with positive regard, self-confident, flexible and professionally competent (Kealy & Rubin, 1983). It would also be important to appoint managers with these inherent personality traits to streamline the expansion processes.

Studies indicate that expatriate managers are very expensive. They suffer from individual and family adjustment problems, difficulties in maintaining productive and satisfying social relationship with local people, poor job performance, and a high rate of premature return. There is expansive literature dealing with the selection, training, compensation, and cross-cultural adjustment of expatriate managers, but there are surprisingly few empirical studies investigating how the use of expatriate managers is determined (Gong, 2003).

The respondents were asked how a global manager should be and what qualities they should have. They agreed that understanding people and their positions are important. One respondent said diplomacy and attuned to different countries' agendas. Two of the respondents said that as a global manager one can not know everything and that authority must be left to appoint or empower people who can make certain decisions in unknown markets. One of the respondents agreed that even he did not have enough experience nor skills, due to him not being exposed into the various markets that they want to venture in.

Company one did stress a big importance on their undertaking of numerous reconnaissance trips before making any first level commitment into a specific country. This allows them to gain the necessary knowledge to share with the teams tasked with the expansion. This would automatically cascade interest and certain cultural pitfalls can be identified and highlighted before any commitment.

A global mindset was brought up in the interviews, with the aim to see if the respondents reflect over the importance of thinking globally. The responses were all of a similar nature. None of the companies have really established itself as a true multi-national in various countries. Expansion at this stage is mainly into African countries and on a domestic front. This coupled with their lean structures at the central offices did not really allow for them to spend any time on this concept as an important issue.

The three companies have become, in various degrees, more adapted to international exposure, but their main focus is still with their local hotels as this is where most of the revenue is still generated from. This contributed to their current polycentric influences, where local identities are still preserved (Perlmutter, 1969).

The one respondent did mention that the global outlook would be of great importance especially during rounds of negotiation. Even understanding something as simple as the guang-xi relationships from the Japanese proved difficult for a company such as McDonalds, which is but one of many cultural misunderstandings (Hill, 1997).

If a company wants to succeed, “then the cultivation of a global mindset has to go through the whole workforce” (Herbert, 2000:187). All three of the companies’ respondents agreed that sufficient time and effort is placed on provoking enough interest throughout the company form the leaders’ point of view. This according to the respondents provokes sufficient interest in the company’s foreign expansion programmes. This automatically creates a top to bottom interest which trickles down. This interest is important as a motivating tool to employees wanting to further their career opportunities abroad.

4.5.2 Conclusion

Two of the companies that have faced the challenges of employing key personnel abroad mentioned that not enough time is spend on the orientation and selection of the correct individuals. Selection is based on availability and experience of the respective managers. Currently none of these companies currently have any specific programmes that can assist with cultural differences and to assist with the expatriation process.

There are also no current plans to generate a framework or to obtain certain orientation courses neither for individuals that are entering this field nor for their managers prior to foreign assignments.

All the respondents were at one that this is an important factor as key positions would likely be filled by its home base to foreign subsidiaries. This will allow for great savings as the employees already understand the culture, policies and processes of the mother company.

4.6 Results pertaining to Proposition 4

The results from the questions related to proposition four will be discussed in this section. Questions were formulated around the proposition of the importance for **companies to identify and deal with the issues relating to structural levels of the organisation and the levels of co-ordination during its international expansion programmes.**

4.6.1 Strategies for structural levels

When companies expand and move towards being an international company they must expect increases in efficiencies and effectiveness. Organisational structure can be considered as the arrangement of organisational parts that exist to provide organisational effectiveness. Its complexity, formalisation, and centralisation characterise an organisation's structure. Organisational structure is a representation of the formal reporting relationships within an organisation.

While a narrow span of control creates a tall organization with many managers and centralized decision making, wide spans creates a flat organisation with fewer managers and more delegation of authority. The degree to which authority is delegated determines centralisation and decentralisation.

Though centralisation helps avoid conflict of interest that could arise in a decentralized environment, it generally leads to slower, ineffective and inefficient decision-making.

Horizontal differentiation is concerned with how the departments in an organisation function together. An organisation based on functions is the traditional and the most functional. Most companies in their initial stages of globalisation, employed an international division covering certain regions of the world to supervise the functions in those regions.

But conflicts could arise between the functional heads and the heads of the international division. WorldWide Area Structure and Strategic Business Units (SBU) are more popular forms of organisational structure in big corporations. SBUs function as independent organisations with a separate income statement and balance sheet. But the challenge of globalisation and the growth in technology have brought about more complex organisational structures like the Matrix structure and the management networks.

Matrix organisations are a hybrid of the functional and divisional structures. Normally, this results in a subordinate having to report to two bosses. But matrix structures can prove very effective without any conflict in the reporting relationships, if they are well worked out.

It is argued that subsidiaries of MNEs face dual pressures: They are pulled to achieve similarities with the local institutional environment, and they also face an imperative for consistency within the organization (Singh and Rosenzweig,1991).

Of the three companies that were researched only one had an international division that was recently added to the company structure. The Financial Director (FD) is currently taking charge of this division. Reporting of the international manager is directly to the CEO and FD. For this specific company the international manager assists with most desktop research and has taken over most of the liaison duties of its CEO and FD. This position also currently assists with the field trips and identifying of sites in foreign cities. All aspects currently pertaining to reasons for expanding/not expanding is being tracked and followed up with this department in conjunction with its superiors. Jointly recommendations will be made to its board for decisions to be made regarding expanding/not expanding.

Based on the companies vertical differentiation the decision making power is still centralised with two of the companies. This is due to its majority of hotels still being in the domestic market and all its operational facets remain centralised. The international and the development divisions are also based at this office and no decentralised divisions have been structured.

Based on the feedback from the respondents it is said that at least ten to fifteen hotels would need to be build and operated in a country or region prior to the establishment of such a foreign division. This is due to the high costs associated with the establishment of a de-centralised office. Start up cost at this stage is in the region of approximately R 10 million rand.

Company two also operates from a central office but ensures this team remains small and agile. Decisions can be made very quickly and they still manage to control their foreign operations with success. As discussed earlier they also outsource some of their functional departments in other foreign countries. Their feedback and progress are still being tracked at their central office.

With horisontal differentiation the structure of company one currently comprises of a typically flat and functional structure. The respondents of this firm attribute it to its national base and foot print. The response is that it will change its structures in due time as soon as it expands internationally. This is the norm for companies that are growing internationally as they need to realize location and experience economies in different markets.

4.6.2 Conclusion to Proposition 4

The form method and location of operational units and structure will affect taxes, expenses and control. According to Daniels et al (2004) this is why emphasis must be placed on organisational structure, which can have an important effect on the fulfilment of corporate objectives. No matter how well the intention of the strategy is, it has little chance of success without appropriate means of implementing it.

International companies set up organisational structures according to the formal patterns of their lines of communication and responsibilities. This groups individuals and operational units in strategic ways. The structure will ultimately depend on the degree of multinational or transnational policies, the location and type and size of foreign facilities and the impact of foreign operations on the total company performance (Daniels, Radebaugh and Sullivan, 2004).

The literature review revealed that companies that are still in the development stages of international expansion are most likely to adopt the international division structure. This is due to limited geographic diversity, small or no international sales or few executives with international expertise (Rugman & Hodgetts:1995). The respondents for all three companies confirmed their structure and the benefits as set out below:

- The grouping under one senior executive ensures top management attention;
- It allows the company to develop an overall unified approach to international operations;
- It can help the company to develop a number of internationally experienced managers;

This structure according to company three identifies that some of the shortcomings is that this division split the international manager from the local managers and can create different camps with different objectives. It also places them on a second tier of reporting and communication becomes problematic.

4.7 Conclusion

This chapter reviewed the analysis of the feedback from the interviews that were conducted. These were discussed in line with the literature review.

The leaders and management of expanding companies can not just declare a business as global. Strategies need to be formalised on how the targets of globalisation will be reached. The respondents interviewed articulated their views and based on the feedback it is evident that some of the propositions raised were not of great importance due to the early stages of their respective developments. The researcher also discussed these findings in the respective conclusions of the propositions in this chapter.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter leads to the conclusion of the findings as done by the researcher. It has become evident that expanding into foreign markets has become a necessity to growth for the hotel industry, as the domestic market in South Africa has seen many new market entrants.

Certain processes will be highlighted with reference to the primary and secondary research. The overall objective of the study was for the researcher to understand and examine the various strategies that are followed by hotel companies during international expansion.

5.2 Conclusions of the study

The topic of international expansion is of great importance to developing companies. This view and strategy of the respective companies is thus of a sensitive nature. Companies and their executives generally discussed certain issues but also refrained from disclosing the more important information. Reasons for this ranged from their own confidentiality clauses to sensitivity of certain deals which were still in its first phases. This did unfortunately have an effect on some of the propositions, as first hand information on some of the pitfalls during these expansion programmes was not discussed. Comparisons were also difficult to make. The availability and analysis of the secondary research did lend itself in lots of respects to the findings of the interviews.

5.3 RECOMMENDATIONS

5.3.1 International expansion

When a company considers venturing abroad for the first time, they need to devote a lot of effort to deciding their priorities. There are some well recognised criteria for selecting countries for expansion. Some of them include how easy or difficult it is to do business there; the degree of economic freedom; the size; the pool of prospects; the legal environment; transparency of governmental processes.

There are also some resources which can be helpful: the Global Political Risk Index; the measurements by the Economist Intelligence Unit; the “Doing Business Globally” reports; the “Foreign Policy Globalization Score”; and, of course, comparative growth rates. Experiences suggest a category of countries that should not be entered into as life is too short.

These are but some of the challenges that companies will face during its expansion developments. This is the key to this research report; identifying a logical process taking into consideration some of these challenging aspects to ensure a more streamline development process. It should also set forth specific objectives, an implementation timetable and milestones to gauge success.

Companies that want to expand internationally must develop a international business expansion plan which is an essential tool to continuously evaluate all the factors that would affect the companies’ ability to expand on an international basis. This would define the companies’ present status, internal goals, assemble facts, identify constraints and create and action statement.

During the primary research it was evident that the respective companies’ strategies in terms of where they are heading are quite clear. All the respondents had clear objectives in terms of the footprint they want to achieve and also which markets they want to service. They clearly understand their competitive advantages and also align their business propositions accordingly that fit well within their strengths.

Lacking with all three of the companies was the absence of a specific strategic model to assist with development. All their development plans did however contain certain elements of the various models and cognisance was given to important factors such as those proposed by Porter (1995). The rate of expansion is at this stage of such a rate that it can still be handled by one or two managers or executives and once approval from the stakeholders are reached the sequential steps occur of involving the various functional departments who is still based nationally.

This leaves companies open to various pitfalls, for example departments such as human resources will have limited knowledge into the basic labour laws of a specific country that are ventured into. Rather certain elements and functional departments should be outsourced. Marketing is another important department of which host countries should be involved as they would understand the emotional and cultural hotspots of its citizens. Legal aspects and the magnitude of operating licences need to be approved and again this can prove very difficult from a home front.

The respective companies that are still in the early stages of their development should try and find reliable outsourced companies to assist with some of these challenges and must co-ordinate it from its home base. These can also be in the form of a partnership or through the use of certain entry modes which will alleviate the pressures from the above mentioned.

The emerging markets also pose opportunity with lots of growth potential. First mover advantage would seem to be of great benefit, a high risk strategy that none of the companies under review saw as of any benefit to them. The approach according to the respondents also followed a logical sequence to establishing itself into foreign markets.

The hotel industry is well suited to non-equity forms of expansion owing to certain characteristics, including a willingness to transfer know-how, ease of codification of management systems, and the control that can be exerted over franchisees in the industry. There is reluctance from the one company to consider this as a method of expansion as they are reluctant to enter into any other agreement besides joint ventures or eventually wholly owned. This would certainly slow down the speed of entering any market.

5.3.2 Functional departments' involvement

Companies that find themselves in the early stages of growth and development should be prepared to think more broadly. In their early growth they might have found one particular market entry technique which worked, and simply adopted that in each successive home market. Individual unit agreements, area development agreements, "master" franchising, joint ventures, co-branding, and more: all are possibilities which may be appropriate for consideration.

There is probably no attractive marketplace that should not be entered solely because of the legal restrictions. Conversely, the absence of legal impediments is not a good enough reason to enter a marketplace which is not economically appealing. Expansion decisions should be based on sound commercial judgments.

Nothing restricts an expansion strategy faster than under-committing resources. Hence it is critical that managers understand the financial commitments that are required to implement a plan and provide the necessary support once the plan is approved.

The foundation for strategic alignment is one that takes a disciplined approach, includes well-defined, balanced objectives and drives accountability and transparency for the decisions and actions that are made and that involve all responsible departments.

The ability to align business strategy across the organization is an important link. While a unified business strategy isn't going to solve every problem, it does widen the accountability for performance from across all departments. Fundamental to any organisation is for people to work towards a common goal.

As global economic trends lead to changes, companies today are realizing that successful financial performance can only be achieved when functional departments are synchronized and fully aligned with corporate goals and objectives. Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall targets in line with the expansion programme.

5.3.2.1 Strategy implementation in functional departments

Allocation and management of sufficient resources (financial, buy in of functional departments, personnel, operational support, time and technology support).

Establishing a chain of command or some alternative structure (such as cross functional teams).

Assigning responsibility of specific tasks or processes to specific individuals or groups.

It also involves managing the process. This includes monitoring results, comparing to benchmarks and best practices, evaluating the efficacy and efficiency of the process, controlling for variances, and making adjustments to the process as necessary.

5.3.3 Global mindset

For organisations to manage the fast paced changes and imperative demands that increase globalisation, they need to become fully aware of how cultural influence affects business. Consequently the leaders and management play a vital role.

Foreign markets, in contrast, are frequently viewed as sources of future business growth and lucrative returns. Moreover, attractive investment opportunities overseas and expanding international travel also are key drivers of the hospitality industry's internationalisation.

Doing business in an international marketplace, however, results in a number of corporate and managerial challenges. One of the most critical decisions following development is the question of who will manage the properties in markets where the company has little or no prior experience.

Hospitality companies' success abroad depends largely on the availability of qualified international managers who are able to export, translate, and maintain their companies' operational standards and service consistency overseas. Expatriate managers' failure to deliver consistently high-quality products, services, and management processes throughout the world can put a company's reputation and long-term competitiveness at risk.

They also need tremendous logistical support, both for themselves and their accompanying families. Costs may further increase due to a high number of expatriates who return prematurely. The common practice of selecting managers with impressive domestic track records for overseas assignments does not always yield the desired results, as many expatriates do not complete their overseas assignments.

None of the companies at this stage spend too much time on creating this global mindset nor do they spend any resources in trying to assimilate their managers prior to their assignments. Again their lean structures don’t allow for such lavish exercises but as seen with many multinational companies but this can prove to be a very expensive omission. More time should also be spent to obtain the correct candidate with the qualities as discussed in the literature review.

Programmes should also be launched on a regular basis discussing the new countries that are targeted and information should be regularly fed throughout the organisation to provoke the interest of tomorrow’s leaders.

5.3.4 Structural levels and control mechanisms

All three companies that are pursuing international expansion will find obstacles due to the impediments of co-ordination as discussed. A major task of the leaders are to control the various sub-units to ensure their actions are consistent with the firms overall strategy and vision.

Companies go through stages as they evolve towards fully fledged global operations. In the initial stages, the domestic stage, the firm is domestically oriented but may want to consider some initial foreign involvement to expand their horizons. The structure is domestic, typically functional or divisional and foreign development is handled through an international department.

In the subsequent stages, the international stage, the firm becomes multi-domestic and foreign subsidiaries may be established. A fully operational international division will oversee these subsidiaries.

As expansion progresses to that of the global stage, the alternatives are to move to a worldwide area structure of worldwide product division structure.

The companies need to take into account that these changes are inevitable and in due time the natural progression will follow.

5.3.5 Conclusion

Despite the differences in approach, the common finding is that there are essential differences between the way in which firms expand in their home countries and the way in which they do so when they cross international boundaries and "go international" (Buckley and Ghauri, 1993).

The categories of questions to which a company need answers to, range from the general business climate, to the attitude by the foreign government to the way in which they wish to do business, to the receptivity by the business community and the public to their brand, to legal restrictions, and should also include inquiries into special policies and regulations which may affect travel and tourism. Within each of these categories the list of questions which need to be answered is extensive. Many of the failures or suboptimal performances in international hotel expansion programmes can be traced to the failure to ask some of those questions at the very outset.

Knowledge of the foreign markets is crucial in determining the commitment of the company to enter the respective markets. As the company learns more about the new markets, more resources are committed: "The better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market" (Johanson and Wiedersheim-Paul, 1975). Expansion takes place firstly in those countries that have the least psychic distance from the home country in terms of the consumer, market and industry structure. This has specifically been the case with the companies that formed part of this research study.

Finally, with the "born global" outlook of contemporary companies, it is clear that companies do not nowadays follow the sequential process such as the Stages or Uppsala model. Among service companies, too, the "instantly international" outlook is becoming increasingly prevalent today (McAuley, 1999). In addition, transnational hotel corporations pursue a mixture of expansion strategies combining both equity and non-equity concurrently (Contractor and Kundu, 1998).

Reasons for the tendency towards mergers and acquisition include:

The need to have representation in major gateway cities as part of a global network of properties (If a hotel brand is not represented in a key destination, there is a danger of customer switching and the loss of customer loyalty);

- The potential to exploit technological advance and gain from economies of scope and scale in such diverse areas as reservation systems, customer relationship marketing, training and franchising networks;
- To protect or consolidate an existing market position;
- To forestall a competitor gaining a foothold in a key location

(adapted from Contractor and Kundu, 1998)

There is evidence of a clear trend by major companies to expand through non-equity methods (Contractor and Kundu, 1998). This was not entirely evident for two of the companies that took part in this research study. As a further confirmation of Contractor and Kundu's statement, two of the largest five hotel companies in the world (Cendant and

Choice) are pure franchising companies, and despite controlling a total of almost 900,000 rooms, they own no properties (Appendix C shows the three largest hotel companies with their choices of market entry and current strategies).

Other major companies such as Bass and Accor also franchise, but they also have other forms of involvement. This is based upon a number of factors, both internal and external, depending on such issues as the level of development of the company, regulations and legal system in place (e.g. to protect management contract agreements), the ability to maintain and control quality in the home country, especially in terms of the level of the local labour supply, and regulations concerning the repatriation of profits.

The eclectic paradigm has shown to consist of a flexible framework that can be used during international expansion. By utilising the framework and by taking into consideration the various propositions with their respective key assumptions, international expansion can soon become a reality for any hotel company that wants to explore the global marketplace.

5.4 Suggestions for further research

Analysis of qualitative data may accrue propositions that may as a minimum generate possible hypothesis for testing or verification with further research, which may prove to be stimulating more future researchers to continue research on the topic (Holstein and Gubrium, 1999). The sections and categories of the main body of this study were specifically chosen in order to make this multifaceted research domain more transparent.

Based on the research and the literature findings it is clear that further research can be done to further establish:

- A sequential model that will highlight the key assumptions during international expansion;
- A case study analysis can be done with an overseas counterpart to highlight certain similarities and differences;

- Common mistakes from companies that have undertaken expansion strategies can also be investigated;
- A thorough and in depth role of each of the propositions can be further researched and defined.

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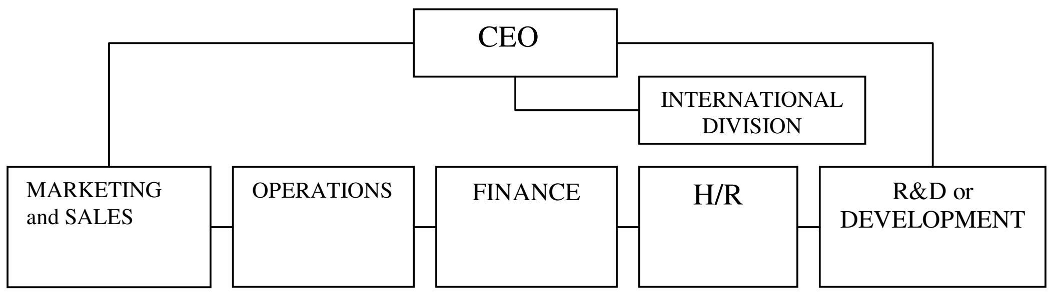
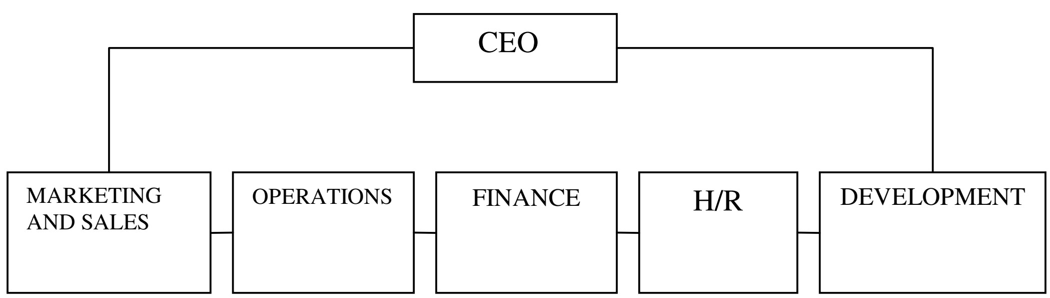
APPENDIX A

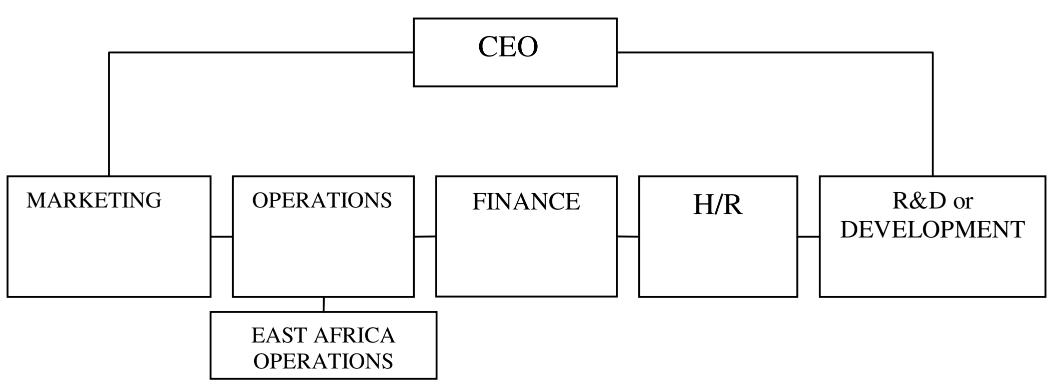
COMPANY ONE'S STRUCTURAL LEVEL



COMPANY TWO'S STRUCTURAL LEVEL



COMPANY THREE'S STRUCTURAL LEVEL



APPENDIX B

STRUCTURE OF ACCOR HOTELS. A TRUE MULTINATIONAL

Executive Commitee

APPENDIX C

Three major hotel operators, brands and market segments

Rank	Name	Domicile	Room count	Hotels	Countries
1	Cendant Corp	US	542,630	6,315	13

BRANDS

9 brands: Days Inn, Howard Johnson, Ramada Travelogue & Thriftlodge, Knights Inn, Super 8 Motel, Villager Lodge, and Wingate Inn.

MARKET SEGMENTATION

Operates almost exclusively in the mid-priced, economy brand segments. Cendant believes that 75 percent of the total hotel demand in the US is for under 100 dollar per night. All of Cendant's brands are in this category, having neither a hard budget nor luxury brand.

RECENT STRATEGY

Cendant’s three main business areas are real estate (39 percent of total revenue), travel services such as lodging, time share, car rental and vehicle management (32 percent), and series of diversified services (29 percent). Cendant has become the largest hotel group in the world by being a “pure” franchising company. It does not have nay equity in its properties, but services franchisees by supporting them in a variety of activities.

Is a franchising company, with 99 percent of hotel room's franchised. Four star, three stars, two stars. International coverage is weak, (although it has over 30,000 rooms outside the US, the home country accounts for 95 percent of its hotels, and 94 percent of its rooms). Is the largest chain in the world.

International expansion into ten new countries last year, but still very Ameriocentric. Expansion occurs through finding partners who will buy master franchises from Cendant.

Synergies exist between company's hotel brands and Avis car rental and RCI; world's largest timeshare brand.

Rank	Nam	Domicile	Room count	Hotels	Countries
2	Bass Hotels & Resorts	UK	471,680	2,886	95

BRANDS

Ten brands including Holiday Inn (including Holiday Inn Express), Garden Court, Crowne Plaza Hotels, Staybridge suites, Intercontinental Hotels, Forum Hotels.

MARKET SEGMENTATION

Extremely wide mix, from five stars, four stars, through to upper economy (No “hard budget”).

RECENT STRATEGY

Has broad international coverage (locations in nearly 100 countries) the worldwide distribution and brand recognition give the group major competitive advantages. 95 percent of Bass rooms are non-equity (franchise 89 percent) and management contracts (6 percent). Have two of the largest brands in Holiday Inn and Inter-Continental. Also acquired Bristol hotels in 1998, and Forte Post House in 2001. Have huge financial resources (paid cash for Inter-Continental). Although prefer non-equity, are prepared to invest in brands (USD 800 million in Inter- Continental brand 1998-2000).

Rank	Name	Domicile	Room count	Hotels	Countries
3	Marriott Int'l	US	355,900	1,880	53

BRANDS

11 hotel brands: Marriott Hotels, Resorts and Suites, Renaissance Hotels & Resorts, Ramada International, New World, Ritz-Carlton Hotels & Resorts, Conference Centers, Towneplace Suites, Courtyard by Marriott, Residence Inn by Marriott, Fairfield Inn by Marriott, Springhill suites, Residence Inn, Marriott.

MARKET SEGMENTATION

One of the few companies to operate in all segments apart from the hard budget. Operates in five star, four star, three star, and extended stay.

RECENT STRATEGY

Is primarily a hotel management company with a variety of operating options (management contracts, franchises, joint ventures, and marketing service agreements). Strong business base (especially for four and five star and courtyard properties). Strong, clear brands. Strong management and strategy to first expand in primary destinations worldwide with upper-scale brands. Once these will be established they will move into secondary locations and only in this stage the mid-market hotels will be introduced. Have ambitious expansion targets to add over 140,000 rooms in the period 1998-2000. Expansion will be carried out through long-term management and franchise agreements, as well as through co-branding opportunities. Diversification into timeshare, senior living residences and distribution services.

APPENDIX D

Questionnaire

International Expansion Strategies for the Hotel Industry

Section 1 General Information

Name___________________________________ Position____________________

Company_____________________________________

Address of Central Office_______________________

____

____

Number of properties__________

Number of rooms __________

Location of properties: Africa________ Europe______ U.S.A_______

Asia ________ Middle East _______

Other ________________________ (Please specify)

Year of first establishment ___________

The year of its first foreign establishment __________

Based on sales revenue; what is the percentage split of your respective market segments?

a) Luxury_______ % b) Mid-range________ % c) Budget ______ %

Do the company presently have any strategic alliances ? (an alliance is defined as a long term agreement e.g. joint ventures, sales/supply agreements that are designed to advance the competitive advantage of the participating companies)

- ☐ Yes
- ☐ No

Or any intentions to enter into any strategic alliances ?

- ☐ Yes

☐ No

If strategic alliances are currently entered into, what percentage of operating sales for 2008 can be apportioned to these alliances ?

☐ 0-25 %
☐ 25-50%
☐ 50-75%
☐ 75-100%

Is the strategic alliance/s with,

☐ Another hospitality company?
☐ A company in another industry ?

Please list the company's current direct competitors.

____

____

____

What is the current make up of your company ?

☐ Full owned properties ____________%
☐ Partially owned properties _________%
☐ Management Contract _____________%
☐ Franchise Agreement _____________%
☐ Other (please specify)
____

Are there currently any local and international expansion plans for the company ?

☐ Yes
☐ No
If no (please list possible reasons)________________________________

____

If yes, are the development planned,

☐ Locally
☐ Internationally
☐ Both

Section 2 - Current Expansion Strategies

Interview questions

1) Are there any specific step by step expansion strategies you're your company currently pursue in terms of its expansion?
2) What are the company's current competitive advantage?
3) Which entry modes are the company currently exploring?
4) Please elaborate on the positives and negatives of these entry modes currently experienced.
5) Do the company do in depth market analysis prior to expanding cross border and what are the most important aspects it considers as viable options?
6) What are the major determining factors before market entry?
7) Is proximity to the host country important and state reasons why/why not?
8) To what extent does Porter's Diamond (firm strategy & rivalry, demand conditions, factor conditions, related & supporting industries and government) affect decisions to enter new countries for development?
9) What do you perceive as the major factors that stop your company from entering a specific market?
10) What are the main reasons for your company to own, manage or to franchise properties?

Section 3 – Functional Strategies as part of effective International Expansion

1) How involved are all the current functional departments (HR, Operations, Finance, Logistics and Marketing) with the company's expansion programmes?
2) What are the main problems faced with the following functional departments during previous foreign expansion ventures?

- H/R
- Operations
- Finance
- Logistics
- Marketing

3) To what extent does the company make use external third parties in foreign markets to assist with the various aspects of any particular functional departments?
4) If there is a level of outsourced business, how successful do they take part and what possible pitfalls should be focused on?

Section 4 – Developing a global mindset

1) Why do you think there are great emphasis placed on the importance of developing a global mindset in developing companies ?
2) If you don't agree with developing a global mindset, please elaborate on your view point.
3) Do you think an approach of the above will trickle down into the organization?
4) Do you feel that your leaders (or you as the leader) provide and provoke sufficient interest into developing a global mindset to all its employees and stakeholders?

Section 5 – Structural levels and control mechanisms

1) Please describe the current structural levels of your organisation.
2) A firm's vertical differentiation determines where in its hierarchy the decision making power is concentrated. Based on the company's market entry strategy, what strategy does the company follow in terms of its decision making ?
3) Horizontal differentiation is concerned with how the company decides to divide itself into subunits during the cross border expansion

programmes. What are your company's current strategy in terms of this statement ?

4) How do the company bridge the problems of implementing decisions in its foreign operations ?

Thank you.