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The Effect of Types of Market Entry Modes on Organizational Design in Hotels in Tehran Province

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Abstract

Nowadays, due to competition among organizations and companies in order earn more benefits; it has become particularly significant to dominate the existing resources. One of the strategic decisions in the market is market entry mode. Choosing a suitable competitive strategy depends on the company's decision to enter the market before or after its rivals. The present study was carried out in order to examine the relationship among the variables of market entry modes and organizational design in hospitability industry. Regarding its objectives, the present research was an applied study, and in terms of collecting the required data, it was descriptive. The statistical population included all of the 127 hotels located in Tehran Province. Krejcie and Morgan Decision Making Model were utilized in order to determine the sample size as 96 individuals. The results of the present study indicated that all market entry modes (ownership, contract, and franchising) had a positive significant effect on organizational design. In fact, survival and growth of the company depends on successful entry of hotel to the market.

Keywords: Hotel, Market Entry Modes, Organizational Design, Tehran Province

1. Introduction

Over the last few decades, there has been an increase in the internationalization level of service industries. Whitelock and Yang (2007) state that today's global market forces companies to review the capacities of traditional development methods. Therefore, service companies are internationally developing through a variety of market entry modes (Azevedo et al, 2002) and by supporting quality selection theories (Contractor & Kundu, 1998a). This growth strategy may accelerate international development and lead to a number of international design challenges when different market entry modes facilitate different types of synchronization and control processes. Design of international companies to reach an effective and efficient control along with making sure about the appropriate knowledge on the conditions of the local market is a challenge for every service company (Dahlstrom & Nygaard, 1999). However, so far multiple modes of market entry have been utilized for them.

There are a large number of international market entry modes that are typically used by service companies. Numerous empirical studies have focused on making decisions about what entry mode is more appropriate for certain places and a number of theoretical views are accepted. Notwith standing the diversity of explanations

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supporting quality selection decisions, there is a general agreement on the effect of such decisions on performance and survival of a company (Ekeledo & Sivakumar, 2004). As controlling alternately is the most important determinant of risk and returning in decisions of market entry mode (Blomstermo et al, 2006), the size and type of control resulted from different market entry modes are a key consideration in the international development strategy.

From the perspective of market entry, Anderson and Gatignon (1986) suggest that controlling is the ability to affect systems, methods, and decisions; therefore, it has an effect on the future of the business. This controlling ability is obtained through hierarchical power, determination of contractual conditioning, pricing mechanisms, and relational trust, which may combine together in complex forms (Bradach & Eccles, 1989). In their study, Contractor and Kundu (1998a, 1998b) identified four relevant types of control with regard to quality selection in hotel chains which are taken into consideration in the present study. They include control over management and quality, capital and physical assets, conceptual expertise and knowhow, and coded strategic capitals such as brand and other technical ownership systems. In the following sections, these types of control will be examined in relation with three major classifications of market entry including ownership, contract, and franchising.

Studies of quality selection indicate the importance of organizational control and monitoring in decisions of international market entry; however, there are a few studies that have identified the effect of combined use of different market entry modes in international service companies. The results of the studies focusing on companies that use multiple modes show that a higher level of control can be obtained by employing different organizational processes that are complementary to different modes (Botti, Briec & Cliquet, 2007; Bradach, 1995). However, these studies incline to focus on companies that only use the two methods of ownership and franchising and whose practice is extensively within national markets. As a result, there is a gap in understanding organizational designs in international service companies that distinctly depend on their own stocks and particularly rely on how to coordinate their activities over geographical boundaries. The present study aims to fill in this gap. In so doing, the present study will also respond to consequent questions like, "Due to different control issues, do different modes need different designs at company level? If so, how are these modes designed and what are the effects of this design on organizational efficiency and growth?"

Although there have been various attempts by organizational theoreticians to develop alternative typologies in designing, Egelhoff (1999) points out that these typologies can be placed in two broad categories: traditional and changing models. Traditional models rely on control through decision making and centralized power, formal processes and measures, direct monitoring, and specialized workforce (Curado, 2006). Control processes tend to become hierarchical, attend vertical coordination, establish communication, and follow fixed boundaries (Child & McGrath, 2001). As control continues through loyalty to procedures and customers, trust and cooperation have minimum role (Birnberg, 1998). Traditional models are based on this basic concept that companies change their strategies in parallel with environmental changes, and then strategies and structure are changed in order to reach a state of balance. As balance is positively related to organizational performance that is obtained at a time, designs do not vary unless other designs can successfully overcome their environments (Romanelli & Tushma, 1994). It is argued that traditional models allow overall efficiency to rise by stabilizing organizational behavior, using the best organizational action and knowledge, and facilitating coordination and control (Egelhoff, 1999). Researchers pointed out those traditional designs were well trusted in hotel chains (Enz, 1993; Olsen, 1989) although their studied were conducted many years ago.

The present study reports the results of an empirical study focusing on organizational design of international hotel chains. As mature international companies, hotel chains have developed through a combination of franchising, managerial contracts, joint contract, and strategic alliance agreements (Barcala & Gonzalez-Diaz, 2006) whereby an appropriate condition was provided to carry out the present study. The present study was carried out using marketing articles on control in different market entry modes and typology studies of organizational design. A multiple case study identified using various part designs in international hotel chains which use multiple modes of market entry. The present study revealed the weaknesses of these modes, and in carrying out the present study, it contributed to our understanding of the effect of international development on organizational and managerial processes of service companies.

2. Research Model and Hypotheses

The research model indicated in Figure 1 is retrieved from the theory presented in the background above. This model includes hypotheses 1 to 3 which are retrieved from the background. The hypotheses and model are as follows.

H1. Ownership market entry mode affects organizational design.

H2. Contract market entry mode affects organizational design.

H3. Franchising market entry mode affects organizational design.

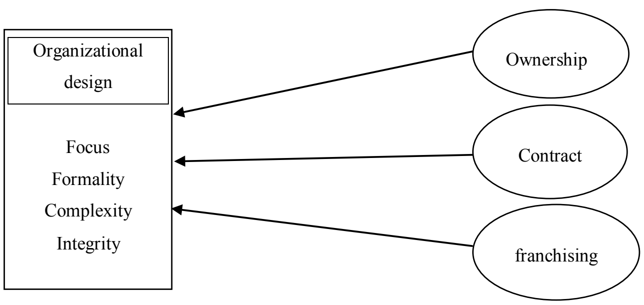

Figure 1. Research model

3. Methodology

Regarding its method, the present study aimed to determine the causal relationship among some hidden variables and obvious components and examine the degree of fitness and adequacy of the collected data using the predicted model; therefore, it was necessary to utilize correlation research methods with an emphasis on factor analysis methods and structural equation modeling. From the perspective of methodology, the present study was a descriptive survey. Regarding the application of the results, the present research was an applied study, and with regard to time and administration and relative to the distribution and analysis method of questions, it was a cross-sectional study. The statistical population in the present study included all of the 127 hotels located in Tehran Province. To come up with a limited population, Cochran's sample size formula with an error rate of 0.05 was used to determine the sample size as 95 hotels. In the next stage, 95 questionnaires were distributed, and 86 questionnaires were returned. The required data were collected by combining and integrating some questionnaires after formal reforms were taken into account. The questionnaire consisted of 24 questions; the first 12 questions were related to the market entry modes retrieved from Agarwal and Ramaswami (1992) and the next 12 questions to organizational design (Liaoet al, 2011). First and second order confirmatory factor analysis methods were utilized in order to measure Cronbach's Alpha and validity of the questionnaire, and the results showed thatfactor load coefficients were at a high level and significant figure coefficients were in the range of 1.96 and -1.96. In order to examine the relationship among the variables, structural equation modeling and Lisrel 8.8 Software were employed.

4. Data Analysis

Statistical analyses and results lead researchers toward better understanding and prepare grounds for futures studies. Descriptive and inferential statistical methods were utilized to analyze the collected data. In so doing, factor analysis methods were used to obtain the measurement model criteria and match the proposed model with the facts of the statistical society.

To examine data distribution and their normality, Kolmogorov-Smirnov test was run, and the results showed that significance level of all variables was over 0.05, distribution of all variables was normal, and it was necessary to employ parametric tests. Afterwards, the model was evaluated by first and second order confirmatory factor analysis methods, and the structural part of the model was examined using structural equation modeling, and then the results of these tests were explained in Lisrel 8.8 Software.

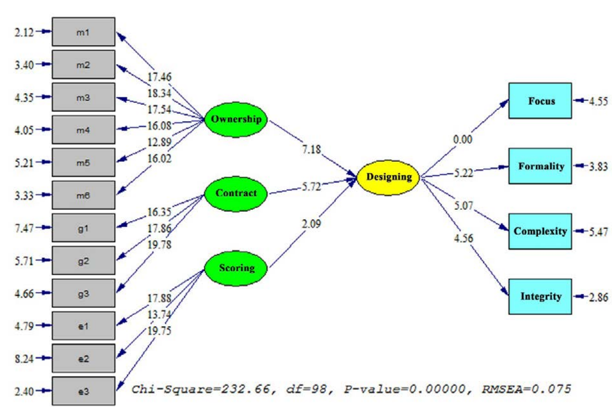

Figure 2. Significant figure of the structural model

As seen in Fig. 2, all of the parameters assessed in the model are at a significant level and the absolute value

Table 1. Fit indices of the structural model

Factor	*Chi-square*	*df*	*p-value*	*RMSEA*	*GFI*	*AGFI*
Entry modes	232.66	98	0.000	0.075	0.91	0.90

Source: The data of the present study

(T-value) of most of them is more than 1.96; therefore, the equations of the hypotheses are acceptable. Table 1 presents the fit indices of the structural model. Based on the obtained significant figures and the values of fit indices, it can be concluded that the model and the data are acceptably fit; therefore, the validity of the proposed model can be approved.

According to Table 1 and the results of acceptable fit indices, all of the indices are within an appropriate range, which means RMSEA is smaller than 0.08 (0.075), p-value is smaller than 0.5 (0.000), and the ratio of Chi-square to degree of freedom is smaller than 2.5 (2.36). AGFI and GFI indices are close to 1, which indicates very good fit of the model.

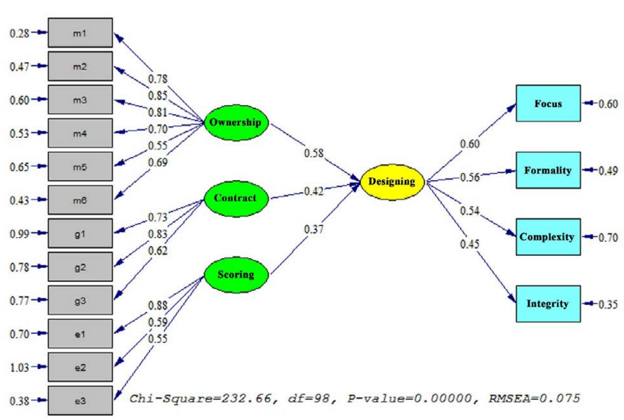

Figure 3. Standard estimation coefficients of the structural model

According to Fig. 2 and 3 and Table 1, at the first level of the study's structural model, the significant figure of the path between two variables of ownership and organizational design is 7.18 that are greater than 1.96, which proves that the relationship between the two variables is significant. The coefficient of the path between these two variables was obtained to be 0.58, which means that a change of 1 unit in ownership leads to 0.58 units of change in the variable of organizational design. Significant figure and the coefficient of the path between the two variables of contract and organizational design were respectively reported to be 5.72 and 0.42. Significant figure of the path between the two variables of franchising and organizational design was 2.09 that are greater than 1.96, which indicates that this relationship is significant. The coefficient of the path between these two variables was obtained as 0.37, which means that a change of 1 unit in franchising can lead to 0.37 units of change in organizational design variable. Therefore, all of the three hypotheses of the present studies were confirmed.

5. Conclusion

Given the intensity of competitions and entry barriers, globalization of an enterprise and entering the global market are not accidental and sudden phenomena. Overcoming the barriers and tolerating the intense competition in global markets are dependent on a smart strategic program. To design such programs, it is necessary to develop a strategic model while paying attention simultaneously to different internationalization models and theories and specific conditions and limitations of the enterprise, domestic industry, the country, and the international relations of the enterprise.

In the present study, most respondents were men (91%), most of them held a bachelor's degree (68%), and most of them aged between 36 and 45 years (55%). The results of testing the study's hypotheses were obtained using the structural equation model presented in Figures 1 and 2. As seen, in case of significant figures, all paths were more than 1.96 (ownership 7.18, contract 4.72, and franchising 2.09). Therefore, H0 was rejected and H1 was confirmed. In other words, it can be claimed that all market entry modes affect organizational design. According to the standard coefficients of the model indicated in Figure 2, it can be concluded that ownership market entry mode with an intensity of 0.58 had the highest effect and franchising market entry mode with an intensity of 0.37 had the lowest effect on organizational design. These results are in line with the results of the studies carried out by Gupta and Govindarajan (1991), Agarwal and Ramaswami (1992), and Contractor and Kundu. In fact, this conclusion seems rational, because as the managerial controls in the ownership structure of hotels gets closer to the determined macroeconomic policies, organizational designing mechanisms that have the highest level of engagement with management move more toward a direction where controlling the resources and focusing will be more tangible. On the other hand, over recent years, hospitability, as opposed to marketing goods, has been inclined toward pull strategy selection, i.e. the customer should see each hotel as a bran that has its own specific features rather than considering it as a service provider that he/she refers to fill his/her rest time in. Therefore, each hotel is its own organizational structure representative that develops its indices residing the manager's brain.

One of the limitations of the present study is diversity of services in hospitability industry, which reduces the generalizability of the results to different parts of this industry. Another limitation, which is a specific feature of social science research, is the effect of variables that cannot be controlled by researchers but can affect the results of the research. Among such variables is competition intensity, economic conditions, etc.

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