THE IMPACT OF ENTRY MODES ON THE ORGANISATIONAL DESIGN OF INTERNATIONAL HOTEL CHAINS

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This paper reports on a study of organisation design within international hotel chains that simultaneously employ multiple market entry modes. A multiple case study reveals the use of different divisional designs for different types of entry mode within individual chains. These are driven by the desire to maintain strong control over hotel brands. The study concludes that current designs may inhibit international hotel chains from achieving their organisational potential and recommends that managers' look to breakdown these 'communities of design' barriers.

Keywords: international hotel chains, market entry modes, organisation design, control

Introduction

The last few decades have been witness to increasing levels of internationalisation of service industries. Whitelock and Yang (2007) argue that the world market today is forcing companies to re-examine the feasibility of traditional development methods. As a result, service firms are expanding internationally through a variety of market entry modes (Azevedo, Silva & Silva, 2002), thus supporting eclectic or unified theories of modal choice (Contractor & Kundu, 1998a). While this growth strategy may accelerate international expansion, it also creates a number of organisational design challenges as different market entry modes facilitate the use of different types of control and coordination processes. Designing international firms to achieve effective and efficient control at the same time as ensuring sufficient responsiveness to local market conditions is a challenge for any service firm (Dahlstrom & Nygaard, 1999) but particularly so for those that employ multiple market entry methods.

Whilst studies on modal choice do highlight the importance of organisational control in international market entry decisions, there has been less research identifying the implications of the combined use of different entry modes on the international service firm. Research that has been undertaken on firms that employ multiple modes, suggests that greater control can be achieved through employing different, yet complementary organisational processes for the different modes (Botti, Briec & Cliquet, 2007; Bradach, 1995). However, these studies have tended to focus on firms using only two modes, ownership and franchising, and have been largely conducted within national markets. This has left a gap in our understanding of organisation designs within international service firms that are more diversely affiliated with their portfolios and specifically, on how they control and coordinate activities across geographical borders. The paper aims to fill this gap. In so doing, it also answers further questions, namely, do different modes need different designs at the corporate level due to the different control issues they present and, if so, how are they designed and what are the implications of this design on organisational growth and effectiveness?

The paper reports the findings of an empirical study of the organisation design of international hotel chains. As mature international firms, hotel chains have grown via a mixture of franchising, management contracts, joint venture and strategic alliance agreements (Barcala & Gonzalez-Diaz, 2006) and as such, they provide a suitable context for this study. The research is underpinned by the marketing literature on control in different entry modes and studies of organisation design typologies. A multiple case study identifies the use of different divisional designs within international hotel chains that use multiple entry modes. It reveals the limitations of these and, in so doing, contributes to our understanding of the impact of international development on the management and organisational processes of service firms.

Control in different market entry modes

There are a wide range of international market entry modes commonly employed by service firms. Deciding which entry mode is most suitable for specific locations has been the subject of numerous empirical investigations that have adopted a range of different theoretical perspectives. Despite the diversity of explanations to support modal choice decisions, there is general consensus that these decisions have an impact on a firm's performance and survival (Ekeledo & Sivakumar, 2004). As control is frequently considered the single most important determinant of risk and return in entry mode decisions (Blomstermo, Sharma & Sallis, 2006), the degree or type of control afforded by different market entry modes is a key consideration within international expansion strategies.

From a market entry perspective, Anderson and Gatignon (1986, p.3) advise that control 'is the ability to influence systems, methods and decisions and therefore has an impact on the future of the enterprise'. This ability to control comes through hierarchical authority, contractual stipulations, price mechanisms and relational trust which may be combined in complex ways (Bradach & Eccles, 1989). Contractor & Kundu (1998a, 1998b) identify four relevant types of control from their study of modal choice in hotel chains that are considered in this paper; control over management and quality, physical assets, tacit expertise or know-how, and codified strategic assets such as brand name and other proprietorial technological systems. These types of control are considered below in relation to three broad categories of market entry; ownership, contractual and hybrid entry modes.

Full ownership of international subsidiaries, either through foreign direct investment or merger and acquisition, is generally considered to offer high levels of direct control over international operations (Gupta & Govindarajan, 1991). These entry modes enable full integration of all resources into one decision-making body and thus facilitate high degrees of control through hierarchy of authority (Agarwal & Ramaswami, 1991). Control can be achieved therefore through high levels of centralisation and formalisation. Contractor and Kundu (1998a) determined that within the hotel industry, full ownership provides corporate hotel managers with strong levels of all four types of control.

In contrast, contractual modes of market entry, such as management contracts, are reported to offer only limited levels of control through hierarchy of authority. Risks are therefore reflected in the cost of making and enforcing contracts and the fear of quality deterioration (Driscoll & Paliwoda, 1997). Control in these arrangements is achievable predominantly through price mechanisms and other contractual stipulations (Agarwal & Ramaswami, 1991). In the international hotel industry, management contracts have become an increasingly popular modal choice. In these entry modes,

> '...the legal owners of the property and real estate enter into a contract with the hotel firm to run and operate the hotel on a day to day basis, usually under the latter's internationally recognised brand name.' (Contractor & Kundu, 1998a, p. 329)

A perceived advantage of hotel management contracts is reported to be the high degree of direct, centralised control afforded to the management firm (Connell, 1997). However, Contactor and Kundu (1998a; 1998b) conclude from their research that control over codified strategic assets is the strongest despite responsibility for quality control, daily management and senior staffing resting principally with the management firm.

Hybrid modes, such as franchise, joint venture or alliance agreements, are those that combine a mixture of equity investment and contractual arrangements (Bradach & Eccles, 1989). Hybrid entry modes, and in particular, franchising, have long been popular in the international hotel industry. Franchisors can enter international markets directly with individual franchisees or through inter-firm agreements with master franchise partners (Connell, 1999; Sashi & Karuppur, 2002), the latter in particular resembling more of an inter-firm alliance. Franchising does not allow for the same degree of integration of resources as full ownership and therefore provides less opportunity for centralised control through hierarchical authority. Control in franchise systems is predominantly achieved through contractual, administrative and economic mechanisms (Hoffman & Preble, 1991). However, in international franchise agreements, the effectiveness of contractual and administrative controls has been questioned (Fladmoe-Lindquist, 1996) and franchisors therefore have to rely on more persuasive methods of control (Quinn & Doherty, 2000). Vosselman and de Meer-Kooistra (2006) advise that trust is also used as a control mechanism when these are long-term hybrid arrangements. Contractor and Kundu (1998a, 1998b) identify that strong control is maintained only over codified strategic assets in hotel franchise agreements, and that there is weak control over tacit expertise and non-existent control over daily management and quality and physical assets.

It is clear from the discussion above that different entry modes pose different control issues for international hotel chains. What is less apparent is the implication of using a diverse range of modes, particularly the impact of employing these on the management and organisation processes of the firm. This literature generates one important question; can one assume that different modes need different designs at the corporate level due to the different control issues they present? To answer this question; the literature on organisation design typologies is reviewed as an additional underpinning to the empirical study.

Organisation design typologies

While there have been numerous efforts made by organisational theorists to develop alternative typologies of design, Egelhoff (1999) argues that these can fit into two broad categories; traditional or change models. Traditional models rely on control through centralised authority and decision making, formal procedures, direct supervision, and specialised labour (Curado, 2006). Control processes tend to be hierarchical; involve vertical coordination, communication and dependency with fixed boundaries (Child & McGrath, 2001). As control is maintained through adherence to procedures and their outcomes, the role of trust and cooperation is minimal (Birnberg, 1998). Traditional models are based on the underlying notion that firms alter strategies in line with environmental changes and then alter strategies and structures to achieve a state of equilibrium. As equilibrium is positively associated with organisational performance, once achieved, designs are not changed unless they can no longer successfully cope with their environments (Romanelli & Tushman, 1994). The argument is that these traditional models allow for global efficiencies to be achieved by enabling consistency in organisational behaviour, increased use of best practice and organisational knowledge, and the facilitation of co-ordination and control (Egelhoff, 1999). Researchers suggest that there is a reliance on these traditional designs in hotel chains (Enz, 1993; Olsen, 1989), although this research is somewhat dated.

In contrast, change models of design are based on the premise that environmental change is frequent and continuous and can be handled within the same organisational design (Egelhoff, 1999). As a result, fluid and organic structures that comprise flatter or more horizontal organisational forms are employed. These reduce hierarchical differentiation and the reliance on vertical control mechanisms. Child and McGrath (2001) suggest from an extensive review of the literature that authority, power, responsibility and resources are decentralised and individual units take local initiative to achieve agreed goals rather than have goals imposed from above. Greater emphasis is placed on lateral integration processes and more informal control and coordination processes (Curado, 2006) in order to facilitate responsiveness to local market conditions.

Despite their differences, Egelhoff (1999) argues that both models have distinct and complementary advantages to offer international firms and as such, there should be a greater attempt to reconcile these two approaches by way of hybrid designs. Bahrami's (1992) study of organisation design within technology firms identifies three key requirements to hybrid or bimodal designs; a global mindset; the ability to get things done through competence, rather than hierarchical authority; and semi-permeable boundaries that facilitate information flows. Bahrami (1992) concludes that appropriate organisational processes are required to manage these hybrid designs in order to balance the demands for both global efficiency and local responsiveness.

This brief review of organisational design typologies provides a theoretical basis for the investigation of the design of international hotel chains and to determine the implications of these on organisational growth and effectiveness. The following section outlines the research design of the study.

Research design

The research sought to build on current knowledge and understanding of control within international firms that employ multiple market entry methods. Whilst previous research, (for example by Contractor & Kundu,1998a, 1998b), has employed a quantitative approach to evaluate modal choice and control issues, the investigation of organisational design required an approach that allowed more exploration of the subtle nuances of organisational life (Stacey, 2000). An inductive and qualitative approach utilising a case study strategy therefore appeared more appropriate.

Using purposive sampling (Shaw, 1999) secondary data was used to identify a potential sample of 27 international hotel chains that employed at least three market entry methods and operated in at least five countries. Primary data was then collected using semi-structured key informant interviews at corporate level. This practice is frequently used in organisational studies as it provides an economical approach to gaining ‘global’ data on an organisation (Bryman, 1992, p. 49). As Contractor and Kundu (1998a, 1998b) collected data at the unit level in hotel chains that had at least one international property, this approach also provided for a different and broader perspective to increase the understanding of control from a corporate level. The research instrument was tested during a pilot study and the necessary adjustments made. Informants were asked questions about portfolios, market entry strategies, organisation culture, structure and the processes employed for decision making, communication, coordination and control.

Access was negotiated to six case study firms and interviews conducted with single corporate level informants in each firm, a sample size well within the recommended limits for multiple case studies (Miles & Huberman, 1994). One firm was then investigated in more depth as it employed entry modes involving other hotel chains holding master franchise agreements. This meant that in total, eight firms were finally investigated and interviews were conducted, tape recorded for accuracy and then transcribed. Triangulation was achieved through archival analysis and document review (Yin, 2003) including organisation charts, brand standards and operating procedures, job descriptions, annual and interim accounts and reports, company newsletters and employee magazines, press releases, internal memos and analyst and investor reports.

The data was analysed according to ‘three concurrent flows of activity’ (Miles & Huberman, 1994, p. 16): data reduction, data display and conclusions drawing. This process was undertaken using NVivo, a computer assisted qualitative data analysis software programme. Data reduction was achieved through descriptive and interpretive coding (Gibbs, 2004), which enabled the data to be displayed in different ways for comparative purposes. A number of themes emerged from this process and conclusions were drawn in relation to the extant literature. The findings that emerged from the analysis related to the design of international hotel chains employing multiple entry modes are reported in the following section.

Designs within international hotel chains

The case firms all operate multi-branded portfolios with headquarters in the Americas, EMEA, or Asia-Pacific. They vary in both size and extent of internationalisation (measured in terms of the number of hotel rooms outside the home country). Despite these differences, the study reveals the use of particular designs for different types of market entry modes, much the same as Bradach (1998) found in US restaurant chains. Hotel units were managed and controlled in different divisions depending upon how they were affiliated to the chain. Different designs were identified for three types of divisions, namely, owned leased and managed (OLM), franchised and master franchise divisions as displayed in Table 1. Case study firms that employed all of these market entry modes adopted designs comprised of all three. One informant summed up the situation accordingly:

> 'I think we have three or four organisational structures within the same organisation. But it's very confusing to run. It's very complicated …Everything is run a little different, and every structure is a little different.'

These three divisions are discussed in further detail in the following sections. The literature on modal control and organisational design typologies is applied to help make sense of how the divisions worked.

[Insert Table 1 here.]

OLM divisions

In these divisions organisation structures were described as being 'hierarchical', 'highly centralised', and even 'bureaucratic', or in other words mechanistic (Pugh & Hickson, 1990). The organisation charts supported these descriptions by depicting geographic, brand or matrix structures with clearly defined organisation layers of authority and reporting lines between them. Two key structural dimensions, centralisation and formalisation featured prominently in these divisions.

Decision-making processes clearly depicted the high levels of centralisation reported. Informants explained that much decision-making power remained at the corporate level, even if 'much of the legwork' and 'the crunching of numbers' was undertaken at lower organisational levels. While these processes reportedly slowed down decision making, frequently creating 'bottlenecks' at the corporate level, they were reported to be necessary to retain organisational control. One informant suggested that it was impossible to create a structure:

> 'in the belief that you are going to win the game by simply finding 250 good GMs [general managers] at any one time.'

Another informant summed up the situation accordingly:

> ‘much of what comes from corporate [level] is a directive on how to disseminate information or how to deal with it. ‘Here’s how you process it’, not a lot of questions like ‘do you want to participate?’ ‘We’ve decided to do this, here’s how you process it operationally, make sure everyone knows about it’’.’

Another informant added that general managers get:

> ‘appropriate autonomy, so they get no autonomy in the way the property is displayed in the electronic [distribution] systems for instance, that’s the brand standard, that’s something I enforce. They get significant autonomy in terms of running their food and beverage outlets, in terms of introducing a local flavour into the hotel.’

Clear parameters to decision-making at unit level were reported for decisions regarding pricing structures, pay levels, hiring or firing at assistant or department head level and capital expenditures across the sample firms. In one firm, corporate level approval was even required to change opening hours for staff uniform services. In addition, there were clearly defined processes used for financial and quality control that relied heavily on formalised manuals, standards and diagnostic systems. Budgets, although developed through a bottom up approach; required approval at successive hierarchical levels within the firms. A comprehensive range of formalised documentation was also employed including brand standards, policy manuals, standard operating procedures for each functional area and job descriptions. Pro-forma documentation was used for interviewing employees, financial decision making and reporting back to corporate level. Brand standards were likened to the ‘company bible’ and were reported to be ‘rigidly applied’ and ‘pretty inviolate’. The processes for monitoring these were described by informants as ‘sophisticated’ and ‘quite granular’. These documents were scrutinised at corporate level with one informant suggesting:

> ‘obviously if we go down and we find something that has not been correctly documented, we will obviously go back to the GM and say,“look, you need to let us know if you want to make this change and we will tell you if you can or you can’t”.’

More informal coordination processes such as regular cross-functional meetings and conferences supplemented these control processes. In the more international firms, informants also reported the use of task groups, functional work or project teams, corporate universities and electronic chat rooms. These coordination processes served to stimulate communication within OLM portfolios, which was reported by various informants to be ‘frequent’, ‘informal’, ‘on a first name basis’ and ‘multi-directional’. One informant summed up the situation accordingly:

> ‘I don’t feel that I can’t talk to a GM just because he doesn’t report to me. I will call him and ask him how he’s doing and chat about his business and whatever.’

These findings indicate that traditional models of organisation design (Egelhoff, 1999) are used within OLM portfolios in order to maintain high degrees of centralised control and protect brand integrity. This reliance on hierarchy of authority to achieve high degrees of all four types of control is consistent with the findings of Contractor and Kundu (1998a & 1998b). However, there were also numerous coordination processes employed in these divisions. While previous research has shown that coordination processes can increase organisational flexibility and local responsiveness (Kutschker & Baurle, 1997; Martinez & Jarillo, 1989), this does not appear to be the case for OLM divisions where limited discretion and autonomy was afforded to general managers. This finding suggests therefore that the centralised control processes used may serve to inhibit the degree of local responsiveness attained. Gittel (2000) also found that control procedures can serve to undermine coordination processes in her study of American airline firms.

The study did identify however, that these organisation designs were subject to change and adaptations were reported in line with changes to international growth strategies. One informant summarised the process as follows:

> ‘We are very flexible and fluid in the way that we do change organisational structure fairly often. That is, we change the structure, because the strategy has changed.’

For chains in early stages of internationalisation, changes amounted to an increase in international divisions and hierarchical positions to accommodate this growth. In contrast, in those with a higher degree of internationalisation, changes were designed to drive greater economic growth through better economies of scale. Chains in the study sought to consolidate divisions in order to share functional support across different brands or geographic regions. Structural changes were made to implement new growth strategies and then changes made to the processes that underpin structures. The nature of these design changes within OLM divisions provides further evidence of the reliance on traditional design models.

These divisions also incorporated hotel units operated under management contract. While price and contractual stipulations had a role to play in controlling these units, particularly in relation to the physical quality of the assets, this study highlights the importance of hierarchical authority in maintaining control of daily management, tacit expertise and strategic assets. This finding is not inconsistent with that of Contractor and Kundu (1998a, 1998b) but identifies the use of hierarchy to improve these three types of control. It also suggests that management contracts may therefore have a particular status within the international hotel industry.

Franchised divisions

Similar to the OLM divisions, the structures employed in franchised divisions were reported to be 'hierarchical' and reflect traditional design models. Changes within these designs were also contingent on growth strategies, size of portfolios and number of brands. Nonetheless, there were differences in the number of organisational layers and the spans of control. For example, in one case, vice presidents had seven hotels under their jurisdiction in the OLM divisions, whilst those in franchised divisions oversaw up to 90 hotels. The reason given for this difference was that 'the standard control in the [OLM division] is much tighter' and one of the reasons for this is:

> 'because we have so much money at risk we are asking them to perform at a much different level.'

The reduced level of control witnessed in franchised divisions was also reflected in the decision-making processes employed and the degree to which the corporate level had the ability to utilise hierarchical authority to centralise this process. Informants reported that the corporate level can 'advise and only offer guidelines' to franchisees when it came to decisions about the operation of their hotel units, supporting Contractor and Kundu's (1998a, 1998b) finding about the lack of control over daily management in hotel franchise systems. Informants also reported the need to 'persuade' franchisees to adopt any new strategic brand initiatives that were technically outside their contractual obligations, a finding consistent with that of Quinn (1997). As one informant summarised:

> 'We don't just go 'here it is you swallow it because we're shoving it'. It's very much done through relationships and showing them what the benefits will be'.

Financial benefits were reported to be the most effective and were demonstrated through corporate-owned units before rolling them out to other types of affiliated hotels. One informant summarised this process:

> 'We would prototype it in a few of our own hotels and see if it works first. If it does we would start to roll it out across our own hotels and if it is beneficial we would start to spread it to master franchisees and management contracts.

Further differences in the control processes used within franchised divisions as compared to OLM divisions were revealed. While there was still a reliance on administrative controls and diagnostic systems to maintain quality, there was greater emphasis placed on technical quality standards than on softer standards that reflect service quality. As one informant explained:

> 'It would be highly unlikely to terminate a franchise contract on the basis of service quality. Historically it is on quality as audited by the company according to the brand manual.'

This quote also serves to highlight the readiness to undertake punitive action against franchised hotels in response to poor performance measurement ratings. In one case study firm, 160 franchised properties were reported to have been removed from the system over the course of five years. One informant reported:

> ‘One of the reasons that we are starting to cannibalise some of our weaker franchises and take over their operations is because we just can’t afford to have that much inconsistency in the brand anymore. Because the consumer has a lot of choices and once you damage the trust between the brand and the consumer, it is very hard to get it back. So we have stepped up our aggression...and are much more focused on making sure people do the right thing and do things right.

Another informant explained this rationale from the perspective of future franchisees:

> ‘…you have to give the franchisee the confidence that they are buying into something virtually unchangeable so they can see what is to happen to their money. And that level of commitment and certainty is what makes people sign up.’

Punitive action was therefore deemed necessary to maintain control of brand integrity and ensure further brand growth as well as to compensate for the greater autonomy within franchised hotels. In contrast, managers within OLM divisions were incentivised to achieve higher quality performance scores and given more support to rectify any problems highlighted through this control process. These differences suggested a ‘carrot’ approach for OLM hotel managers but a ‘stick’ approach for franchised properties. Therefore, it appeared that in the latter, control, and ‘technical’ quality control in particular, was maintained through mechanistic structures and supported through contractual and administrative control mechanisms. While Contractor and Kundu (1998a, 1998b) found non-existent control over quality in hotel franchise systems, this study identifies a distinction between technical and service quality and the degree of control achievable. Furthermore, it supports Quinn’s (1997) finding that the effectiveness of contractual controls in retail franchise systems is positively related to the franchisor’s willingness to use them.

There were further differences identified in the financial control processes employed and these related to the restricted access to franchisee financial data by the corporate level. Both quality and financial control process differences were reported to give rise to:

> 'a different set of drivers, you know it's, [for franchised properties] how many locations, of what quality and what loyalty rates versus [for OLM properties] are we really making the most of this hotel's location? Are we making the departments run effectively?'

It was recognised that this approach may result in 'some potentially good ideas, being missed' but that these would be highly unlikely to impact on the overall success of the hotel chain. Control procedures used in these divisions therefore impact upon the identification and sharing of innovative ideas and best practice. Furthermore, these drivers limited the use of informal coordination processes employed compared to OLM divisions.

Communication was restricted through high spans of control in the organisation structures and the physical distances involved in international franchise systems, factors previously identified in retail franchising by Quinn (1998). Management perceptions also had an impact on the willingness to engage in communication between the corporate level and franchised hotels and between franchised and OLM hotels. As one informant identified:

> '…we don't pick up the phone to them, to franchisees, absolutely not. But I might pick up the phone to speak to a GM of an owner-managed hotel.'

The reason for this practice was that franchisees are perceived to be '... definitely on the other side of the wall, it is a commercial agreement'. Franchisees were perceived as the 'poor cousins' who offer inferior quality and are not considered to be 'trustworthy'. These findings suggest that the design differences as well as perceptions of the members of different divisions serve to create barriers between design divisions. Furthermore, there is limited evidence of the existence of trust as a control mechanism in the franchised divisions of this study.

Master franchise divisions

The designs employed for master franchise divisions displayed a good deal of difference to those for other divisions. In these arrangements, franchisors award territorial rights to other firms to develop unit level properties themselves or through sub franchising agreements. In this study, these designs were more organic in nature, evolving towards decentralised designs throughout the life of these inter-firm agreements, a finding consistent with that of Connell (1999). As the designs evolved, much decision-making authority and power devolved to the master franchisees. Informants suggested that:

> 'Now when it comes to development, it is joint development. It's no longer they go and redevelop and present to the world, they would rather get us involved and we co develop.'

Another informant added, that 'we have a healthy debate about how things are done and a very good exchange of information' and 'as a by-product', corporate level 'got tremendous buy-in, because nobody felt that it was handed out on high'. This approach is perceived to have led to the development of initiatives that were more 'global' in orientation as they incorporated the 'grass root experience from multiple markets'. One informant suggested that this was because the decision-making process established:

> 'a mutual freedom to interpret the brand and execute the brand within our areas of responsibility' and therefore 'local needs are accommodated'.

However, within marketing there was still a perceived need for some centralised control. For example, informants reported 'certain core elements that are sacred', although greater freedom was given to master franchisees to run local marketing programmes. Brand values were used instead of standardised brand standards and these allowed for a greater degree of local variation that reflected market differences. While there was still a reliance on diagnostic quality control systems, master franchisees were given the responsibility for monitoring adherence to these.

In these divisions, there was much greater use of inter-firm coordination processes. For example, Brand Councils were used in the early stages and project teams, functional work teams, staff transfers and interlocking directorates were added subsequently. Furthermore, annual conferences were reported to have changed from being 'a bit of a jaunt' to an opportunity to 'share success and best practice' through proactive networking between the members of the different firms.

As a result, levels of informal communication across organisational boundaries increased and filtered down through to lower organisational layers. The importance of personal communication is exemplified through the comments of one informant:

> 'We have agreed that the only way to make this work is by face-to-face meetings on a regular basis.'

Another added:

> 'the better I have got to know these guys face to face, I have found that the smoother moving business forward by phone becomes.'

These decentralised procedures were not perceived as having a negative impact on control, rather, through greater communication between members of the different firms and the numerous coordination processes employed, informants reported the development of 'norms of practice' and of an inter-organisational 'culture' and these served as alternative control mechanisms. One informant suggested that in terms of inter-organisational communication, 'people would almost exclusively deal with their counterparts on the same organisational levels as a courtesy'. Another informant suggested that if there were issues to be resolved they preferred to 'deal with it person-to-person, rather than rely on a hierarchical approach.' While a further informant reported that this was 'a relationship status thing', another added that for any issue or query:

> 'It would be injudicious of me to call [X], if I had an issue because it would be [Y], my counterpart [who would be] exposed. And I would never dream of doing that.'

These findings suggest that within master franchise divisions, 'change' models of design (Egelhoff, 1999) are used. These models are more fluid in nature and as more lateral coordination and communication processes are added as the designs evolve, there is greater evidence of local responsiveness. Connell's (1999) study of master franchise agreements also identified greater responsiveness as franchised hotels became 'attuned' to local market demands and conditions. This study builds on those findings to identify that norms of practice emerge in these divisions as control mechanisms to guide the behaviour members of master franchise systems. Informants reported that the contracts also moved beyond their original scope leading to initiatives such as the franchisor and master franchisee(s) working in new ways to proactively sell the brand. One informant suggested that:

> 'You no longer think about us and them, rather you think about the most cost effective and customer friendly way of distributing our product.'

In addition, sensitive financial data was shared between the different firms. However, informants were clear that there had to be 'trust in the relationship' and 'integrity to know there is no hidden agenda'. This study therefore provides evidence to support Vosselman and de Meer-Kooisstra's (2006) argument of the role of trust in controlling long-term master franchise agreements.

Conclusions

This paper aimed to evaluate the implications of using different entry modes simultaneously on the design of international hotel chains. It is clear from the findings that the response of the case firms was to use organisational designs encompassing different divisions to control and manage the different modes. The most important issue for all divisions was the control and protection of hotel brand integrity, and this gave rise to the implementation of different control and coordination mechanisms and the creation of distinct divisional designs. However, the study reveals a number of limitations within and across these divisional designs.

For OLM divisions, the use of traditional, hierarchical organisational designs enabled high degrees of centralised control; however, this was at the expense of allowing for local responsiveness. Within franchise divisions, traditional designs and the particular control mechanisms used limited sharing of best practice and organisational learning. Here, the relationship between franchisor and franchisee appeared arms length and purely contractual; without developed trust. It was only in the master franchise divisions, where the organic and fluid organisational designs had evolved past these limitations, that there were opportunities for shared learning to drive global efficiencies and local responsiveness to adapt to market demands.

Across the divisions, the use of the different designs has substantial implications for international hotel chains and their growth and long-term effectiveness. The adoption of differentiated, rather than truly hybrid designs, may not be enabling them to realise full organisational potential in terms of the achievement of global efficiencies and local responsiveness. Whilst executives may have to work with different divisional designs they will need to move towards hybrid designs to achieve a balance between these two organisational challenges. As Bahrami (1992) suggests, this will involve developing global mindsets, competence-based rather than hierarchical authority and the development of semi-permeable boundaries to facilitate information flows. This is of course no mean feat.

The distinctions between divisions in this study were reinforced by the perceptions of organisational members about other divisions (this was most prevalent between OLM and franchised divisions). These perceptual barriers undoubtedly hindered communication and coordination across divisions and further hampered sharing of knowledge and best practice. This approach to organisational design and the resultant behaviour of divisional members creates ‘communities of design’ rather than ‘communities of practice’ (Kimble & Hildreth, 2005; Wenger & Snyder, 2000), which appear to hold back the development of synergistic processes that facilitate the achievement of organisational goals (Bradach, 1995). Understanding how to break down these barriers or prevent them being erected in the first place is therefore an important design consideration for managers of international hotel chains that employ multiple market entry modes. However, merely adding coordination processes without considering whether formal control procedures could undermine the benefits of these may prove to be expensive and futile.

Whilst there are obvious limitations to this study, namely the dependence on a limited number of cases within one industry, the findings are worth consideration across other service sectors. With the growth of service firms internationally, future studies could focus on multiple case studies drawn from different service sectors and firms involved in a wider range of market entry modes or inter-firm agreements. It would be interesting to probe the organisational designs of these firms to see whether the very same challenges exist.

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Table 1. Variations in organisation design in international hotel chains

Portfolio Element	Organisation Structure	Organisational or Inter-Organisational Processes	Nature of Change
OLM (Owned, leased and managed	Hierarchical and mechanistic; small spans of control	• Centralised decision making with clearly defined parameters at unit level; some input by owners in managed units • Extensive control processes; reliance on diagnostic systems for financial and quality control • More varied coordination mechanisms used in firms with greater levels of internationalisation • Communication frequent, formal and informal and multi-directional	• Pace of change is punctuated • Change is contingent on growth strategy, size of portfolio and number of brands • Emphasis on organisation structure
Franchise	Hierarchical and mechanistic; large spans of control	• Centralised strategic ‘brand’ decisions; decentralised operational decision making • Reliance on diagnostic systems that reflect technical aspects of quality; contractual or legal mechanisms also used • Limited coordination processes • Communication dominated by formal reporting structures	• Pace of change is punctuated • Change is contingent on growth strategy, size of portfolio and number of brands • Emphasis on organisation structure
Corporate and Master Franchise	Process more dominant than structure; fluid and organic	• Decentralised decision making • Devolved diagnostic systems; emergent culture also serves as control mechanism • Greater reliance on informal coordination processes • Communication frequent, formal and informal and evolves throughout and across organisations	• Change is fluid and continual • Change is driven by interaction between firms • Emphasis is on inter-organisational processes