The Design and Management of Diverse Affiliations: An Exploration of International Hotel Chains

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ABSTRACT

The simultaneous use of different market entry methods by international service firms is creating complex and compound organisations that operate within and across organisational boundaries. These organisations face variable risks related to control, resource commitment, flexibility and dissemination across their diversely affiliated portfolios. This research seeks to explore how these risks are managed within these diverse affiliations through an investigation of organisational and inter-organisational design.

This study draws on three fields of literature; international market entry, alliance and networks, and organisation design. A number of gaps have been identified in this literature relating to 'how' international service firms, inter-organisational alliances, diverse affiliations and international hotel chains are designed and managed. Using international hotel chains for the primary investigation, a qualitative case study approach was adopted for this study. The research was conducted in three phases; the first served to verify the extent of the phenomenon under study, the second provided insight into organisation design within firm boundaries and the third revealed a detailed picture of inter-organisational design.

A major contribution of this study is the identification of communities of design within diversely affiliated organisations. These communities are created through the different structures and processes employed across portfolios and reinforced by the perceptions of organisation members. Barriers can develop between the communities that limit the degrees of control and flexibility achieved and inhibit organisational potential. A further contribution of this study is the development of a relational-process framework that can be used to build bridges across these communities, break down barriers and enhance relational ties, but only if supported by appropriate control procedures. Managers are recommended to consider the impact of formal mechanistic structures within and across organisational boundaries and the impact of inter-organisational processes on relational ties in designs that cross organisational boundaries in order to enhance the potential of diverse affiliations.

DEDICATION

This is dedicated to the ones I love,
Justin, Tristan and Cassandra.
You rarely failed to offer moral support and encouragement while I undertook this endeavour, especially when the pressures of work, family life and completing a doctoral degree got on top of me.

Thank you,
All my love
Mo(m)

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CHAPTER ONE

1. INTRODUCTION

The last few decades have born witness to increasing levels of internationalisation in many service industries. International growth is frequently achieved through the simultaneous use of different market entry methods, creating complex and compound organisations that frequently cross traditional organisational boundaries. In these organisations, corporate centres are affiliated in different ways with their portfolios and therefore face variable risks associated with the different market entry modes employed. This study investigates 'how' service firms that simultaneously employ multiple international market entry methods are designed in order to manage these risks. This chapter presents a rationale for this research and argues that international hotel chains provide a suitable context for the primary investigation. The aim and the objectives of the study are identified and the chapter concludes by providing an overview of the structure of this thesis.

1.1 Research Rationale

The business environment is frequently described as global, dynamic and highly competitive. Saturation of domestic markets, technological advances and the reduction of trade barriers between countries are frequently reported as the driving forces underpinning international expansion (Kidger, 2002; Javalgi, Griffith and White, 2003; Hollensen, 2004). Consumer mobility and access to information via the Internet has boosted demand for products and services from international markets. The availability of capital has helped to ensure that supply matches or even exceeds this demand (Axinn and Matthyssens, 2001). In order to remain competitive in the face of these trends, many firms have expanded from domestic to international markets, a process known as internationalisation (Javalgi et al, 2003). A number of authors report on the increasing internationalisation of firms within service industries and the speed at which this growth is occurring (Dunning and Kundu, 1995; Clark and Rajaratman, 1999; Gronroos, 1999; Vernard, 2002). As a result, the value of services to many national economies and to the global economy is also growing (Erramilli and Rao, 1993; Patterson and Cicic, 1995;

Clancy, 1998; Knight, 1999; Ochel, 2002). Javalgi et al (2003) estimate that the service economy now represents around 30% of world trade.

For many service firms, this growth has been achieved through a variety of international market entry methods. Firms can choose to invest directly in international markets or to adopt an entry mode from an increasingly diverse array of inter-firm arrangements, such as franchising, strategic alliance or network agreements. Researchers have sought to explain the international expansion patterns of firms through a number of theories derived from different disciplinary perspectives. For example, stage models of internationalisation, such as those developed by Stopford and Wells (1972) and Johansen and Vahlne (1977) explain international entry mode selection on the basis of escalating risk. These theories purport that a firm will initially enter new markets through arrangements requiring limited levels of investment. As firms' knowledge of the international market increases, they 'muster the financial and managerial expertise to take greater risks of direct investment' (Contractor, 1981:73). Levels of investment in international markets therefore increase according to the firm's life cycle. However, these models have been questioned by researchers investigating accelerated internationalisation (Pla-Barber and Escriba-Esteve, 2006) or 'born-global' firms (Knight, Madsen and Servais, 2004). In addition, they have been challenged as researchers have identified simultaneous, rather than sequential, use of international market entry strategies (Contractor, 1981).

The simultaneous use of different market entry modes is recognised within transaction cost theories (Williamson, 1975; Anderson and Gatignon, 1986; Buckley and Casson, 1988; Erramilli and Rao, 1993). According to these economic theories, firms seek to minimise the cost of transactions and therefore choose the market entry mode with the lowest perceived costs. Theories of internalisation (Rugman, 1986; Buckley, 1987) address both costs and risks and purport that firms will undertake direct investment when they consider the risks associated with the loss of competitive advantage too great with other market entry methods. For instance, firms may opt for direct investment as opposed to licensing arrangements in order to protect technological know-how. In contrast, resource-based theories purport that firms that have a need for resources will try to gain access to them through inter-firm agreements (Kogut and Zander, 1993; Barringer and Harrison, 2000). These theories are frequently used to explain the growth of inter-firm alliances where access to new skills and resources can help firms to remain competitive (Thomas, Pollock and Gorman, 1999; Pett and Dibrell, 2001).

However, a number of researchers argue that it is more difficult to examine market entry issues from a single theoretical perspective as internationalisation increases and the competitive resources and position of firms become more complex (Dunning, 1980; Kim and Hwang, 1992; Contractor and Kundu, 1998b; Todeva and Knoke, 2005). These researchers contend that eclectic models (Dunning, 1980) or unified theories (Contractor, 1990) are required to develop a more complete understanding of the wide variety of factors that underpin modal choice decisions. While eclectic models have also received some criticism (see Ekeledo and Sivakumar, 2004 for a critical review), researchers have continued to empirically test and build upon them to explain modal choice. The studies conducted to date have contributed to the knowledge and understanding of market entry by highlighting the particular risks associated with specific market entry methods for individual market locations. These studies suggest that firms will select different entry modes for different international markets after weighing up the perceived risks associated with the financial investment required and control over their resources. Understanding these risks and 'how' to manage them effectively is deemed critical to survival in the current competitive environment. These risks must therefore be considered not only in international market entry decisions, but also in the management of the subsequent diversely affiliated organisational forms created. The term diverse affiliations is used in this thesis to describe organisations that employ multiple market entry methods and operate within and across organisational boundaries.

Despite the requirement to manage variable risks, research on the internationalisation of service firms is reported to be relatively limited (Lovelock, 1999; Knight, 1999; Javalgi et al, 2003). Furthermore, most of the research conducted to date has focused on 'pre-entry aspects' (Lindsay, Chadee, Mattson, Johnston and Millet, 2003) and on 'why' particular market entry modes are selected. There has been comparatively limited research on post market entry decisions (Erramilli and Rao, 1993; Lindsay et al, 2003) and in particular, on 'how' firms that employ multiple market entry modes are managed in light of the risks associated with these different modes. These firms are diversely affiliated with different constituent parts of their portfolios, with different levels of financial commitment and different degrees of control afforded to them. While the difficulty of conceptualising these complex organisational forms as single and unified entities has been identified (Peng and Litteljohn, 2001), a gap remains in the knowledge and understanding of 'how' best to manage these diverse affiliations.

A further criticism of the empirical studies within the market entry literature is that limited attention has been paid to organisational flexibility (Driscoll and Paliwoda, 1997). The importance of organisational flexibility came to prominence in the 1980s when international business environments became more competitive (Boudreau, 2004). Researchers investigating multinational corporations (MNCs)[1] have identified the requirement for firms to be more flexible to cope with the complex and dynamic environments they operate in and to be more responsive to local market characteristics and demands (Doz and Prahalad, 1984; Bartlett and Ghoshal, 1989; Golden and Powell, 1999). However, they also recognise the need to balance this flexibility against the requirements for global economies of scale and innovation in order to remain competitive. The organisational design of the MNC is therefore considered critical to determine 'how' this balance can be achieved (Ghoshal and Nohria, 1989; Gupta and Govindarajan, 1991; Malnight, 1995; Wolf, 1997). Egelhoff (1998a:xiii) suggests that in its broadest sense organisation design 'includes organizational structure and a wide variety of organizational processes and management techniques.' In other words, organisation designs comprise both formal structures and the processes employed within these structures to manage them. The majority of the studies noted above investigate organisational processes in relation to structure, strategy and industry type (Harzing, 1999). However, these studies highlight the relative importance of organisational processes for control, decision making and communication over

[1] While there is a clear distinction between multinational and international firms (Bartlett and Ghoshal, 1989; Harzing, 1999), this study uses the particular term employed by the researcher whose work is under review. It is concerned with design in relation to international market entry and therefore draws on studies that relate to both types of firms that operate beyond their home country.

formal organisation structures in their management, and as a result, these researchers came to be regarded as representing 'the process school' (Melin, 1992). It has become apparent from the studies conducted that a 'one size fits all' approach to design is not appropriate for firms operating in multinational environments (Drucker, 1998). Furthermore, given the multiple environments these firms operate in, strategies are also likely to be variable or differentiated within any one MNC (Doz and Prahalad, 1991; Nohria and Ghoshal, 1994). Despite the contributions from the researchers within this school, there is still perceived to be a need for further research on the design and management of MNCs (Egelhoff, 1998a; Birkinshaw and Terjesen, 2002). In this way, a better understanding can be gained of 'how' multinationals balance economic imperatives (global integration) with the flexibility to respond to the demands of different markets (local responsiveness).

Further research on organisation design is also called for within the growing stream of literature on alliance and network management. As the popularity of these market entry methods continues to grow, so too does their incidence of failure, with rates reported between 60-80% (Galbreath, 2002; Sengir et al, 2004). The cause of failure is frequently attributed to the organisational design challenges created through these market entry methods (Ajami and Khambata, 1991; Judge and Ryman, 2001; Galbreath, 2002; Kauser and Shaw, 2004). As Buono (1997:251) identifies, these challenges are amplified as the boundaries of alliance firms frequently 'blur together in day-to-day operations'. Empirical studies to date have shed light on the motives for alliance formation, the choice of governance structure, and effectiveness and performance of inter-firm agreements. However, there is a growing recognition that further research is needed into the design of these inter-organisational forms in order to understand 'how' they are, or should be managed (Grandori, 1997a; Osborn and Hagedoorn, 1997; Barringer and Harrison, 2000; Kauser and Shaw, 2004; Taylor, 2005).

The preceding discussion identifies a number of gaps in the current literature. In the first instance, there appears to be a gap in the generic management literature on the internationalisation of service firms. In particular, there is a need for 'post entry' research related to 'how' they are designed and managed. Similarly there are further gaps identified in the literature regarding 'how' inter-organisational agreements and 'how' diversely affiliated organisations are designed and managed. Siggelknow and Rivkin (2005) argue that the problem of finding appropriate designs for different organisational conditions remains a key challenge for practicing managers. Friesen (2005) advises that design choices have far reaching effects that can make or break a firm. This research therefore seeks to close these gaps in the literature through an investigation of the design and management of diverse affiliations that operate within and across organisational boundaries. By drawing together the three streams of literature identified above; international market entry, alliance and network management and organisation design, a more comprehensive understanding of these issues can be determined in order to close these knowledge gaps.

1.2 Research Context

One service industry sector that clearly depicts the use of multiple entry modes is the international hotel industry where increasing levels of competition have led many firms to pursue aggressive international growth strategies (Olsen and Zhao, 1997). A number of environmental pressures have also contributed to this trend. According to Pine and Go (1996:97) the,

> 'cumulative effects of information technology, the development of worldwide media, the ease of long-haul travel opportunities and the development of capital markets able to shift resources rapidly in response to new opportunities'

have pulled many hotel firms into the international business arena. At the same time, the saturation of many domestic markets has pushed hotel companies to expand internationally. The use of mixed market entry modes has increased in line with this internationalisation (Contractor and Kundu, 1998b; Jones, 1999; Barcala and Gonzalez-Diaz, 2006). While owner-operator strategies were once predominant in the hotel industry, the last few decades have seen a greater separation of hotel management from hotel ownership (Clancy, 1998; Contractor and Kundu, 1998b). International expansion has been achieved through a mixture of acquisitions, franchising, management contracts, joint venture and strategic alliance agreements with varying degrees of equity participation (Litteljohn, 1997;

Contractor and Kundu, 1998b; Jones, 1999). For example, across its portfolio of hotel brands, Accor owns and manages some properties, operates others as joint ventures or management contracts, and franchises other hotels, some through master franchise agreements (www.accorhotels.com). Todd and Mather's (1999) study of global hotel brands provides ample empirical evidence of these diverse affiliation patterns in the international hotel industry. The authors identify that many firms 'seem to cover virtually all the options' (Todd and Mather, 1999:107) and this has blurred the distinction between the various types of hotel companies such as hotel owners, management companies and franchisors. Based on the findings from an industry study, Contractor and Kundu (1998a: 50) report:

> 'In many sectors, global strategic choices are no longer across the board, but selective, depending on the country in question and the preferences and risk appetite of the firm.'

Their study reveals that non-equity modes in the hotel industry account for over 65% of foreign hotel properties and arrangements involving two companies account for as much as 81.2%. The result has been the creation of complex and compound hotel chains with diverse patterns of affiliation across hotel portfolios. Ingram and Baum (1997:68) define hotel chains as 'collections of service organisations doing substantially the same thing that are linked together into a larger organization.' However, Peng (2004:243) provides a more comprehensive definition of hotel chains as:

> 'Organisations which comprise two or more hotel units operating under a system of decision making permitting coherent policies and a common strategy through one or more decision making centres and in which the hotel units and corporate functions are linked to add value to each other by ownership or contractual relationships.'

Both definitions therefore identify that the formation of chains results in the creation of distinct organisational forms. However, how they are linked to create a specific organisational form is dependent on the market entry methods chosen. Industry experts predict that this trend for hotel chain affiliation will continue. Forecasts show an increase in chain affiliation within Europe from 23% to 28% of total roomstock by 2011 (Slattery, 2003) and to 25.5% (7.65 million hotel rooms) of global hotel roomstock by 2050 (Slattery, 2000).

The benefits of chain affiliation include economies of scale, inter-organisational learning and increased credibility (Ingram, 1998). Furthermore, the use of mixed market entry modes has enabled hotel chains to grow more rapidly (Connell, 1997). However, there are issues associated with co-ordination and control across the different types of affiliation (Harrison and Johnson, 1992; Jones, 1999). These chains are also under pressure for greater integration and control to achieve shareholder returns, yet at the same time they are faced with the challenge of ensuring enough flexibility to be responsive to local market demands (Olsen, 1999; Aung and Heeler, 2001). Nonetheless, the ability to coordinate and control unit hotels is considered an important source of competitive advantage for international hotel chains (Horsburgh, 1991; Dunning and McQueen, 1981). Pine and Go (1996) identify key issues for their managers are 'how' to organise, integrate and manage their activities. Ingram (1998) also cautions that the success of hotel chains is related to the way that they are designed and Altinay (2001) identifies the impact of organisation design on the international expansion process itself. Despite recognition of the need for new designs to meet these challenges (Enz, 1993; Blum, 1997), a number of researchers suggest that hospitality firms, and hotel chains more specifically, still rely on traditional hierarchical designs that impact on their ability to compete effectively (Olsen, 1989, 1991; Enz, 1993; Espitalier-Noel, 1995).

Early empirical studies investigating the design of hotel chains examined and found support for the relationship between structure, strategy and organisation effectiveness (Schaffer, 1984; West and Olsen, 1988; Dev and Olsen, 1989). However, these efforts focused upon chains within a domestic context predominantly using one type of affiliation. A similar study by Dev and Brown (1990) did include owner operated, management contracts and franchised hotel units, however the focus of the investigation was not the impact of different affiliations on organisation structure. It was Clark's (1987) investigation of 15 UK hotel chains that highlighted the relationship (or type of affiliation) between the corporate level and the portfolio of hotels as a critical element of structural determination and thus organisation design. He identified three models of corporate design based on this relationship as corporate governance, corporate control and corporate service. These models are differentiated according to the variable levels of control and coordination exercised through organisational communication processes. Clark (1987) concluded from his study that one hotel chain could have different types of relationships between the corporate level and different hotels in the portfolio.

Subsequent studies also recognised the importance of the type of affiliation to organisation structure. For instance, Roper's (1992) research into the structure of hotel consortia as transorganisational forms identified strategic and structural inconsistencies as a direct result of consortia's particular development and status. Connell's (1997:219) investigation of international master franchise agreements revealed that these organisation designs evolve when organisational processes are adapted as the franchisor and master franchisee become 'attuned'. Eyster (1997) also identifies change in organisational practices within management agreements from his latest study of this market entry method. Although these studies have contributed further to our understanding of the design and management of hotel chains, they have also focused on single types of affiliation. One study that did investigate 'how' organisations that employ multiple market entry methods are designed was that of Cliquet and Croizean (2002). Their investigation encompassed hotel chains in France that employed both franchising and ownership entry modes. The firms in their study were found to employ different designs, comprising both structure and process, for the different types of affiliation. Furthermore, Cliquet and Croizean (2002) determined that this approach to design was effective in managing across the different types of affiliation as it could yield synergistic benefits in terms of achieving organisational goals. To date, however, no studies have been identified that investigate organisation designs in international chains using multiple market entry methods.[2] As such, there is a further gap in the literature on 'how' international hotel chains that are diversely affiliated with their portfolio are designed and managed.

Given the use of multiple market entry methods, the use of inter-firm agreements, the limitations of previous research, and their importance as a service industry sector (Clancy, 1998), international hotel chains provide a suitable context for this

[2] There have been a number of studies that have looked at design and management practices within specific functional areas. For instance, Gannon and Johnson (1997) and Jones, Thompson and Nickson (1998) have investigated human resource practices within international hotel chains.

study. Furthermore, an investigation of international hotel chains that operate across organisational boundaries, will also contribute to the understanding of the design and management of inter-organisational alliances. Empirical studies on these inter-organisational forms are reported to be limited (Grandori, 1997a). It has also been recognised that inadequate attention has been paid to studies investigating organisation design since the 1990s (Birkinshaw and Terjesen, 2002). This research will therefore also contribute to the literature on organisation design through the investigation of diverse affiliations.

1.3 Research Aim and Objectives

This research study aims to identify 'how' diverse affiliations are designed and managed within and across organisational boundaries through a study of international hotel chains. In order to achieve this aim, the following research objectives have been set:

1. To analyse the formal organisation structures of a sample of international hotel chains, within and across organisational boundaries, in relation to the market entry methods employed.
2. To evaluate management practices within the sample through the exploration of processes for control, decision-making and communication within and across organisational boundaries.
3. To contribute to the knowledge of organisation design in international hotel chains, inter-organisational alliances and diverse affiliations.
4. To make recommendations on organisational design for diverse affiliations in order to maximise their potential.

1.4 Structure of the Thesis

This thesis is structured around four key questions as depicted in Table 1.1. As the table highlights, this first chapter identifies the overall aim of the research and the objectives determined to achieve this aim. It also presents a rationale for the research based on current industry trends and gaps identified within the international market entry, alliance and network, and the organisation design literature and on international hotel chains. It argues that combining different theoretical perspectives from these fields could help to fill these gaps by developing an understanding of 'how' diverse affiliations are designed and managed through the control, decision making and communication processes employed.

Table 1.1 The Structure of the Thesis

Chapter/Purpose	Purpose/Content
Chapter One What does the research seek to achieve?	Research Rationale: Identifying the gaps in the literature Research Context: International hotel chains Research Aims and Objectives Overview of Thesis
Chapters Two and Three What can be learned from the current literature in relation to the research question?	International market entry modes and the implications of adopting multiple modes Dimensions of organisational and inter-organisational design Development of research propositions to inform the investigation
Chapter Four How to best achieve the research aim?	Research Design Research philosophy, approach and methods Research phases Analysing the data
Chapters Five, Six and Seven What is learned through the research?	Research Findings: Identifying emergent themes Discussion: Relating these themes to the extant literature and objectives of the study Drawing conclusions, contributing to knowledge, developing recommendations and recognising research limitations

The following two chapters review the current literature in order to inform and frame the investigation. Chapter Two explores the factors that underpin market entry decisions in order to determine the impact of different entry modes on organisations. In particular, it undertakes an in-depth investigation of the risks associated with specific market entry methods drawing on the market entry and alliance literature and on research conducted within manufacturing, service and hotel industries. It then considers these risks in relation to the use of multiple market entry methods to identify the design and management challenges faced by firms diversely affiliated with their portfolio.

In Chapter Three, the organisation design and alliance literature is used to identify the dimensions of design within and across organisational boundaries. Research conducted from different theoretical perspectives and within different industry sectors is used to inform this review. The chapter concludes with the identification of a number of research propositions drawn from the three streams of literature.

Chapter Four explains the research design and puts forward an argument for an inductive and qualitative approach. It identifies how the research was undertaken in three distinct phases in order to achieve the research objectives. The first phase sought to verify the extent of the phenomena under study. The second phase sought to identify design and management issues within organisational boundaries and the third to identify these issues across organisational boundaries. The different strategies adopted for each phase are justified, as is the approach to data analysis.

Chapter Five presents the research findings according to the three different research phases undertaken. These findings are presented according to themes that emerge from the data.

Chapter Six discusses these findings in relation to the extant literature and the research propositions identified. Through this process, two further themes emerge and these are used to frame the discussion.

Finally, Chapter Seven presents the conclusions drawn from this study and the contributions of the research. The implications of these are considered and a number of recommendations put forth as a result. The limitations of the research are also identified in this final chapter.

CHAPTER TWO

2. THE IMPACT OF MODAL CHOICE ON ORGANISATIONS

2.1 Introduction

The purpose of this chapter is to identify the types of risk associated with different international market entry modes. This chapter begins with the identification of distinct international market entry methods and the factors that influence modal choice decisions. Four key underlying dimensions of market entry modes that give rise to variable degrees of risk associated with control, resource commitment, dissemination and flexibility are determined. The management of these risks is then explored in the organisation forms created through ownership, hybrid and contractual entry modes. This discussion is drawn together to consider the management implications for firms that employ multiple entry modes. A review of the research studies conducted to date on diversely affiliated organisations then follows. The chapter summary highlights the need to investigate organisation designs within and across firm boundaries to determine how the variable risks are managed within diverse affiliations.

2.2 International Market Entry Modes

The literature identifies a number of distinct international market entry methods commonly employed by service firms and suggests that these can be conceptualised along a continuum according to the degree of financial commitment required. Table 2.1 briefly defines these different modes and depicts them along this continuum.

As Table 2.1 identifies, at one end, ownership of international subsidiaries requires the greatest financial investment and at the other, contractual entry modes require the least. In between, there are varieties of hybrid arrangements identified that require variable levels of investment. Joint ventures, alliances and franchising are considered to be hybrid entry modes as they employ elements of ownership alongside contractual arrangements. Which of these market entry methods is chosen is dependent on a number of factors identified below.

Table 2.1 International Market Entry Modes

Entry Mode	Description	Level Of Investment
Wholly Owned Subsidiary	Direct investment in foreign market resulting in full ownership.	HIGHEST
Joint Ventures	A partnership between firms that entails the creation of a governing body to oversee the venture.	↑
Strategic Alliances & Networks*	A variety of inter-firm arrangements that encompass resource sharing and mutual benefits to the firms involved.	
Franchising*	A contractual agreement where a franchisor provides the brand name and know-how to run a business for a fee.	
Management Contracts*	A contractual agreement where one firm provides management expertise to another firm for a fee.	
Licensing	A contractual agreement where the right to produce a product or service is granted for a fee. This can include the use of patents, trademarks and technical advice or assistance.	↓
Exporting	Products are produced in the domestic market or a third country and transferred to the host market.	LOWEST

Adapted from Johnson & Scholes, 1999; Keegan, 2002; Hollensen, 2004.
*The exact investment for these modes can vary according to the particular model adopted.

2.3 Understanding Modal Choice

The selection of an appropriate entry mode is deemed to have a significant impact on a firm's performance and survival (Anderson and Gatignon, 1986; Erramilli, 1991; Ali and Camp, 1993; Driscoll and Paliwoda, 1997; Ekeledo and Sivakumar; 2004). As the previous chapter identifies, a number of researchers contend that eclectic or unified theories are necessary to understand the wide variety of factors that impact upon modal choice decisions. One of the first researchers to explore international market entry decisions using this approach was Dunning (1980) whose research led to the development and testing of an eclectic model (Dunning and McQueen, 1981). Driscoll and Paliwoda (1997:60) define the eclectic model as a 'holistic framework that draws together several streams of thought in an attempt to explain different routes to entering and serving international markets.'

According to eclectic theories there are a variety of internal and external factors that influence market entry decisions. Altinay (2001) argues that internal or firm-specific factors are those that provide competitive advantages for firms in specific markets. Different researchers have investigated the impact of firm size, firm size in relation to internal resources, degree of international experience, managerial preference, corporate history, nature of a firm's know-how[3], ability to differentiate products, and the impact of a firm's strategy on modal choice decisions. Empirical studies suggest however that these internal factors must be considered in conjunction with a number of external factors in any given market location. External factors include location-specific advantages that relate to the market potential and investment risk within any given location (Dunning, 1988). Market potential refers to the size and growth of a market (Erramilli, 1991) based upon current and predicted demand levels (Driscoll and Paliwoda, 1997). Investment risks concern the economic and political conditions that influence the uncertainty or stability of particular markets and the potential repatriation of earnings or expropriation of assets (Agarwal and Ramaswami, 1991; Erramilli and Rao, 1993). Another relevant external factor is that of socio-cultural distance or the degree to which a host country's socio-cultural environment is dissimilar to that of the home country (Erramilli and Rao, 1993; Blomstermo, Deo Sharma and Sallis, 2006). Agarwal and Ramaswami (1991) caution that the assessment of location-specific advantages may be influenced by management perceptions based upon their level of knowledge, past experiences and potential bias about any given country. Researchers adopting an eclectic approach have therefore sought to investigate both internal and external influences on modal choice decisions. Table 2.2 presents an overview of 16 empirical studies conducted using eclectic frameworks since the seminal work of Dunning and McQueen (1981). All of these studies investigate international market entry decisions using a hypo-deductive quantitative research design with the exception of Altinay (2001) who uses a qualitative grounded theory approach.

[3]A firm's know-how can be either tacit or explicit. Explicit knowledge is regarded as codifiable and can be incorporated in formal routines and standard operating procedures. Tacit knowledge however, is less codifiable and thus more difficult to articulate and transfer without personal contact and involvement (Kim and Hwang, 1992; Kogut and Zander, 1993; Driscoll and Paliwoda, 1997).

Table 2.2 Internal & External Factors Influencing Modal Choice Decisions

Researchers	Internal Factors Investigated	External Factors Investigated	Research Context	Key Findings
Dunning and McQueen, 1981	• Trademark • International experience • Ability to achieve economies of scale • Investment in training • Reservation or referral systems	• Size and rate of tourism growth • General infrastructure • Availability and quality of tourism inputs • Government policy on foreign investment • General political, economic and social stability	Survey of 81 international hotel firms in 22 countries	Support eclectic theory.
Agarwal and Ramaswami, 1991	• Size • International experience • Ability to develop differentiated products	• Market Potential • Investment Risk	Mail survey of 97 US service firms in leasing industry	Demonstrate the inter-relationship between internal and external factors that impact on modal choice decisions.
Erramilli, 1991	• International experience	• Market attractiveness/degree of control	Mail survey of 151 US service firms in 7 industries	Service firms demand high-control modes in early and late stages of internationalisation.
Erramilli, 1992	• Desired speed of market entry • Resource scarcity (HR and capital) • Desire to maintain control	• Host government foreign ownership policies • Size of foreign market • Partner availability • Environmental uncertainty	Mail survey of 175 US service firms in 7 industries	The influence of external factors on modal choice decisions can vary in importance in different situations.
Kim and Hwang, 1992	• Firm-specific know-how: value and tacit nature • Global concentration • Global synergies • Global strategic motivations	• Country risk • Location unfamiliarity • Demand uncertainty • Competition intensity	Mail survey of 96 US-based multinational manufacturing firms	Global strategic posture of firms influences modal choice decisions in addition to environmental and transaction-specific factors.
Ali and Camp, 1993	• Firm size • International experience • Attitude towards international business • Skills and attributes of international managers		Mail survey of 195 US manufacturing firms	Find a preference for exporting and suggest managers do not feel comfortable with alternative modes that may be more culturally or financially demanding.

Table 2.2 continued...

Erramilli and Rao, 1993	• Firm size • Degree of inseparability of production and consumption • Degree of asset specificity	• Country Risk • Cultural distance	Mail survey of 114 US mixed service firms, including hotels	Internal and external variables interact with each other in complicated ways to influence modal choice decisions.
Dunning and Kundu, 1995	• Band image and trademark • International experience	• Market size • Market potential	Mail survey of multinational hotels in 18 countries	Both internal and external factors impact on modal choice decisions.
Driscoll and Paliwoda, 1997	• Product differentiation • Tacit know how • International experience	• Government intervention • Market attractiveness • Socio-cultural distance • Country risk	Mail survey of 117 Canadian manufacturing firms	Modal choice decisions can frequently represent trade-offs between the internal and external factors.
Kennedy and Bradley, 1997	• Size and resources available • Size and capital intensity • International experience and desire for control • Degree of inseparability • Degree of standardisation • Degree of intangibility • Use of IT	• Level of competition • Barriers to market entry	Pilot mail survey of 50 international service firms operating out of Ireland.	Study does not demonstrate any specific pattern of relationships between entry mode choice and firm-specific characteristics.
Contractor and Kundu, 1998a and 1998 b	• Size of firm • International experience • Extent of foreign business Perceived importance of: • Economies of scale • Quality control • Size • Global reservation system • Investment in training	• Business and political uncertainty in host nation • Cultural distance • Level of economic development • Foreign business presence in host nation	Mail survey of 110 International hotel groups, surveyed at unit level.	International businesses will employ mixed modes of entry depending on internal and external forces.

Table 2.2 continued...

Altinay, 2001	• Organisational resources • Characteristics • Target markets • Strategy	• General economic conditions • Capital markets • Host country political, economic and socio-cultural forces	One in-depth case study of a multibranded international hotel chain	Both internal and external forces impact on modal choice decisions.
Osland, Taylor and Zou, 2001	• International experience • Need for local knowledge • Synergies among global operations • Competitive position • Need to respond to competitors • Need to protect technology	• Political risk • Economic risk • Host government requirements • Local partner qualifications	Mail survey of 343 US and Japanese manufacturing firms, plus subsequent follow up interviews	Internal and external forces have different impacts on US and Japanese firms.
Erramilli Agarwal, and Dev, 2002	• Organizational competence • Quality competence • Customer competence • Entry competence • Physical competence	• Availability of managerial staff • Availability of investment partners • Attractiveness of host country business environment	Mail survey of 139 general managers listed in the Global Hoteliers Club	Both internal and external factors influence decisions whether to employ equity or non-equity modes.
Ekeledo and Sivakumar, 2004	• Technology • Tacit knowledge • Experience • Specialised assets • Firm size • Organisation culture • Reputation • Firm strategy • Nature of product	• Political risk • Investment risk • Host government requirements • Qualifications of local partners	Mail survey of 130 US manufacturing and non-separable service firms (defined by simultaneous production and consumption) that entered a foreign market between 1985-1995	The impact of individual internal factors does not always lead to the same entry mode choice for manufacturing and service firms. Concludes that resource-based theory has good explanatory abilities.
Blomstermo, Deo Sharma and Sallis, 2006	• Degree of hardness of service • Degree of relational friction • International experience • Firm size	• Cultural distance	Mail survey of 140 Swedish professional service firms	Mixed results compared to previous studies on the impact of various internal factors and cultural distance.

While Table 2.2 depicts the support for eclectic models, it also highlights the variety of both internal and external factors that have been investigated within different industry contexts. However, findings on the exact impact of these different factors vary within these studies. A number of explanations have been proffered to explain these differences including national culture (Osland, Taylor and Zou, 2001), industry specific contexts (Terpstra and Yu, 1998; Agarwal and Ramaswami, 1992; Kennedy and Bradley, 1997; Ekeledo and Sivakumar, 2004) and product specific contexts (Ekeledo and Sivakumar, 2004). Industry and product specific contexts refer to the specific internal or external factors which may be of greater or lesser relevance to specific industry or product categories. As Table 2.2 identifies, 4 studies investigate manufacturing firms, 7 studies investigate service firms and 5 focus specifically on the international hotel industry.

Table 2.2 also demonstrates the complexity of modal choice decisions and the inter-relationship between the antecedent factors. In addition to these factors, Dunning (1988) identifies four other influences on modal choice decisions, suggesting these are internalisation advantages that relate to perceived risks of control, dissemination, resource commitment and flexibility. Driscoll and Paliwoda (1997) argue these four factors are best understood as four underlying dimensions that are represented by variable degrees in different market entry methods. Each of these four dimensions is defined below.

i) Control

From a market entry perspective control is reported to be the authority over operational and strategic decision making (Kim and Hwang, 1992; Driscoll and Paliwoda, 1997). Anderson and Gatignon (1986:3) advise that 'it is the ability to influence systems, methods and decisions and therefore has an impact on the future of the enterprise'. As a result, it is considered the single most important determinant of risk and return in entry mode decisions (Anderson and Gatignon, 1986; Blomstermo et al, 2006). Contractor and Kundu (1998a, 1998b) identify four different types of control from their study of hotel chains as that over daily management and quality, physical assets, tacit expertise or know-how, and codified strategic assets. The latter category can include a firm's internationally recognised brand name and other proprietal technological systems.

ii) Resource Commitment

Kim and Hwang (1992:74) suggest that resource commitment refers to 'dedicated assets that cannot be redeployed to alternative uses without loss of value.' As such, they can be likened to what Williamson (1975) refers to as transaction-specific assets that are invested to enter new international markets. Woodcock, Beamish and Makino (1994) note that these resources can be both tangible and intangible. Driscoll and Paliwoda (1997:67) add that they can be 'financial, physical and human resources firms commit to enter foreign markets.'

iii) Risk of Dissemination

This risk is defined as the extent to which a firm perceives that its firm-specific advantages will be appropriated by a contractual partner (Kim and Hwang, 1992; Driscoll and Paliwoda, 1997). While firm-specific advantages can take many shapes, dissemination is frequently associated with a firm's know-how. This know-how can be technical or market based, tacit or explicit, and is considered to be a source of a firm's competitive advantage. The risk of dissemination is directly associated with the likelihood of, and ease in which a partner firm can behave opportunistically to appropriate that know-how and replicate it to their own advantage.

iv) Flexibility

Flexibility is defined as 'a blend of capabilities and attributes that facilitate adjustments to change' (Bahrami; 1992:35). Put more simply, it is the ability to do things differently or to do different things in order to adapt to changing environmental circumstances. Bartlett and Ghoshal (1989) argue that flexibility is necessary to enable international firms to respond to changes in different national markets, divert resources when required, and adapt products and services in order to compete more effectively. Schilling and Steensma (2001) therefore suggest that flexibility can relate to volume, product and strategic decisions. Driscoll and Paliwoda (1997) highlight the importance of adapting to changing circumstances at minimal costs. Through their study of manufacturing and retail networks, Golden and Powell (1999) identify four dimensions of flexibility as temporal, range, intention and focus. These dimensions relate respectively to the speed within which change occurs, the range of potential responses, whether the change is proactive or reactive, and whether the focus of the change is internal or external. Despite these dimensions, the authors conclude flexibility is a difficult concept to assess.

As the perceptions of risks associated with loss of control, resources, competitive advantage and flexibility vary for different international markets, they are further factors that influence modal choice decisions. Table 2.3 summarises these different dimensions and the risks associated with them.

Table 2.3 Underlying Dimensions of Market Entry Modes

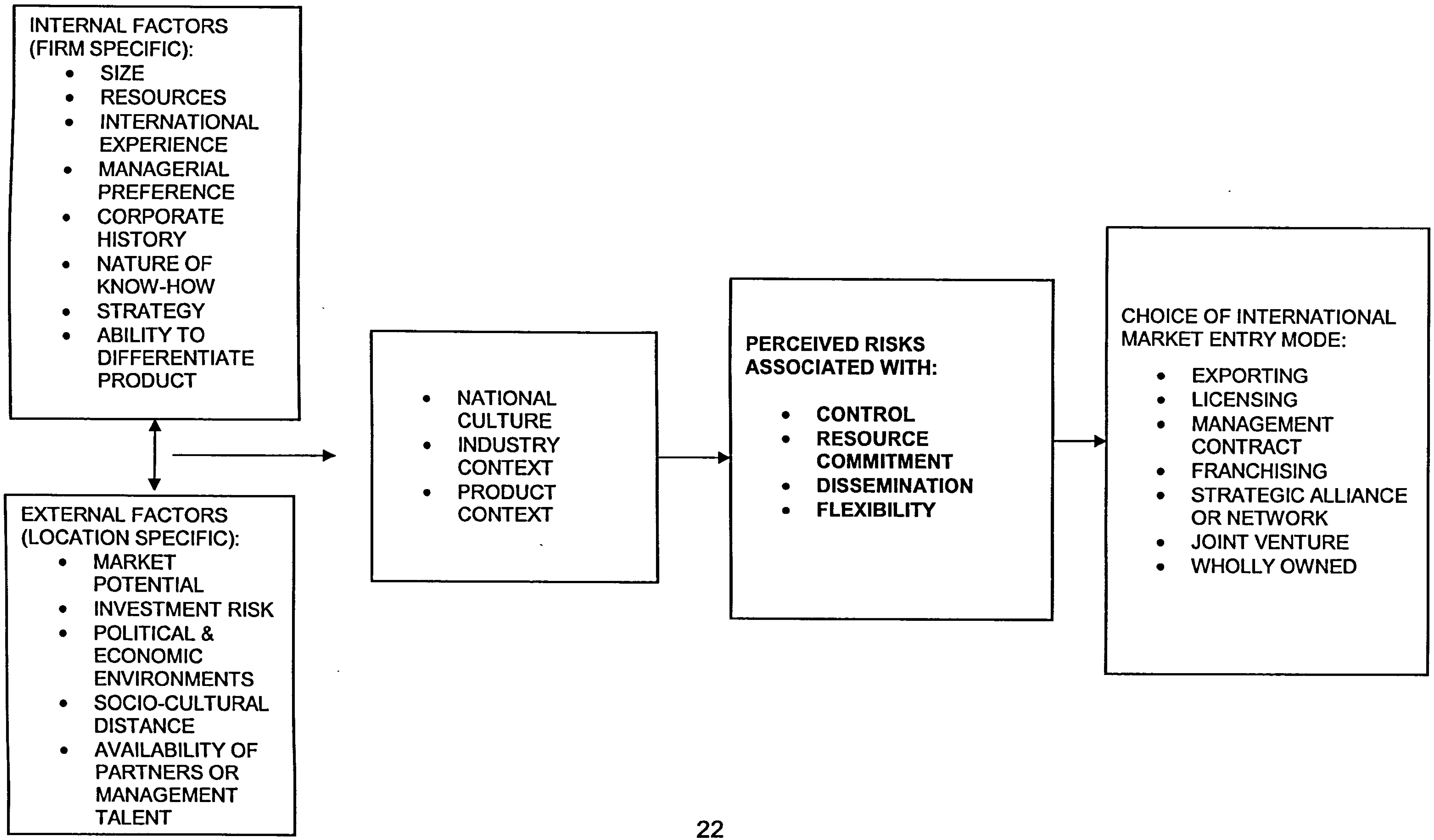
Dimension	Definition	Associated Risk
Control	Ability to exercise authority over systems, procedures and operational and strategic decisions	Degree of control is associated with the ability to influence performance and ultimate firm survival.
Resource Commitment	The level of resources invested in order to enter any given market	The more resources committed, the greater the potential gain or loss.
Dissemination	Potential loss of firm-specific knowledge and competitive advantage	Working cooperatively with other firms to enter new markets can increase the risk of losing competitive advantage.
Flexibility	Ability to adapt to changing environmental conditions	Loss of flexibility creates the risk of producing products and services that become obsolete.

Summary of Modal Choice

This review of the literature suggests that modal choice decisions are complex and contingent on the inter-relationship between a variety of factors for any given market. Figure 2.1 depicts all these antecedent factors that impact on modal choice decisions. Given the range of factors involved, Contractor and Kundu (1998a and 1998b) conclude from their study that that there is unlikely to be a standardised optimum modal choice. Firms are therefore likely to employ multiple market entry methods in their pursuit of international growth and become diversely affiliated with their portfolios, frequently in ways that cross traditional organisational boundaries.

Figure 2.1 also highlights the perceived risks associated with different market entry modes. These are highlighted, as they not only influence modal choice decisions,

Figure 2.1 Factors Influencing Modal Choice Decisions



but also impact on the subsequent organisations created. They give rise to different challenges for managers to minimise the risks associated with control, resource commitment, dissemination and flexibility and therefore underpin the focus of the remainder of this chapter. While these risks have been investigated in specific market entry modes, there has been limited attention given to their management in diversely affiliated firms. The following section therefore synthesises both conceptual and empirical studies to identify these risks in the different organisational forms created through market entry choices.

2.4 The Risks Associated with International Market Entry Modes

Drawing on the international market entry literature and the growing stream related specifically to alliance and network agreements, this section explores the risks associated with control, resource commitment, dissemination and flexibility for international service firms. International market entry modes are discussed according to the three broad categories identified on the market entry continuum in Table 2.1 as:

- Ownership modes
- Hybrid modes
- Contractual modes

2.4.1 Ownership Modes

Ownership entry modes require direct investment in the facilities and management of physical facilities to produce goods and services in foreign markets (Altinay, 2001). International growth through ownership can be achieved organically through the development of greenfield sites or through merger and acquisition (M&A). While the former is generally considered a slow and expensive route to international expansion (Paliwoda, 1998), M&A activity is perceived as offering a quicker option (Buckley and Casson, 1998). Although these two terms are commonly used in conjunction, mergers and acquisitions are distinct market entry processes. Schraeder and Self (2003:511) report that,

> 'Mergers are commonly characterized as the consolidation of two organizations into a single organization. Acquisitions, by contrast, are commonly characterized as the purchase of one

organization from another where the buyer or acquirer maintains control.'

Ownership modes have been traditionally considered to offer greater degrees of control over international operations (Agarwal and Ramaswami, 1991; Erramilli, 1991; Gupta and Govindarajan, 1991). These modes enable full integration of all resources into one decision-making body and thus facilitate high degrees of control through hierarchy of authority (Agarwal and Ramaswami, 1991). Integration is defined as 'the combination of firms into a single unity or group, generating joint efforts to fulfil the goals of the new organisation' (Olie, 1994:386). Corporate-level decision makers are responsible for decisions about capital, product and knowledge flows and how these are used and shared across different geographical markets (Gupta and Govindarajan, 1991). Contractor and Kundu (1998a, 1998b) identify through their research that full ownership provides management with strong levels of all four types of control. Gupta and Govindarajan (1991) explain that it is widely acknowledged in the economics literature that foreign direct investment occurs because of a desire to internalise knowledge transfers. In other words, ownership modes reduce the risk associated with dissemination of organisational knowledge or loss of competitive advantages. Paliwoda (1998) argues that this greater degree of control comes at a price however, and that is a higher level of resource commitment and thus a lower degree of strategic flexibility. Within international markets, the issue of simultaneously achieving control while giving managers sufficient autonomy to be responsive to local market conditions is of widespread significance (Keidel, 1990; Craig and Douglas, 1996; Malnight, 2001). This argument suggests that while achievable, centralised control may not be the most appropriate to achieve sufficient degrees of flexibility across international markets. In addition, researchers have begun to question this generally accepted view of ownership as there are no tried or tested models of how much control ownership affords (Erramilli and Rao, 1993; Driscoll and Paliwoda, 1997).

Within M&A, integrating the two separate firms into one new organisation often poses management challenges for control and flexibility. While M&A remains popular, there is a high failure rate associated with these market entry methods (Marks, 1997; Balmer and Dinnie, 1999; Appelbaum and Gandell, 2003; Shelton, Hall and Darling, 2003). Many researchers argue that too much attention is given to strategic fit and financial and legal issues prior to mergers at the expense of considering how the two firms can be integrated post merger (Olie, 1994; Morosini and Singh, 1994; Balmer and Dinnie, 1999). Olie's (1994) case study investigation of three Dutch-German mergers identifies four potential areas of incompatibility for consideration in M&A entry modes; administrative systems, organisation structure, management style and organisation culture. National culture has subsequently been recognised as a further potential area. Table 2.4 identifies these categories and the work of other researchers that support them.

Table 2.4 Potential Incompatibilities in Mergers and Acquisitions

Incompatibility Of:	Definition	Supporting Authors
Administrative Systems	Organisational processes that support the organisational structure	Nahavandi & Malekzadeh 1988; Olie, 1994; Cartwright & Cooper, 1995; McCann, 1996; Schraeder & Self, 2003; Lundbacke & Horte, 2006
Organisation Structure	The framework of decision-making and reporting systems	Ollie, 1994; Balmer & Dinnie, 1999; Shelton et al, 2003; Lundbacke & Horte, 2006
Management Style	Includes leadership styles and their underpinning human resource practices	Cartwright & Cooper, 1993; Olie, 1994; McCann, 1996; Covin, Kolenko, Sightler & Tudor, 1997; Schraeder & Self, 2003
Organisation Culture	Represents the values, attitudes and styles of work within organisations, reflects the nature of shared beliefs and expectations about organisational life	Nahavandi & Malekzadeh 1988; Mayo & Hadaway, 1994; Cartwright & Cooper 1993, 1995; Olie, 1994; McCann, 1996; Marks, 1997; Balmer & Dinnie, 1999; Appelbaum & Gell, 2003; Schraeder & Self, 2003;Shelton et al, 2003; Lundbacke & Horte, 2006
National Culture	Represents the prominent shared values and attitudes within nations on the basis of ethnicity, tradition, history and religion	Mayo & Hadaway, 1994; Morosini & Singh, 1994; Shelton et al, 2003

There is general consensus amongst the 26 authors listed in Table 2.4 that greater attention needs to be paid to these issues surrounding M&A activity and the human side of integrating firms. As these research efforts acknowledge, the incompatibility within these areas has direct implications on the control and flexibility achieved in the newly formed organisations. For example, different administrative systems and organisation structures in merged firms could create control implications. Similarly, different management styles and organisation cultures could impact upon the degree of flexibility achieved. The following section explores these issues further for hybrid market entry methods.

2.4.2 Hybrid Entry Modes

Hybrid entry modes are those that combine a mixture of equity investment and contractual arrangements. These modes do not yield the same degree of integration of resources as full ownership and therefore provide less opportunity for control through hierarchical authority. While Bradach and Eccles (1989) argue that control can be achieved through contractual stipulations, other researchers report that these can be less efficient or more costly (Erramilli and Rao, 1993; Woodcock et al, 1994). Contractor and Kundu (1998a, 1998b) identify that in partially-owned arrangements, strong control is maintained only over codified strategic assets, and only weak control is achieved over daily management and quality, physical assets and tacit expertise. The authors conclude from their research that contractual relationships can effectively substitute for equity ownership when the fear of partner opportunism is reduced by the international firm's ongoing control over key strategic assets. However, the developing stream of alliance and network literature suggests that the degree to which control is achieved by either of these means depends on the particular hybrid arrangement adopted. The growing popularity of inter-firm agreements has been mirrored by an increase in the variety of arrangements made between firms (Gulati and Singh, 1998). The following discussion addresses two broad types of hybrid arrangements used by international service firms; alliances and networks and franchise agreements, and considers the degrees of control, flexibility, resource commitment and risk of dissemination in each.

i) Alliances & Networks

The alliance and network literature presents a variety of definitions of these organisational forms. Table 2.5 provides an overview of alliance definitions by various researchers since the mid 1980's when they started to increase in popularity.

The definitions provided in Table 2.5 suggest there is disagreement over the types of inter-organisational relationships that constitute alliances. Some authors argue that buyer-supplier relationships, joint ventures, licensing and franchising are forms of alliance agreements (Starr, 1991; Lorange, Roos and Bronn, 1992; Grandori, 1997a; Zeng and Chen, 2003; Kauser and Shaw, 2004; Todeva and Knoke, 2005). In contrast, Glaister and Buckley (1996) explicitly argue that buyer-seller relationships, licensing and franchising are not alliances as the individual organisations may have conflicting goals. They do advise however, that joint ventures fall within the domain of alliance agreements due to goal congruence. On the other hand, Ajami and Khambata (1991) and Walters, Peters and Dess (1994) maintain that joint ventures are technically distinct as they entail the creation of a third party legal entity responsible for the alliance management. Despite this lack of agreement, it can be concluded that there are a number of different types of alliance agreements that share distinct characteristics. The literature suggests that alliances:

- are inter-organisational or inter-firm agreements involving two or more firms
- create hybrid organisation structures
- are either cooperative or collaborative
- have a defined purpose
- benefit the firms involved
- share resources
- have a temporal dimension.

However, alliances can vary quite significantly within each of these general characteristics and this is likely to impact upon the associated risks. For example, the number of firms involved in an alliance agreement is likely to influence the type and degree of control afforded to a firm. Multi-firm agreements are generally considered to be inter-firm networks. As the terms alliances and networks are frequently used interchangeably, Table 2.6 provides a summary of several

Table 2.5 Alliance Terms and Definitions

Term Used	Author	Definition
Global Strategic Alliance	Perlmutter and Heenan, 1986:137	A reciprocal relationship between two or more companies who develop a long-term strategy aimed at world leadership as low-cost suppliers, differentiated marketers or both in an international arena.
Alliance	Ajami and Khambata, 1991:56	Hybrid organisational forms that use resources and governance structures from more than one existing organisation, but do not necessarily require the development of a new legal entity.
Alliance	Starr, 1991:138	Cooperative arrangements made between firms for the purpose of achieving mutual advantages.
Global Strategic Alliance	Parkhe, 1993:301	Relatively enduring inter-firm cooperative arrangements, involving cross-border flows and linkages that utilise resources and/or governance structures from autonomous organizations headquartered in two or more countries, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm.
Alliance	Ring and Van de Ven, 1994:92	Cooperative alliances involve the use of tacit know-how assets, whereas collaborative involve the use of tangible or codified know-how assets.
Alliance	Glaister and Buckley, 1996:302	Collaborative inter-firm agreements that operate across organisational boundaries with resources input by all partners. Includes joint ventures but not buyer-seller relationships, licensing and franchising.
Alliance	Himmelman, 1996:27	Cooperation for the purpose of exchanging information and altering activities for mutual benefit and to achieve a common purpose through the sharing of resources. Collaborative arrangements go one step further than cooperative ones and enhance the capacity of firms involved in the arrangement.
Alliance	Huxham, 1996:7	Both cooperative and collaborative alliances are a very positive form of working in association with others.
Alliance	Gulati and Singh, 1998:782	Any voluntarily initiated cooperative agreement between firms that involves exchange, sharing or co-development, and it can include contribution by partners of capital, technology or firm-specific assets.
Alliance	Arino, de la Torre and Ring, 2001: 110	A formal agreement between two or more business organisations to pursue a set of private and common goals through the sharing of resources.
Alliance	Love, Irani, Cheng and Li, 2002:3	Cooperative alliances are long term and collaborative alliances are short term.
Alliance	Zeng and Chen, 2003:587	Captures many forms of inter-organisational cooperative arrangements, including equity joint ventures, strategic supplier arrangements, research and development partnerships, and so forth.
Strategic Alliance	Parise and Casher, 2003:26	Open-ended agreement between two or more organisations that enables cooperation and sharing of resources for mutual benefit, as well as enhancement of the competitive positioning of all organisations in the alliance.
Strategic Alliance	Kauser and Shaw, 2004:204	Contractual agreements between two parties including arrangements with or without the creation of a legal entity and with or without equity participation. Joint ventures and consortia are considered alliances.
Strategic Alliance	Todeva and Knoke, 2005:125	Firms remain legally independent after the formation of the alliance, share benefits and managerial control over the performance of assigned tasks and make continuing contributions.

Table 2.6 Network Terms and Definitions

Term Used	Author	Definition
Networks	Powell, 1987:68	Nonmarket, nonbureaucratic hybrid organisational arrangements.
Internal Networks	Arias, 1995:52	Clusters of firms or specialist units co-ordinated by market mechanisms instead of chains of command.
External Networks	Buono, 1997:251	Groups of organisations whose boundaries blur together in day-to-day operations.
External Networks	Wolf, 1997:524,525	Partnerships between legally dependent firms, characterised by numerous vertical and lateral relationships between organisation subunits. They are based on the fiction of partnership and common values.
Networks	Barringer and Harrison, 2000:387	Constellations of organisations, often with a focal organisation at the hub organising the interdependencies of a complex array of firms working together to produce a product or service.
Networks	Vetschera, 2000:225	Consist of several independent units, for instance independent business firms or individuals, who closely cooperate to achieve a common goal.
Networks	O'Donnell et al, 2001:749	A series of direct and indirect ties between one set of actors, or aggregate of actors, to a collection of others.
Organisational Networks	Gnyawali and Madhavan, 2001:3	Formalised cooperative relationships among competitors that involve flows of assets, information and status. Vertical networks are cooperative relationships formed across different levels of the value chain. Horizontal networks are cooperative relationships at the same level of the value chain with competitor organisations.
Networks	Batonda and Perry, 2003:1465	Loosely coupled systems with fuzzy boundaries.
Strategic Networks	Klint and Sjoberg, 2003: 409	Deliberately created, organised cooperation between two or more companies, with the purpose to achieve a common objective.
Network Organisations	Tuomela & Salonen, 2005:129	A cluster of firms or specialised units coordinated by market mechanisms instead of a strict chain of command.

definitions of networks[4] in order to compare and contrast them with those given for alliances.

Table 2.6 identifies that there are also a number of different types of network agreements, but more general consensus amongst researchers as to what constitutes a network. It also highlights the similarity in alliance and network definitions. Both alliances and networks share a number of characteristics as follows:

- they are arrangements made between firms
- they create hybrid organisational forms
- they can be either cooperative or collaborative agreements
- they represent a degree of interdependency between firms
- they are unions with a defined purpose
- they deliver benefits for the firms involved
- they share resources between firms.

Due to these shared characteristics, it is not surprising that these terms are often used interchangeably. There are differences however, and according to Sherer (2003) networks generally tend to be more informal, do not generally use long-term contracts and do not form joint ventures with specific divisions of ownership. A network therefore is a particular type of inter-firm alliance, one with multiple partners and potentially multi-directional linkages. While there is a growing body of literature that focuses specifically on networks, this discussion seeks only to identify the variety of alliance agreements in existence as the risks associated with control, resource commitment, dissemination and flexibility are likely to be variable. The following section therefore synthesises the literature in order to classify different types of alliance agreements and identify the risks associated with each classification.

Classifying Inter-firm Alliance Agreements

Although individual authors have used different criteria to categorise alliance and network arrangements, five main classifications have been drawn from the literature. This section categorises alliances according to their governance

[4] While there is a substantial body of literature that addresses personal networks within organisations, it is the more formalised agreements made between firms that are considered here and personal networks are considered in the following chapter.

structure, motive for formation, duration, type of linkage and degree of interdependence in order to identify their associated risks.

a) Classification by governance structure

One of the simplest ways to classify alliances is through their governance structure. Gulati and Singh (1998) define governance as the contractual structure participants use to formalise agreements. Alliances can range from wide networks of loose alliances to tight federations with defined governing bodies (Gerwin, 2004; Huxham, 1996) and these differ on the basis of their decision-making authority and the degree to which these are controlled hierarchically (Gerwin, 2004; Gulati and Singh, 1998). While governing bodies offer potentially greater degrees of control, more resources are often required, thereby potentially reducing flexibility. Looser alliances may therefore enable greater flexibility. Osborn and Baughn (1990) add that looser, non-equity alliances promote reciprocal exchange of information and are less likely to stress issues of control. Risks of dissemination may therefore be greater in these alliance forms.

b) Classification by duration

A temporal dimension has also been utilised to categorise alliances. Dynamic agreements are considered to be those formed for a temporary period (Arias, 1995). Control may be difficult to achieve with this type of arrangement, particularly if there is no written contractual agreement. However, flexibility remains high and resource commitment low. The temporary nature of these agreements may also reduce the chance of opportunistic behaviour and dissemination.

In contrast, stable alliances are reported to tie firms together through long–term contractual arrangements. In these types of arrangements, control may reside with a core firm as a governing body or be reliant on stipulations in contractual agreements. A number of studies identify the emergence of trust between firms in long-term agreements (Bradach and Eccles, 1989; Dyer and Singh, 1998; Parkhe, 1998; Barringer and Harrison, 2000). Trust is reported to increase levels of control as it inhibits opportunistic behaviour and dissemination risks. The concept of trust in inter-firm agreements is discussed in further detail in the following chapter.

c) Classification by motive for formation

A number of theoretical perspectives have been formulated to explain the rationale for alliance formation and the key distinguishing feature of these is the access provided to resources. Gomes-Casseres (1997) identifies three main categories of resources as material resources, customer markets and knowledge, and capability resources. Using this feature, Barringer and Harrison (2000) argue that the motives for alliance formation can be considered as economic, strategic or learning. Table 2.7 explains the theories that underpin these different perspectives.

Table 2.7 Motives for Alliance Formation

Motive	Theoretical Underpinning	Description
Economic	Transaction cost economics Resource-based theories	Firms seek the most efficient way to organise resources. Integration is preferred if this is perceived as the most economically effective, otherwise alliances are formed. Firms prefer to integrate if they have surplus resources and form alliances if resources are in short supply.
Strategic (Market based)	Strategic choice	Firms enter into offensive alliances to strengthen market share and defensive alliances to defend their market share against dominant competitors.
Learning (Behavioural)	Organisational learning theories	Firms form alliances to gain access to new knowledge, skills and capabilities either with firms with similar capabilities (scale alliances) or different capabilities (link alliances).

Compiled from the works of Ajami and Khambata, 1991; Williamson, 1991; Barringer and Harrison, 2000; Vetschera, 2000; Clarke-Hill et al, 2003; Das, Sen, and Sengupta, 2003; Kogut and Zander, 1993; Neilson, 2003; Osborn and Hagedoorn, 1997; Todeva and Knoke, 2005.

The risks associated with alliances differ according to the motive for formation. From an economic perspective the risks associated with opportunistic behaviour are balanced against the costs of integration and the resources committed for this purpose. From a strategic choice perspective, the risks are generally linked to the ability to retain control within particular markets as these types of alliances are often between competitive firms at the same level of the value chain (Klint and Sjoberg, 2003; Terpstra and Simonin, 1993). Clarke-Hill et al (2003) argue that these arrangements may be characterised by rival behaviours, calculated bargaining, manoeuvring and the use of power to achieve results. From an organisational learning perspective, the risks associated with dissemination are arguably the highest. Vetschera (2000) argues conceptually that in these alliances, opportunistic behaviour can remain undetected, but Todeva and Knoke (2005) advise from their review of alliance research that this could depend on the type of interdependence between firms, as well as organisational structures and processes employed.

d) Classification by linkage

Alliances can also be differentiated according to whether firms are linked vertically or horizontally (Ahuja, 2000; Bensen-Rea and Wilson, 2003). Vertical linkages are formed across different levels of the value chain (Gnyawali and Madhavan, 2001) in order to coordinate the flow of complementary resources (O'Donnell et al, 2001). These are generally considered to be collaborative arrangements. If continued over an extended period, these can be associated with greater risks of flexibility for the firms involved as their reliance on the partner firm grows. Horizontal alliances, on the other hand, occur at the same level of the value chain with competitor organisations (Gnyawali and Madhavan, 2001). As identified above, there are risks associated with control in these types of agreements. Klint and Sjoberg (2003:411) report that many inter-firm agreements can involve a mixture of both vertical and horizontal linkages and that these have been labelled 'lateral networks'. Miles and Snow (1995) advise that these firms can simultaneously collaborate and compete, and thus arguably incorporate all the risks identified above.

e) Classification by degree of interdependence

The final type of classification identified for alliances is the degree of interdependence between firms. Calori, Lubatkin and Very (1994:366) define interdependence as the level of resource sharing between related businesses and the transfer of functional skills or general manager capability. Goh (2001) identifies two types of integration relevant to alliances and networks, human and task. Human integration is related to people and the degree to which they are transferred across the firms involved in the agreement. The more movement of people across organisations, the greater the potential for dissemination, particularly of tacit knowledge. Task integration concerns the actual work of the companies. Thompson's (1967) study of technical interdependence across departments yields three types of interdependence that can be applied to applied to alliances as outlined in Table 2.8.

Table 2.8 Task Interdependence in Alliance and Network Agreements

Type of Interdependence	Definition	Degree of Interdependence
Pooled	Each organisation makes a discrete contribution to the output of the alliance. Interdependence is pooled as each organisation is supported in some way by the alliance and may be threatened by the failure of any of its member firms.	Lowest
Sequential	Each organisation makes a successive contribution to the development of a product or service as in vertical alliances.	
Reciprocal	Different organisations contribute and interact in a number of ways to contribute to the output of the alliance.	Highest

Adapted from Thompson, 1967.

Table 2.8 identifies that the degree of interdependence between firms is lowest in pooled alliances. These types of agreements tend to be looser organisational relationships and therefore associated with higher risks of control. The complexity and types of interaction between firms in reciprocal alliances on the other hand, create a higher degree of interdependency between the alliance firms (Vetschera, 2000; Kaplan and Hurd, 2002). This interdependence can increase the risks associated with resource commitment, control and dissemination. In addition, it can have a negative impact on organisational flexibility.

Summarising the Underlying Dimensions in Alliances and Networks

The preceding discussion suggests that alliances represent multifaceted organisational arrangements (Osborn and Hagedoorn, 1997). However, the particular type of inter-firm agreement formed can impact on the degrees of control and flexibility afforded and the risks associated with dissemination and resource commitment. The classification scheme presented above has been derived from the literature in order to determine the impact of these dimensions on the different organisations created. Table 2.9 presents an overview of this scheme and illustrates the potential risks according to each classification. It draws on 30 studies published between 1991 and 2005 that provide support for these classifications. However, only 9 of these have been empirically tested.

Using this classification scheme, the underlying risks associated with different types of alliance and network agreements can be more readily identified. As Table 2.9 depicts, higher control is associated with stable and tight alliances where greater levels of resources are committed, particularly if the motive for formation is access to financial resources. On the other hand, control risks are highest with dynamic or short-term alliances with market-driven motives, horizontal linkages and a high degree of interdependence. Greater risks of dissemination are associated with short-term and tighter alliances formed for learning purposes with high levels of interdependence. Flexibility is highest with dynamic or short-term alliances with a low number of links and lower degrees of interdependence. Despite the application of this classification scheme, Table 2.9 depicts the variability of the risks of alliances. While the literature sheds little light on the best approach to managing these risks, it does emphasise the need for further empirical research. Kauser and Shaw (2004:6) advise that 'the management of alliances poses unique problems of conceptualization, design and performance evaluation.'

Table 2.9 A Classification Scheme For Alliance Agreements

Criteria	Distinguishing Features	Range	Implications	Authors Using Classification
Governance Structure (formal contractual structure)	Degree of hierarchical authority	Loose alliances to tight federations with defined governing body	Tighter alliance associated with: • Greater control and decision-making authority • Higher resource commitment • Greater resource sharing • Reduced flexibility • Higher risk of dissemination	Ajami & Khambata, 1991; Arias, 1995; Huxham, 1996; Grandori, 1997b; Gulati & Singh, 1998; Das et al, 2003; Gerwin, 2004
Duration	Length of inter-firm relationship	Dynamic (short -term or temporary) agreements to Stable or long-term agreements	Dynamic alliances associated with: • Higher risks of control • Greater flexibility • Higher risks of dissemination (but short-term nature may reduce risk somewhat) Stable alliances associated with: • Higher levels of control • Reduced flexibility • Greater risk of dissemination (but trust may serve to alleviate risk in long term)	Arias, 1995; Glaister & Buckley, 1996; Judge & Ryman, 2001; Love, Tse, Holt & Proverbs, 2002; Klint & Sjoberg, 2003; Mills, Schmitz & Frizelle, 2004
Motive for Formation	Access to resources	Financial (Economic) Strategic (Market) Know-how (Learning)	• Greater control associated with higher level of resources committed • Risks of control greater when based between competitive firms at same level of value chain • Risk of dissemination greater due to knowledge sharing between firms	Williamson, 1991; Kogut & Zander, 1992; Terpstra & Simonin, 1993; Osborne & Hagedoorn, 1997; Rugman & D'Cruz, 1997; Barringer & Harrison, 2000; Beeby & Booth, 2000; Altinay, 2001; Beckman & Haunschild, 2002; Benson-Rea & Wilson, 2003; Clarke-Hill et al, 2003; Todeva & Knoke, 2005

Table 2.9 continued...

Type of Linkage	Direction and number	Horizontal or vertical Single or multiple	• Horizontal links are at same level of value chain. Potential impact on control as discussed above. • Vertical links are at different levels of the value chain. Multiple vertical links reduce degrees of flexibility. • Lateral networks have mix of both vertical and horizontal linkages and impact negatively on both control and flexibility.	Ahuja, 2000; Gnyawali & Madhaven, 2001; Benson-Rea & Wilson, 2003; Klint & Sjoberg, 2003
Interdependence	Degree of integration between two or more firms	Task integration (pooled, sequential and reciprocal) Human integration	Higher task integration associated with: • Potential loss of control • Greater resource commitment • Reduced levels of flexibility • Higher dissemination risks Higher human integration associated with: • Higher risks of dissemination	Lorange et al, 1992; Barringer & Harrison, 2000; Kaplan & Hurd, 2002; Parise & Casher, 2003; Sherer, 2003

ii) Franchising

Franchise agreements are the second type of hybrid arrangement considered in this study. While some authors argue that franchising is a type of alliance, it is included as a separate section given its distinct characteristics. Fulop (1999) suggests simply that franchising is a method of marketing goods and services dependent on complex contractual arrangements. There are two main types of franchising; product tradename[5] and business format franchising. It is the latter type that is commonly used in service firms and therefore is the focus of this discussion.

According to Paliwoda (1998:139) business format franchising 'transfers the legal right to a third party to use a company's registered trade name, trademarks and logo, products, packaging and business system'. McGuffie (1996:40) defines franchising as a process where,

> 'the franchisor grants the right to use the brand and operational systems to third parties (the franchisees) for a number of years in exchange for fees. The franchisee continues to own/manage [the firm] but has to guarantee that the property will feature the brand name, identity, graphics, logo, etc of the franchisor's chain and conform to its operational standards and methodology.'

Fees are rendered for the initial application, annual royalties, advertising and marketing and a variety of miscellaneous services depending on the nature of the business (McGuffie, 1996; Khan, 2005). Castrogiovanni and Justis (1998) argue that franchising differs from most other types of organisational forms in three ways; the geographic dispersal of units, the replication across units and the joint ownership involved. Fulop (1999) adds that it is the nature of the integration between business units that differentiates business format franchising from other organisational forms. As this integration represents an ongoing relationship between the franchisor and franchisee (Contractor and Kundu, 1998a), franchising is frequently considered to be a collaborative alliance. However, it is also argued that franchising depends on cooperation amongst all of the different franchise

[5] Product tradename franchises are distribution agreements commonly employed in the automobile industry (Hoffman and Preble, 1991) and hence are of little relevance to this study.

members and therefore a franchise system is alternatively viewed as a network with the franchisor in a focal or hub position (Hoffman and Preble, 1991; Fladmoe-Lindquist, 2000). Hoffman and Preble (1991) note that the exact nature of the network depends on the type of franchise adopted and the type, number and intensity of the links within it. Empirical studies suggest that there are four main approaches employed in business format franchising; direct, direct investment, corporate and master franchising and these are defined in Table 2.10.

Table 2.10 Types of Business Format Franchising

Type of Franchise	Definition
Direct franchise	The franchisor directly establishes and runs individual franchisees in a foreign location from a domestic base. Normally the franchisor grants rights to individual franchisees usually on a unit-by-unit basis however, these agreements are frequently extended to include multiple units.
Direct investment franchise	The franchisor establishes a subsidiary operation in the new market, which then grants franchises for individual units. The subsidiary could be wholly-owned or established through a joint venture or alliance arrangement with another firm.
Corporate franchise	The franchisor grants exclusive rights to a developer to develop a territory by opening a number of franchise outlets itself. The developer is responsible for running the individual units.
Master franchise	The franchisor grants to another firm, the master franchisee, the rights to open franchises itself and to grant the rights to third parties as 'sub-franchisor' within a specified or exclusive territory. The master franchisee usually assumes responsibility for training, coordination of local franchisee activities, monitoring performance and implementing franchisor strategies. They charge local franchisees and compensate the franchisor for the authority they are given.

Compiled from the works of Go and Christensen, 1989; Connell, 1997; Quinn, 1998; Sashi and Karuppur, 2002.

As Table 2.10 identifies, the four types of franchising differ in the number of organisational levels between the franchisor and the franchisee and the number of firms involved. These differences are depicted in Figure 2.2. These different arrangements create different types of relationships between franchisors and franchisees (Price, 1997) and as a result, the risks associated with control, resource commitment, dissemination and flexibility are variable. These risks are explored below.

Figure 2.2 Business Format Franchising

	Direct Franchising	Direct Investment Franchising	Corporate Franchising	Master Franchising
Level One	Franchisor in home country	Franchisor in home country	Franchisor in home country	Franchisor in home country
Level Two	Individual franchisees in host countries (additional firms)	Establishment of host country base either through wholly-owned subsidiary or joint venture with host-country operator (additional firm)	Contractual agreement with host-country operator (additional firm)	Contractual agreement with host-country operator (additional firm)
Level Three		Individual franchisees in host countries (additional firms)	Individual units operated by host country operator	Individual (sub) franchises operated under franchise agreement with host country operator (additional firms)

Control

Maintaining a tightly controlled and integrated system that supports a defined brand name and image is deemed essential to gain competitive advantage in franchise systems (Fladmoe-Lindquist, 2000; Eroglu, 1992). Control is frequently used to explain the rationale for franchising by agency theorists (Brickley and Dark, 1987; Lafontaine, 1992; Fladmoe-Lindquist & Jacque, 1995; Dant and Nasr, 1998; Ingram, 1998; Shane, 1998; Dahlstrom and Nygaard, 1999; Quinn and Doherty, 2000). Agency theorists argue that there are often divergent interests between shareholders (principals) and managers (agents) in organisations.

Managers make decisions under conditions of bounded rationality[6], are considered self-interested and opportunistic, and therefore seek to maximise their own interests even at the expense of shareholders. As franchisees have a vested interest in the efficiency of their unit, they require less monitoring than company-owned units. Firms therefore adopt franchising to reduce monitoring costs that are inherent in international and geographically dispersed operations (Shane, 1998; Hopkinson and Hogarth-Scott, 1999). However, control risks cannot be completely eliminated as franchisees may reduce the quality of their unit to achieve cost savings, a process known as free riding (Hopkinson and Hogarth-Scott, 1999). As this has a cost to the brand and other franchisees, there is a need to control free riding in order to protect a franchisor's brand name and image (Fladmoe-Lindquist, 2000). There are three main types of control available to franchisors; legal, administrative and economic (Hoffman and Preble, 1991) and these are defined in Table 2.11.

Table 2.11 Types of Control in Franchise Systems

Type of Control	Definition
Legal	Control achieved through contractual stipulations. Usually relates to fee structures, termination clauses and restrictions, territory rights and adherence to operating manuals.
Administrative	Operational processes used to achieve goal congruence between the franchisor and franchisee and the processes used to monitor adherence to those.
Economic	Franchisor has control as a result of the promise of economic rewards from joining the franchise system and through franchisee fear of losing upfront investment made to join the system.

Adapted from Hoffman and Preble (1991).

a) Legal controls

The extent to which the contract is the main source of control in franchising has been the subject of a number of investigations (Felstead, 1990; Standworth, 1991; Stern and El-Ansary, 1992; Fulop and Forward, 1997). Contractor and Kundu's (1998a) study suggests that contractual agreements have standard provisions that

[6] Bounded rationality is a term used to describe the inability of managers to predict the future when undertaking decisions (see for instance Hopkinson and Hogarth-Scott, 1999).

reduce problems of bounded rationality thereby increasing the degree of control for the franchisor. However, there are limitations of contractual control mechanisms in international franchise systems as contracts cannot be standardised and are more difficult to enforce due to the geographic distances involved (Fladmoe-Lindquist, 1996, 2000). Empirical evidence also suggests that the franchise contract is only used as a control tool when there are serious breaches of agreement (Connell, 1997; Quinn, 1997), or when franchisors wish to establish structural system changes (Connell, 1997). The franchisor's willingness to use the contract as a source of power and thus as a control mechanism, therefore impacts upon the effectiveness of this mechanism (Quinn and Doherty, 2000). These limitations apply to all types of franchise agreements. However, in corporate and master franchise agreements, greater involvement of franchisees in decision-making is reported to have shifted the balance of power towards the franchisee (Fulop and Forward, 1997; Connell, 1997; Quinn, 1998) thereby further reducing the effectiveness of contractual controls.

b) Administrative controls

When franchisors are unwilling to use the contract as a control mechanism, administrative controls, such as training, operating manuals and regular communication must be relied upon (Quinn, 1998; Fulop and Forward, 1997). Dant and Nasr (1998) conclude from their study of international franchise systems that communication and information sharing between franchisees and franchisors has a key impact on control. Hopkinson and Hogarth-Scott (1999) argue that control in franchise systems can also be developed through effective relationship management, although there is no guarantee that this will be achieved in all franchise situations. As the effectiveness of administrative control is related to the geographical distances involved and the different environments of the host countries (Hoffman and Preble, 1991; Fladmoe-Lindquist, 1996; Elango and Fried, 1997), it is considered to be a particular issue with direct franchising (Mendelsohn, 1992; Quinn and Doherty, 2000). In direct investment franchise systems, however, franchisors frequently set up pilot stores in international locations to increase the effectiveness of administrative control procedures. In both types of franchising, empirical studies suggest that the need for tight administrative controls are reduced through the use of multi-unit franchises as these franchisees replicate the franchisor's systems (Kaufmann and Dant, 1996; Bradach, 1998; Bercovitz, 2002; Skalins and Mayer, 2002). However, in corporate and master franchise arrangements, control is devolved from the franchisor to the franchisee, potentially reducing the effectiveness of administrative controls for the franchisor.

The physical distances involved in international franchise systems are also reported to make communication less effective for all types of franchising, thereby compounding the administrative control risks (Quinn, 1998). Corporate and master franchisees are also reported to filter franchisor communication, thus reducing the direct administrative control afforded to the franchisor (Ryans, Lotz and Krampf, 1999). Despite these risks, master franchising is reported to be the most popular type of international franchising (Welch, 1992; McIntyre and Huszagh 1995; Gonclaves and Duarte, 1994; Quinn 1998).

c) Economic controls

The effectiveness of contractual controls also impacts on economic controls. Franchisees' fear of losing their investment and their willingness to engage in free riding is based upon the threat of potential expulsion from the system (Hopkinson and Hogarth-Scott, 1999) and thus on the franchisor's willingness and ability to enforce the contract. Empirical studies suggest that economic control may be higher in multi-unit franchising. By raising reward expectations, economic control is increased as self-enforcing mechanisms that reduce opportunistic behaviour are created and the risks of free riding are reduced (Kaufmann and Dant, 1996; Bradach, 1998; Bercovitz, 2002; Skalins and Mayer, 2002). This argument might equally apply to corporate and master franchise agreements, where franchisees also have higher potential rewards.

Resource Commitment

The level of resources committed by the franchisor varies between the different types of franchise arrangements. In direct, corporate and master franchise arrangements, fewer resources are required as franchisees provide both the financial and human capital. However, Fulop (1999) cautions that it is easy to underestimate the time and resources required, especially in the early stages of development. Greater resources are committed to direct investment franchising in order to establish a host market base for operations.

Risk of Dissemination

There are risks of dissemination for franchisors within all types of business format franchising. These risks arguably increase with the number of firms involved in the system. For example, in master franchise arrangements, the franchisor faces risks of dissemination to both the master franchisee as well as to individual sub franchisees as depicted in Figure 2.2. Furthermore, the ability to control for dissemination contractually across international markets has been questioned.

Flexibility

Opinions and empirical findings on flexibility are mixed. Some researchers argue that all types of flexibility are increased through franchising (Sashi and Karuppur, 2002; Hoffman and Preble, 2004). In contrast, Fulop (2000) argues that if franchisors have to rely on more persuasive methods of control, flexibility is reduced and franchise organisations become less capable of adapting to change than fully integrated companies. Bradach's (1995) study also suggests that there may be reduced levels of product flexibility in multi-unit franchising as the franchisee becomes more removed from the local marketplace. This argument can also be applied to corporate and master franchising. Connell's (1999) study of master franchise agreements within the international hotel industry however, identifies there is greater flexibility in master franchise systems as these systems eventually become 'attuned' to local market demands and conditions. In direct investment franchising, strategic flexibility may also be reduced given the resources committed to establish a country-level operational base.

As with alliance and network agreements, the underlying dimensions of franchising are variable. Table 2.12 summarises the preceding discussion and depicts these differences according to the particular type of franchise system.

Table 2.12 Underlying Risks of Different Franchise Systems

Type of Franchise	Implications of Underlying Dimensions
Direct franchise	• Greater risks of control through geographical distance between franchisor and franchisee • Less resources required • Risk of dissemination to many individual franchisees • Individual franchisees may be more flexible to local market conditions, but it may be difficult to initiate change across a number of widely dispersed franchisees
Direct investment franchise	• Greater control afforded through establishment of country level base • More resources required increasing investment risk • Risk of dissemination to many individual franchisees • Flexibility reduced through investment • May be difficult to initiate change over all individual franchisees
Corporate franchise	• Control of individual units devolved to corporate franchisee. • Fewer resources required • Risks of dissemination to one franchisee with multiple units, impact of dissemination may be greater • Empirical findings mixed as to degree of flexibility afforded
Master franchise	• Control devolved to master franchisees to monitor individual sub franchisees • Fewer resources required • Risks of dissemination to master franchisee and to many individual sub franchisees • Empirical findings mixed as to degree of flexibility afforded

Summarising the Underlying Risks of Franchising

Researchers have sometimes portrayed franchising as a paradox (Felstead, 1993; Price, 1997) where there is decentralisation of labour without authority, particularly in highly standardised franchised systems. In other words, franchisees actually have limited authority over their own operations. However, Contractor and Kundu's (1998a, 1998b) study identifies that franchising allows for strong control over codified assets, weak control over tacit expertise, and non-existent control over daily management and quality and physical assets. The argument presented above suggests that given the diversity of franchise agreements, the situation may be rather more complicated than either of these arguments suggest. Bradach (1998) reports that the variety of international franchise arrangements can add complexity to the structure of control systems, particularly when mixed with corporate ownership arrangements. In any type of international franchise system however, control remains a key concern to practitioners (Gonclaves and Duarte, 1994; Quinn, 1998) and the need for further research has been widely recognised (Elango and Fried, 1997; Dant and Nasr, 1998; Doherty and Quinn, 1999; Sashi and Karuppur, 2002). Morrison (2000) adds to the argument by suggesting that franchising should be viewed as a form of intrapreneurship where the degree of control in the system must be balanced with a degree of autonomy (and thus flexibility) to facilitate innovation while maintaining an appropriate degree of uniformity across the network. Morrison (2000) presents a conceptual argument on the importance of organisational policy and procedures to achieve this balance. The preceding discussion identifies that empirical findings on flexibility afforded through different franchise arrangements are mixed and a number of researchers argue that a better understanding of both flexibility and control can be gained through the application of alliance theory.

2.4.3 Contractual Entry Modes

Contractual arrangements between international corporations are viewed at the polar end of the continuum to ownership, as resources are not integrated into one decision-making body. Control in these arrangements is considered achievable predominantly through price mechanisms and other contractual stipulations (Agarwal and Ramaswami, 1991). The risk of control in this market entry method therefore is reflected in the cost of making and enforcing contracts and the fear of quality deterioration (Driscoll and Paliwoda, 1997). Contractor and Kundu (1998b) conclude from their research that contractual relationships can effectively substitute for equity ownership when the fear of partner opportunism is reduced by the global company's ongoing control over key strategic assets. Two contractual entry modes are considered within this section, licensing arrangements and management contracts.

i) Licensing

A common contractual entry mode employed by international service firms is a licensing agreement (Contractor, 1981). Hollensen (2004:311) identifies licensing as an arrangement whereby one firm grants another the right to produce its products and services using its patents, know-how, technology and trademarks in exchange for a fee. As the definition implies, there is a considerable similarity to franchise agreements and franchising is often viewed as a form of licensing. Hollensen (2004) specifically identifies a lack of quality control in licensing arrangements. Given that the licensor shares patents, technology and other know-how with another firm, there is also a high risk of dissemination of firm-specific advantages through opportunistic behaviour of licensees. However, fewer resources are required in this market entry mode, potentially leaving the licensor with greater strategic flexibility. The use of a local firm as a licensee could also potentially facilitate greater product and volume flexibility to better meet local needs.

ii) Management Contracts

Another type of contractual entry mode frequently employed by service firms is a management agreement or contract (Price, 1997; Hollensen, 2004). Altinay (2001:2) defines a management contract as a situation where,

> 'a firm with an established reputation for being an excellent manager will grow by contracting to manage properties for an owner in return for a fee.'

Management contracting is frequently viewed in the generic management literature as temporary in nature, where the contracted firm will train local employees to manage when contracts expire (Hollensen, 2004). However, in the hotel industry management contracts have historically covered lengthy time periods and owners rarely take over the management of unit properties upon contract expiration. Given these fundamental differences, this section focuses on management contracts within the international hotel industry. Within this industry context, Contractor and Kundu (1998a: 329) suggest,

> 'A management service contract is a long-term agreement, of up to ten years or even longer, whereby 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 recognized brand name.'

Put more simply, a hotel or other service firm leases its brand name while under contractual agreement to provide extensive technical and management support (Erramilli et al, 2002). In return, the management company earns a fee for these services, usually expressed as a percentage of gross revenue (Contractor and Kundu, 1998b) and incentive payments based on performance. Under such an arrangement, the ultimate legal and financial responsibilities, the rights of ownership of the property, its furniture and equipment, its working capital, and ultimate profits or losses remain those of the owner (Field, 2005). The key contents of management agreements include pre-opening and technical assistance, rights and duties concerning daily operations, budgets, owner's/operator's costs, central services, banking, accounting and reporting, fees and the term of the contract and termination (Field, 2005). A perceived advantage of management contracts is reported to be the high degree of direct managerial control afforded (Connell, 1997; Contactor and Kundu, 1998a; 1998b). However, Contactor and Kundu (1998a; 1998b) report that it is control over codified strategic assets that is the strongest despite responsibility for quality control, daily management and senior staffing resting principally with the management firm. The authors further advise that due to the limited investment risk, there is non-existent control over physical assets. Risks of dissemination are also low, as management know-how is not shared between the management firm and the owner (Dev et al, 2002).

Empirical studies suggest however, that the balance of control within management contracts has changed over the last three decades. Eyster's (1977, 1980, 1988, 1993, 1997a) series of studies on hotel management contracts in the US identify three factors fostering these changes; increased competition amongst operators, increasing sophistication of owners, asset managers and lenders, and recent legislative decisions in disputes between owners and management firms. These factors are reported to have shifted some of the control away from the management firm toward the owner. Eyster (1997b) reports that the biggest gains in decision-making for owners are within budgeting and personnel decisions regarding the selection of executive staff members. In addition, the studies identify that financial, marketing and operational reporting have become more defined in terms of formal written reports to owners, access to financial records and owner/operator meetings. The management companies are also often required to make an equity contribution, normally a 'sliver' commitment of between 5% and 10% (Eyster, 1997:23). The increased involvement of the owner in decision making and the increased financial commitment by the management firm arguably have a negative impact on the flexibility traditionally inherent in this market entry mode. Nine studies that provide further empirical support of the shift in the balance of power towards hotel owners are depicted in Table 2.13. However, most of these studies have investigated US hotel management companies and many are based on secondary data or rather loose research designs. Furthermore, while these changes have been argued to have an impact on the control and flexibility afforded hotel management companies, there appears to be virtually no research conducted to date on how these changes are being managed. There is arguably a need to extend these research efforts to international firms to address these issues.

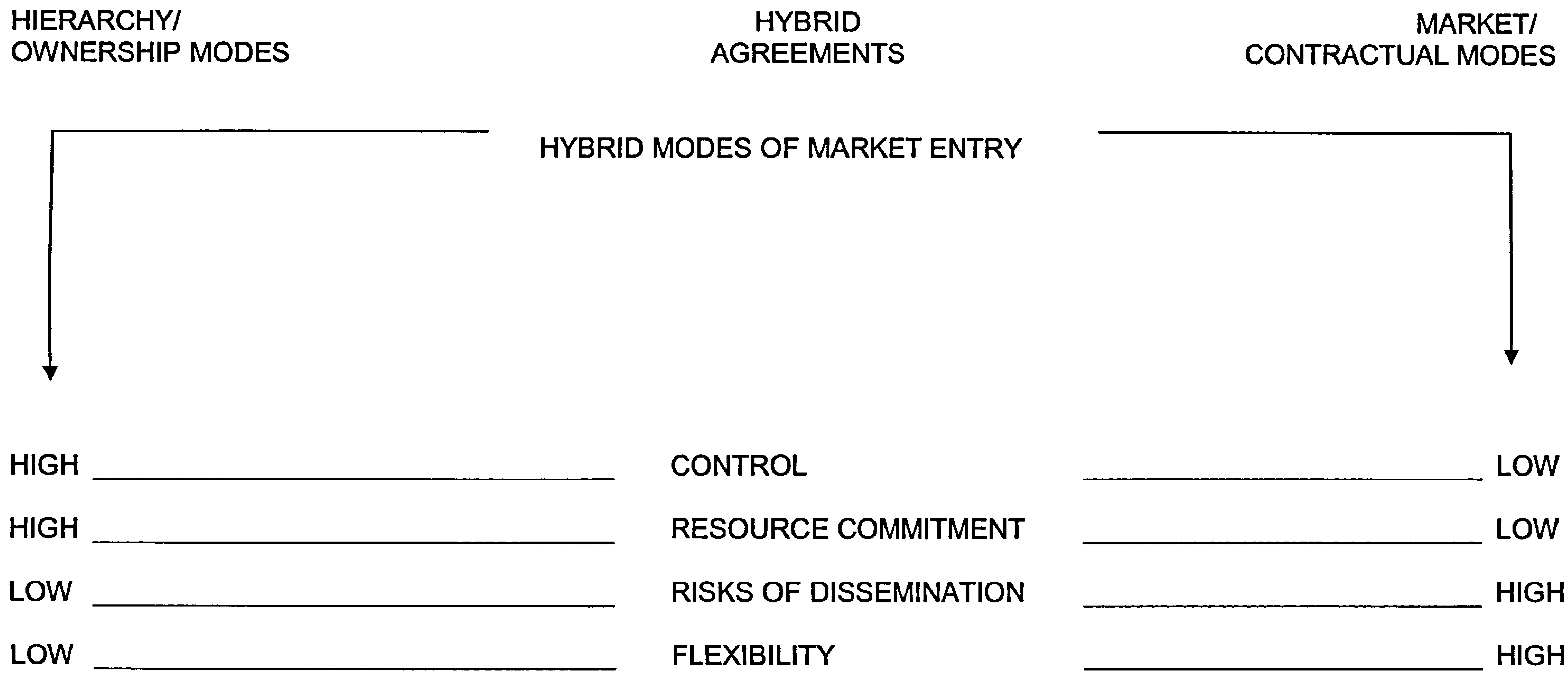
2.4.4 An Overview of International Market Entry Modes

This review of the market entry literature highlights the extent to which control has been a key research focus and is still positively associated with ownership. Control through hierarchical authority is generally perceived more efficient than that achieved through contractual mechanisms. This suggests that control and market entry are still frequently conceptualised along Williamson's (1975) market vs. hierarchy continuum, where ownership and contractual agreements are at polar ends, and different hybrid arrangements fall in the middle. For example, Price (1997) adopts a continuum perspective in his efforts to develop a taxonomy of hybrid organisational forms. However, the author acknowledges that his taxonomy is incomplete, and what is missing in terms of this research is the dimension of flexibility. Powell (1990) did consider the concept of flexibility in his award-winning article on network arrangements. He presents an argument that flexibility is low in hierarchies, high in markets, and medium in hybrid arrangements. Figure 2.3 draws these studies together and the findings from the literature review to depict these risks along a continuum.

Table 2.13 Studies on Management Contracts

Author	Research Focus	Research Design & Sample	Findings/contribution
Eyster, 1977, 1980 & 1988	Business and economic concerns	Qualitative interviews with several hundred hotel owners, operators, and consultants in hotels and restaurants	Identified determinants of owner and operator bargaining power as well as provision of concerns during negotiations and the term of the contract.
Eyster, 1993	Contract changes	Update on previous study	Found shifts in 10 major contract provisions in the US that have changed the balance of power in favour of owners.
Rainsford, 1994	Performance management	Qualitative survey of unspecified number of US hotel owners, asset management firms and lending institutions	Changes in management agreements are driven by increasingly sophisticated owners and asset managers who themselves are driven by the need to control their investments and maintain their flexibility. Balance of power shifted in favour of hotel owners.
Simons, 1994	Dispute resolution	Qualitative survey of Australian/US hotel management contracts, details not specified	Identifies trend shifting the balance of power in favour of owners rather than operators.
Barge, 1995	International management contracts	Secondary qualitative data used to provide overview of management contracts in international hotel industry	Supports Eyster's (1993) findings about hotel owners and investors becoming more savvy and the changing nature of the contract as a result, including the requirement for greater equity investment.
Martin, 1995	Contract changes	Secondary qualitative data used to identify trends in US hotel management contracts	Argues that the length and nature of the contract can depend on whether the operator takes equity in a project.
Nozar, 1995, 1996	Contract changes	Secondary data and some qualitative interviews used to report on trends in US hotel management firms	Depicts the shift in the balance of power in management contracts. Also suggests the highly competitive environment forces hotel operators to act in the best interest of the asset, rather than in the best interest of the brand.
Sangree & Hathaway, 1996	Contract changes	Commissioned qualitative survey of 25 US hotel management companies supported with secondary data	Suggest the 1980s were halcyon days. Shift of power reported in favour of operator. Control shifted in favour of owners in the early 1990s. Support Eyster's findings of 1993. Also report on some differences between full-service and limited service hotels.
Eyster, 1997a & b	Contract changes	Qualitative interviews with US firms: owners, lenders, asset managers and operators, consultants and attorneys	Trends identified in 1993 have become firmly established. Three factors foster the changes: increased competition amongst operators, increasing sophistication of owners, asset managers and lenders and recent legislative decisions.
Johnson, 1999	Contract changes	Qualitative survey of 50 US management contracts	Found a slight shift in balance of power towards operators due to the boom in hotel expansion, but that owners still retain rights they did not have in the 1980s.

Figure 2.3 Perceived Risks on the Market vs. Hierarchy Continuum



(adapted from Williamson, 1975; Powell, 1990; Price, 1997)

Figure 2.3 displays the inverse relationship between control and resource commitment to flexibility and risks of dissemination. Resource commitment creates switching costs for firms and this, in turn, inhibits their ability to respond to changing environmental demands (Anderson and Gatignon, 1986). Flexibility can therefore be maintained through lower resource commitment and less integrated market entry modes. This argument suggests that there may be some degree of trade off between hierarchical control and resource commitment against loss of flexibility and increased risk of dissemination within different market entry modes (Anderson and Gatignon; 1986; Erramilli, 1992; Driscoll and Paliwoda, 1997; Ekeledo and Sivakumar, 2004).

However, Bradach and Eccles (1989) argue that adopting a continuum perspective can be misleading. The authors report that there are no longer clear distinctions between the polar extremes as there are elements of hierarchy involved in market transactions and elements of market (e.g. pricing mechanisms) involved in hierarchical arrangements. Furthermore, they identify that trust is used as a control mechanism in stable, enduring hybrid relationships, a contention supported by Vosselman and Meer-Kooistra (2006). Similarly, Powell (1987:81, 82) also questions the relevance of a continuum perspective suggesting that hybrid arrangements occur 'neither through discrete exchanges nor by administrative fiat, but through networks of individuals engaged in reciprocal, preferential and mutually supportive actions'. Bradach and Eccles (1989) note that firms that employ hybrid market entry modes use a mixture of hierarchical controls, contractual stipulations and administrative processes that may be combined in complex ways. Furthermore, trust and relational issues also play a critical role in governing these hybrid arrangements (Bradach and Eccles, 1989; Powell, 1987, 1990; Hopkinson and Hogarth-Scott, 1990; Price, 1997). The perceived risks associated with international market entry modes may therefore be more accurately represented diagrammatically as in Figure 2.4.

Figure 2.4 An Alternative Perspective on the Management of Market Entry Risks

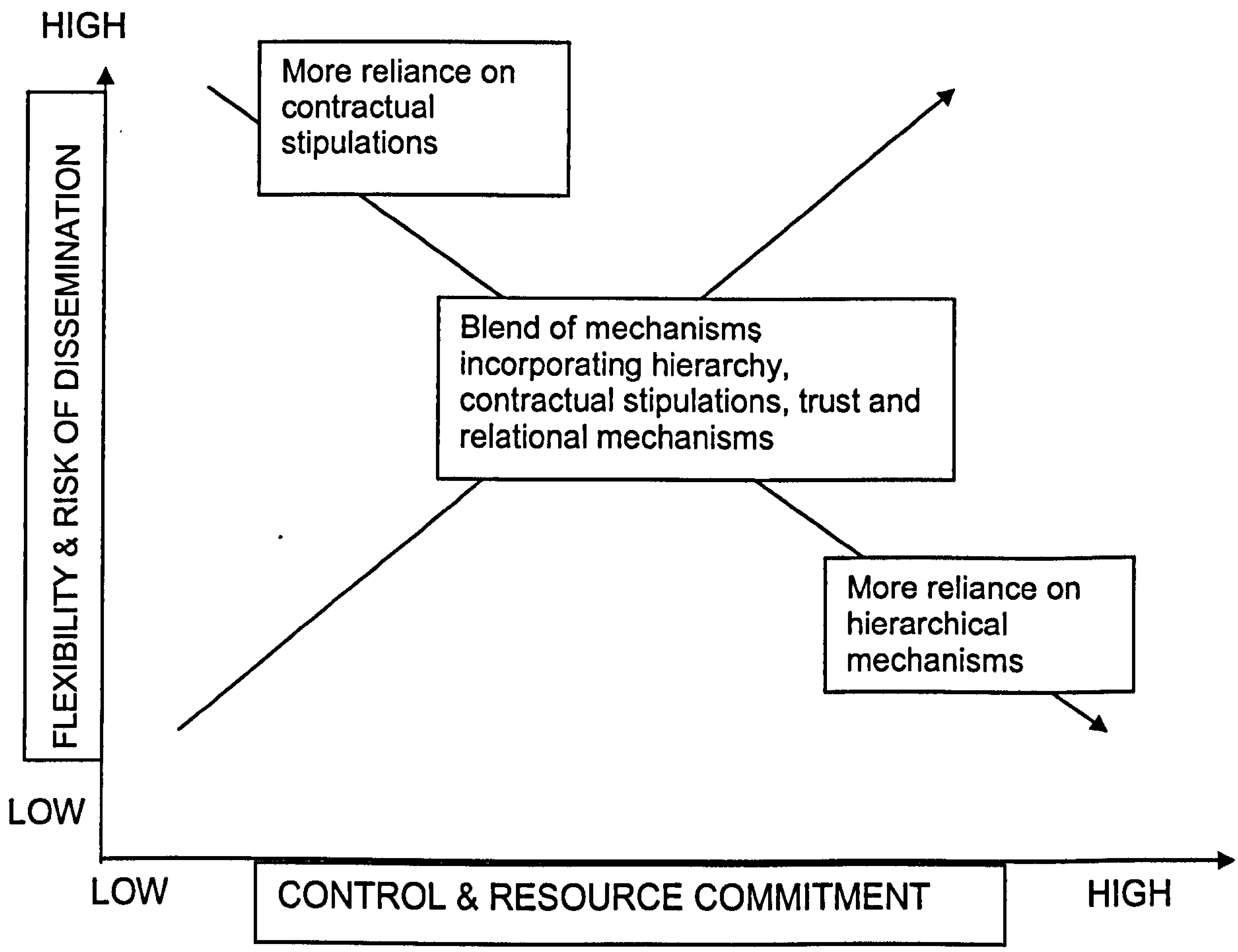


Figure 2.4 suggests that there may be greater or lesser degrees of hierarchy, contractual mechanisms and trust in different market entry arrangements to manage the associated risks. How these hybrid arrangements are designed around these mechanisms is not clear from the current literature. What also is not clear is how the different mechanisms for control are blended in diversely affiliated firms to manage the variable risks involved. The following section therefore examines the management of these risks within diversely affiliated organisations. As Chapter One identified, the term diverse affiliations is used within this study to refer to firms that employ multiple market entry modes. However, other researchers investigating these organisational phenomena have employed different terms. These are considered in the following section, as are the outputs of their research efforts.

2.5 Diverse Affiliations

A rather limited number of empirical investigations have taken place on firms that use multiple market entry methods. They can however, be divided into two broad streams. One stream has sought to explore the rationale for the use of dual distribution systems predominantly within firms that employ a mixture of company-owned and franchised units. This stream is therefore labelled the 'why' stream and is generally underpinned by theories of ownership redirection that adopt both resource scarcity and life cycle perspectives. These theories seek to explain why firms replace franchised units with company-owned units over the life cycle of the franchise system. They suggest that firms use franchising due to a scarcity of financial and human resources, but once these have been built up, franchisors will redirect market entry towards ownership and buy back franchised units. Table 2.14 depicts the research reviewed for this study on 'why' mixed modes are utilised. This table also identifies that findings on ownership redirection are mixed and this is often attributed to different industry sectors or the research approach adopted (Dant, Kauffman and Paswan, 1992; Dant, Paswan and Stanworth, 1996; Kauffman and Dant, 1996). As the table identifies, much of the research has examined a mixture of industries, including the hotel industry, using a quantitative research approach.

A number of the studies included in Table 2.14 also provide evidence of 'synergistic benefits' afforded firms that employ these particular mixed modes (La Fontaine and Kauffman, 1994; Sen, 1998). Dant et al (1992) also note these synergistic benefits from their review of the literature. 'How' these organisations are managed so that these benefits materialise forms the basis of the second stream of research depicted in Table 2.15. This stream appears to have begun with the work of Bradach and Eccles (1989) who sought to develop an understanding of how price, authority and trust are used as control mechanisms in hybrid organisational forms. The authors introduced the concept of the plural organisation that they define as 'an arrangement where distinct organizational control mechanisms are operated simultaneously for the same function by the same firm' (Bradach and Eccles, 1989:112).

Table 2.14 Why Mixed Market Entry Modes Are Used

Author	Theoretical Perspective	Research Design	Context	Key Findings/Argument
Oxenfeldt and Kelly, 1968-1969	Ownership redirection	Conceptual		Propose theory of ownership redirection where franchised units likely to become owner operator units over the life of the franchise system
Hunt, 1973	Ownership redirection	Quantitative, primary data	Mail survey of US franchisors and franchisees in fast food, grocery and laundry industries	Support for ownership redirection, although no franchise system is likely to revert to 100% ownership
Caves and Murphy, 1976	Ownership redirection	Deductive, quantitative, aggregate, primary data	Data from 20 US mixed industries including hotels	Support for ownership redirection
Anderson, 1984	Ownership redirection	Deductive, quantitative, secondary aggregate data	US Dept of Commerce data from 1969-1980 from 17 mixed industries, including hotels	Mixed support for ownership redirection as findings differ between industries
Brickley and Dark, 1987	Ownership redirection	Quantitative, primary data	Mail survey of 9 US mixed industries including hotels	Support for ownership redirection Identify synergistic benefits through mixed forms
Thompson, 1992	Economic performance	Quantitative, aggregate secondary data	Data from US Dept of Commerce data from 1986-1988, 11 industries	Ownership rises with level of sales in individual units
LaFontaine & Kauffman, 1994	Ownership redirection, resource scarcity	Deductive, qualitative, primary data	Mail surveys of 130 US franchisors in 13 mixed industries, including hotels	More support for resource scarcity than ownership redirection. Identify synergistic benefits of plural forms
Dant et al, 1996	Ownership redirection	Quantitative, aggregate secondary data	US franchise data from 12 mixed industries, including hotels	Inconsistent conclusions about occurrence of ownership redirection
Sen, 1998	Ownership redirection	Quantitative, secondary data	Data on 109 US restaurant chains	Support for ownership redirection. Identify synergistic benefits through use of both forms
Shane, 1998	Agency theory	Deductive, quantitative, aggregate secondary data	Data from Entrepreneur Magazine's Franchise 500 (1991-1994), industries not specified	Suggest there is an optimal proportion of franchised to owned units in any franchise system
Bai and Tao, 2000	Contract mixing	Conceptual model development	Applied to case studies in fast food sector	Evidence of contract mixing (use of both both owned and franchised units Company-owned units are chosen where revenue may have to be sacrificed in order to build goodwill

Table 2.15 How Mixed Market Entry Modes Are Managed

Author	Underpinning theories	Research	Context	Findings/Argument
Bradach and Eccles, 1989	Transaction cost economics and theories of control.	Conceptual		• In markets and hierarchies, authority, trust and price interact in complex ways as control mechanisms • Plural forms demonstrate the most sophisticated mixture of control mechanisms • Posit that transactions controlled by one mechanisms are affected by the simultaneous use of an alternative control mechanism
Bradach, 1995, 1997, 1998	Plural organisations	Inductive and qualitative, primary data from interviews	5 US restaurant chains consisting of franchised and company owned units	• Identifies four synergistic processes that are derived from plural organisational forms • These are related to different organisational structures and processes used for different organisational forms; one set for franchised and one set for company owned • These give way to the development of plural processes that enhance control and flexibility in plural organisation forms
Cliquet, 2000; Cliquet and Croizean, 2002	Plural organisation forms plus ownership redirection and agency theory	Qualitative, primary data from interviews and questionnaire survey	21 companies managing 35 chains in the hotel, bakery, and cosmetic industries in France. Some cosmetic firms have international owners	• Identifies advantages of plural forms to be solving problems of location, speed/concept control (adding units but maintaining uniformity), stimulating commercial dynamics (responsiveness), achieving greater organisational flexibility (adaptation), achieving greater economic efficiency, achieving greater strategic flexibility • Identify drawbacks that include conflicts within the network, difficulty in reconciling management methods, network management problems (in maintaining uniformity when adapting changes), risk and demotivation of franchisees due to presence of company-owned properties • Conclude that plural forms can help companies to implement both control and stimulation within a chain with greater interactions between stores • Identify some limitations with Bradach's study

Bradach (1995) subsequently investigated plural organisations for his doctoral thesis with further publications of his research in both 1997 and 1998. Bradach (1997:374) revised the definition of a plural organisation to 'an organizational form which mixes a hybrid price/authority mechanism, usual in franchising, and a strictly hierarchical mechanism, related only to authority. Bradach's (1995) research investigated organisational structure and processes used within restaurant chains that comprised both franchised and company-owned units. Specifically, he examined the different processes used for each type of affiliation to achieve four organisational goals; unit growth, uniformity, systemwide adaptation and local responsiveness. These organisation goals therefore reflect the restaurant chains' management of the risks associated with control and flexibility.

Bradach (1995, 1997, 1998) identified that the chains in his study use one set of organisational processes within franchised divisions and a different set within company-owned units. The author reports that using these two distinct sets of processes gives rise to a third or 'plural' organisation process that creates synergistic benefits for the firm and better enables them to achieve their goals. These different organisational structures and processes are depicted in Table 2.16.

Table 2.16 Organisation Structure and Processes in Plural Organisations

Key Attribute	Company	Plural-form process	Franchise
Structure	Hierarchy	Modelling process →	Federation of mini-hierarchies
Control system	Budget, MIS, authority	Ratcheting process ↔	Incentives, contracts, and persuasion
Career paths	Ascend hierarchy	Socialisation ↔	Business builders and small business owners
Strategy making	Centralised expertise	Mutual learning process ↔	Local experience

(Bradach, 1997:283)

As Table 2.16 identifies Bradach (1995, 1997, 1998) argues that four plural-form processes; modelling, ratcheting, socialisation and mutual learning, are created by linking the distinct processes for each organisational arrangement. Bradach (1995) explains that modelling takes place when individual franchisees become multi-unit owners. As they grow through this method they create organisation structures modelled on those of the company-owned units, thus increasing the degree of control for the franchisor. Control is also enhanced through a ratcheting process. Ratcheting occurs when an element of competition is introduced to the different organisational forms and they try to outdo the other in financial and quality performance measures. Control through socialisation is achieved when members of one organisational form alter their career path to the other form. In the study franchisees became area managers for the company-owned units and company personnel became franchisees. Greater flexibility was reportedly achieved through drawing on the local expertise of franchisees to identify new product and service initiatives, but these were then tested centrally. As a result, these dual processes give rise to mutual learning that creates a higher degree of flexibility, but ensures that only viable concepts are introduced. Bradach (1995) concludes from his research that the plural form is best suited for firms to achieve greater degrees of both control and flexibility and thus overall organisational goals.

Building on Bradach's (1995) framework, Cliquet (2000) and Cliquet and Croizean (2002) investigated plural forms in hotel, bakery and cosmetic firms in France. Their research sought to identify the advantages of plural store networks. While their research identifies a number of limitations of Bradach's (1998) study, it does support the advantages of plural organisational forms in managing the risks associated with control and flexibility. However, Cliquet and Croizean (2002) also highlight potential limitations to be problems associated with complexity, conflict and the difficulty in actually reconciling the different organisational processes employed.

As this review suggests, the research to date on the management of organisational forms created through the use of multiple market entry modes is somewhat limited. In addition, the studies conducted have investigated organisations that employed only two different market entry modes in domestic markets. There is a distinct gap in the literature on the management of more diversely affiliated international organisations. Nevertheless these studies serve to highlight the relevance of organisation structures and processes to develop an understanding of the management of control and flexibility within firms that are diversely affiliated with their portfolios. Further research that investigates multiple market entry modes within an international context could therefore contribute to the understanding of these complex organisational forms.

2.6 Chapter Summary

This chapter sought to identify the types of risks faced by service firms that employ multiple international market entry methods. Understanding these risks is fundamental to understanding 'how' they might be managed in the organisational forms created through ownership, hybrid and contractual market entry modes. Ownership modes are perceived to yield the strongest degree of control and this can be managed through the creation of a hierarchy of authority. However, ownership does require greater resource commitment that can limit the strategic and product flexibility afforded. In contrast, contractual agreements have been determined to yield higher levels of strategic, product and volume flexibility, but can limit the degree and type of control afforded as pricing and other contractual stipulations are not deemed as effective as hierarchical mechanisms. Within hybrid arrangements however, the degrees of control and flexibility afforded are variable and dependent on the particular type of agreement formed. A classification scheme has been developed for both alliances and franchise agreements to depict the variability of these risks in these hybrid arrangements. The literature suggests that control in hybrid agreements can be managed through an unspecified mixture of hierarchical mechanisms, contractual mechanisms and trust. 'How' flexibility is managed in all three types of organisational arrangements remains unclear from the international market entry literature and there is clearly a need for further research to fill these knowledge gaps.

This chapter presents an argument that firms that employ mixed market entry modes therefore face variable risks. They must balance the different levels of control achieved through hierarchy, contractual stipulations and trust across the diverse affiliations created against the flexibility required to operate in different national markets. Empirical studies conducted on plural organisations suggest that high levels of both control and flexibility can be achieved through the use of distinct organisational designs comprising both structure and process for the different market entry modes employed. However, these studies also identify limitations of these mixed designs. This review has emphasised the need to understand organisation designs, including structure and processes employed within diverse affiliations in order to develop an understanding of how the variable risks are managed. The following chapter therefore explores the concept of organisation design within diversely affiliated organisations that operate both within and across organisational boundaries.

CHAPTER THREE

3. ORGANISATION DESIGN

3.1 Introduction

The previous chapter highlighted the need to manage the variable risks associated with different market entry methods in diverse affiliations. This chapter identifies how these risks might be managed through organisation design. It begins by providing an overview of organisational theories that led to current perspectives on organisation design. It then draws on the design and alliance literature[7] to identify the dimensions of organisational and inter-organisational design. Current perspectives on organisational design within dynamic international business environments are then examined. The chapter summary identifies eight research propositions drawn from the literature review that are used to frame the research investigation.

3.2 Perspectives on Organisation Design

Although writers on organisations can be traced back for thousands of years (Mullins, 1999), the last century witnessed substantial contribution to our understanding of how organisations work. Organisations have been likened to machines, organisms, brains, cultures, political systems, psychic prisons, flux and transformation, and instruments of domination (Morgan, 1986). They have been investigated by management theorists, organisation theorists, organisational behaviourists, strategists, economists, sociologists, social psychologists, and anthropologists. They have been analysed at the macro level through investigations of whole organisations and at the micro level through investigations of group or individual behaviour (Pugh and Hickson; 1990; Daft and Steers, 1986). These research efforts have predominantly sought to explore problems of efficiency and effectiveness and have shaped our current understanding of organisation design and management (Silverman, 1978). A number of theories to investigate, analyse and explain organisations have been developed by organisation theorists. Galbraith (1977) proposes that these can be classified

[7] Both of these streams of literature encorporate strategic management, marketing and economic perspectives.

according to three main schools of thought; the classical school of management, the information processing school and the human relations school. The classical school includes the works and theoretical contributions of early theorists including Fayol, Urwick and Weber (Parker and Ritson, 2005). The information processing school was developed through studies such as those of Simon, March, Cyert, and Crozier (Pugh and Hickson, 1990). According to Ouchi and Price (1978) the human relations school was shaped most prominently by the studies of Mayo, Argyris, McGregor and Likert.

The principle difference between these three schools is how organisations are viewed. The classical school considers organisations as inanimate entities consisting of clearly defined divisions of labour, and hierarchical lines of authority (Louadi, 1998; Parker and Ritson, 2005). The information processing school views organisations predominantly as a series of decision-making and information sharing processes (Galbraith, 1977; Curado, 2006). As its name suggests, the human relations school depicts organisations as the set of relationships between groups of organisational members and considers how the interactions amongst actors and organisational goals affects decisions in a firm (Ouchi and Price, 1978; Augier and Knudsen, 2004). These different schools therefore seek to explain organisations in terms of how activities are structured, through relevant organisational processes or through the behaviour of organisational members. Individually each of these schools provides a partial explanation of why different organisations adopt different forms (Silverman, 1978). Taken together however, they provide a more comprehensive picture of organisation design and its dimensions.

3.3 Dimensions of Organisation Design

Drawing on all three schools, Galbraith (1977:5) defines organisation design as 'the search for coherence or fit between strategy, organising modes for coordinating subtasks and integrating individuals'. He adds the purpose of design is to bring about 'coherence between organisational goals, the patterns of division of labour and interunit coordination and the people who do the work' (p5).

Similarly, Child and McGrath (2001:1136) suggest that organisational designs are essential to three sets of activities:

1. identifying and disseminating collective aims of the organisation,
2. regulating the flow of resources into and out of the organisation and
3. identifying and governing duties and rights, as well as functions and roles, of members of the organisation.

Newman (1973: xi) adds that the starting point in design is the identification of objectives and reports that,

> 'organization design is more than the design of the pattern of positions and functions often described as the 'organization structure'; it is the design of the organizational processes of work........... whose features are as structural in their implications as those more usually recognized in the organization chart.'

Organisation designs therefore comprise both organisation structure and organisational processes. Gordon (1996:565) advises that 'structure refers to the delineation of jobs and reporting relationships' in an organisation. The function of structure is to influence and coordinate the work behaviour of organisational members in accomplishing the organisation's goals. Blau (1974:12) argues that structure also influences the role relations between organisational positions and therefore acts as a skeletal framework for organisation behaviour (Luthens, 1992). Other researchers also liken organisation structure to a framework within which organisational processes for control, decision making and communication operate (Newman, 1973; Martinez and Jarillo, 1989; Hall, 1991). The importance of these processes and their reflection of how international organisations actually work is increasingly recognised in the literature (Bartlett and Ghoshal, 1993; Malnight, 2001; Child and McGrath, 2001). There are three reasons given to explain this occurrence. Newman (1973) argues that as 'knowledge' becomes a more important resource for firms, organisation processes become a more relevant dimension of design. The growing prevalence of inter-firm arrangements is also cited as a key reason (Ring and Van de Ven, 1994; Dess, Rasheed, McLaughlin and Priem, 1995). The final reason for this contention is the recognition of the relevance of the informal organisation. Galbraith (1977) suggests that the informal organisation represents the processes through which the organisation accomplishes most of its work despite the formally designed structure. Hastings (1996) reports it reflects the soft or personal networking amongst organisational members. Kutschker and Baurle (1996) argue this reflects the deep structure, which is represented by values, beliefs and attitudes and by informal relationships. Hall (1991) argues that the informal organisation represents the unwritten norms and standards within organisations and that these can be just as binding as written rules and regulations. However, Child and McGrath (2001) caution that informal organisations are only effective given the right conditions.

Understanding how organisations are designed and managed therefore requires an understanding of organisation structure, and both formal and informal organisation processes. Formal organisation structures depict how work is divided, the resources input and the allocation of these according to the classical school of management. Organisational processes are those that are used to process information and make decisions to achieve organisational goals according to the information processing school. Both formal and informal structures impact upon the behaviour of people within the organisation according to the human relations school. Bartlett and Ghoshal (1989: 201) suggest that the formal structure defines an organisation's basic anatomy; the system of information flows shapes its physiology, and its culture and values, the organisation's psychology. Table 3.1 below depicts these key dimensions in relation to the three schools of design.

Table 3.1 Dimensions of Organisation Design

Dimension of Design	Likened To	Definition	Representative Of
Organisation Structure	Anatomy	How work is divided, resources input and allocation of these	Classical School of Management
Formal & Informal Organisational Processes	Physiology	Information processing procedures and decision-making processes	Information Processing School
Organisation Culture and Values	Psychology	Behaviour of people within organisations	Human Relations School

Compiled from the work of Newman, 1973; Galbraith, 1977; Bartlett and Ghoshal, 1989; Martinez and Jarillo, 1991; Hall, 1991.

Newman (1973) argues that one of the purposes of organisation design is to achieve as much reinforcement as possible between the three features of structure, process and people in order to achieve organisational goals. In order to understand how this reinforcement occurs, it is important to understand the interaction between the different dimensions of organisation design.

3.3.1 Organisation Structure

Three commonly applied dimensions of organisation structure are complexity, formalisation and centralisation (Olsen, 1989; Calori et al, 1994; Pugh and Hickson, 1990; Ozsomer, Calantone & Benedetto, 1997). Hall (1991) suggests that complexity concerns three types of differentiation within the firm. Horizontal differentiation reflects the degree of divisionalisation or specialisation within a firm, vertical differentiation, the number of hierarchical levels, and spatial differentiation, the degree to which physical facilities are geographically dispersed. As such, large and diversified international corporations are more complex than small, single unit firms. The higher the level of differentiation within a firm, the greater the need to integrate physical, financial, human, and know-how resources across divisions in order to achieve desired goals (Gupta and Govindarajan, 1991; Kutschker and Baurle, 1997). Kimura and Mourdoukoutas (2000) add that know-how comprises both technology and market knowledge.

Formalisation[8] refers to how jobs are standardised and specified in written rules and procedures (Hall, 1991; Martinez and Jarillo, 1991; Zhiang, 1999). According to Daft and Steers (1986) the greater the amount of written and formal documentation concerning regulations, job descriptions and policy manuals, the more formalised the organisation. Formalisation represents the desired set of relationships a firm wants to maintain. As such, Child and McGrath (2001) argue that as the size of an organisation grows so too does the extent of formalisation. Daft and Steers (1986) advise that formalisation enhances organisational control across geographical distances and national boundaries. Calori et al (1994) add

[8] Early studies focused on formalisation and standardisation as distinct variables in organisation design, but these dimensions have be found to be closely related (Child, 1973) and thus are treated as one dimension in this study.

that formalisation is a means of controlling behaviour through the reliance on procedures and records to limit discretion.

Centralisation has two key aspects; the hierarchy of authority and degree of participation in decision-making procedures (Louadi, 1998; Abernathy, Bowens and van Lent, 2004). Accordingly, Martinez and Jarillo (1989:491) report that centralisation determines whether the locus of decision-making authority lies in higher or lower levels of the chain of command. If most decision-making is undertaken at the corporate level, it is centralised and thus the role of subsidiaries is reduced. Hall (1991) cautions however, that if decisions are made at subsidiary level, but they are programmed, then the organisation is still considered to be centralised. Calori et al (1994) suggest that centralisation is a key dimension of control strategies and Louadi (1998:74) notes that it refers to the 'distribution of power within organizations'. Centralisation is noted as one of the most important design choices in international and divisionalised firms where a balance is sought between centralised control and sufficient autonomy for local managers (Flamholtz, 1996; Kidger, 2002; Abernathy et al, 2004).

Organisation theorists have long argued that structure is developed as a response to the desire for control (Flamholtz, 1996). Formalisation and centralisation are reported to be key dimensions of organisational control strategies (Child, 1973; Calori et al, 1994). Flamholtz (1996) adds that complexity also influences the design of control procedures as these need to be developed in accordance with the degree of vertical or horizontal integration required (Calori et al, 1994; Birnberg, 1998). However, Ouchi (1977) advises that organisation structure and organisation control are not always clearly distinguished from each other in the literature. On the basis of his research, he argues that a better understanding of control can be gained when it is viewed as a process rather than as an attribute of structure. The following section therefore explores organisational processes that underpin structural frameworks.

3.3.2 Organisation Processes

Although influenced by formal structures, organisational processes are increasingly recognised as important dimensions of design in international firms, particularly by researchers within the process school. This section therefore identifies the organisational processes that constitute further dimensions of design. It begins by exploring organisational processes for control and coordination, and then those for decision-making and communication.

i) Organisation Processes for Control and Coordination

One of the most prolific writers on organisational control is Ouchi who suggests that it is a 'process of monitoring, evaluating, and providing feedback' (Ouchi, 978:174). His early work on spans of control led him to conclude that 'organizational control is a multidimensional phenomenon' (Ouchi and Dowling, 1974:364). Drawing on transaction cost analysis, Ouchi (1979, 1980) identifies different mechanisms for control on the basis of whether firms operate within market, bureaucratic or clan organisations. Market and bureaucratic forms are explained as within the market entry literature. The tools used for control are price and hierarchy of authority respectively. In hierarchies, rules and role status that legitimise authority are required to maintain control.

Clan control on the other hand, relies on socialisation into organisational culture that serves to produce a strong sense of community (Ouchi, 1980). Organisation culture is defined as 'the sum total of the learned behaviour traits, beliefs and characteristics of the members of a particular organization' (Grieves, 2000:367). Control is achieved as clan members act according to these beliefs and therefore in ways that best serve the interest of the community. Ouchi (1979:840) argues that none of these three forms of control are perfect and 'real organizations will contain some of the features of each'. This argument is consistent with that of Bradach and Eccles (1989) identified in the previous chapter.

Recognising control as a multi-dimensional concept, researchers have sought to develop more comprehensive definitions. For instance, Flamholtz (1996:597) defines control as the process of 'controlling or influencing the behaviour of people as members of a formal organization to increase the probability that they will achieve organizational goals.' He reports that the four functions of control are to:

1. motivate people to make decisions and take actions consistent with organisational objectives;

2. integrate efforts of different parts of the organisation;
3. provide information about organisational results and
4. facilitate the implementation of strategic plans.

These four functions can be achieved through two types of control; behaviour[9] and outcome control (Jensen and Meckling, 1976; Ouchi 1979; Martinez and Jarillo, 1989; Gupta and Govindarajan, 1991; Das, 1993; Chang and Taylor, 1999). Behaviour control relates to 'surveillance over the manager's decisions and actions that are expected to produce the hoped-for end results' (Gupta and Govindarajan, 1991:295). Output control concerns assessment against end results (Gupta and Govindarajan, 1991) and is sometimes referred to as impersonal control (Martinez and Jarillo, 1989, Harzing, 1999). Outcome control mechanisms include the processes and tools employed to set budgets, allocate resources and determine quality, and the reporting procedures to monitor performance against targets set (Daft and Steers, 1986; Chang and Taylor, 1999; Cardinal, Sitkin and Long, 2004). Behaviour control mechanisms include direct supervision, training and job descriptions, standard operating procedures and formalised policies and the processes used to ensure adherence to these (Das, 1993; Cardinal et al, 2004). As such they also depict the level of formalisation within organisations (Hall, 1991). The utility of a behavioural control classification has been questioned on the basis that all control mechanisms are aimed at changing behaviour (see for instance Harzing, 1999). Nonetheless, researchers investigating both organisational and inter-organisational control continue to use these categories and they are therefore considered appropriate for this study. Both approaches to control are deemed important and Ouchi and Maguire (1975) advise that they should not be used as substitutes for each other. However, within hierarchical organisations, limitations have been identified for both types of control.

Ouchi's (1978) investigation of control in department stores suggests that behavioural control is not easily transmitted through hierarchical layers. Das (1993) observes it can actually produce dysfunctional behaviour such as resistance (rule avoiding) or bureaucratic behaviour (rigid rule observance).

[9] Ouchi (1979) adds a third approach, that of ceremonial control. This is another form of behavioural control that the author argues is only found in clan type arrangements.

Chang and Taylor's (1999) study of Korean subsidiaries provides support for the argument that behavioural control is less effective in multinationals due to cultural differences. In hierarchies, employees are reported to furnish incorrect data on outcome control measure that can be lost through transmission up organisational layers (Ouchi, 1978; Das, 1993) or across national boundaries. Most organisations therefore use a combination of these techniques. However, there is growing recognition that they should be integrated in a systematic way to be most effective (Flamholtz, 1996; Kimura and Mourdoukoutas, 2000; Birnberg, 2001). Kimura and Mourdoukoutas (2000:44) suggest that management control systems 'refer to the deployment of various techniques in order to monitor and measure employee performance against certain management targets.' Flamholtz (1996:598) however, advises that a series of ad hoc techniques does not necessarily constitute a management control system, rather an organisational control system,

> 'comprises a set of mechanisms- both processes and techniques- which are designed to increase the probability that people will behave in ways that lead to the attainment of organizational objectives.'

The author also argues that control systems are not easily observed because they tend to comprise a complex set of ongoing organisational processes at three levels; a core control system, the organisational structure and organisational culture. The core system includes the organisational processes for planning, operations, measurement and feedback incorporating both outcome and behavioural control. In this system, objective setting defines the standards that are used to motivate behaviour and subsequent measurement and reward systems (Flamholtz, 1996). Das (1993) notes that most control systems are based on this framework despite the potential for dysfunctional behaviour. Flamholtz (1996) argues therefore that organisational culture must be the starting point for the design of control systems. Organisation culture influences the structure adopted which then influences the processes that underpin that structure. Flamholtz (1996) therefore adopts Ouchi's (1978) argument that culture can influence acceptable behaviour and adherence to organisational procedures.

Simons (2000) also highlights the role of organisation culture within his control systems framework. This framework incorporates diagnostic control systems, boundary control systems, interactive systems and belief systems. Diagnostic control systems are reported to be conventional systems to measure and monitor employee performance. Kimura and Mourdoukoutas (2000) argue however, that diagnostic processes can act as a deterrent to employee productivity and creativity. Boundary systems, on the other hand, are more generalised guidelines that set the parameters within which employees can act. They therefore encourage employee initiative within clearly defined boundaries. However, Hall (1991) argues this approach still facilitates a high degree of centralisation. Interactive control systems are management processes that supplement boundary systems and allow employees to interact. These systems are made up of more informal methods and Kimura and Mourdoukoutas (2000:45) argue that these can be further reinforced by a 'system of beliefs and values'. This last system therefore reflects an organisation's culture (Buono, Bowditch and Lewis, 1985; Schraeder and Self, 2003).

There is clearly a good deal of similarity between these two systems. As Kimura and Mourdoukoutas (2004) point out, the different component parts within both control systems can be distinguished by degrees of formality. For instance, within the core or diagnostic systems identified above, formal mechanisms are used for output and behavioural control purposes. However, organisation culture and interactive and belief systems comprise more informal methods. These informal mechanisms are considered by a number of researchers to be coordination rather than control processes (Martinez and Jarillo, 1991).

Coordination Processes

Gupta and Govindarajan (1991) argue that a richer and more detailed understanding of how international firms are managed emerged when researchers started to investigate linkages between the design of control systems and informal coordination. Not all researchers make this distinction between control and coordination but Zhiang (1999) reasons that whilst the concepts are different, they are not mutually exclusive. Coordination processes are required to integrate different organisational divisions. Integration was introduced in the last chapter but is reviewed again here in relation to organisation design.

Barki and Pinsonneault (2005:166) define organisational integration as the 'extent to which distinct and interdependent organizational components constitute a unified whole'. Kobrin (1991) reports that from an organisation design perspective, integration is the flow of resources between parents and subsidiaries and between different subsidiaries. Kutschker and Baurle (1997) elaborate on the preceding definition and suggest resources, people and organisational culture all require integration and this demands a certain level of organisational flexibility. Kutschker and Baurle (1996) argue that it is a firm's coordination strategies that determine the way in which dispersed activities are integrated across international borders and subsidiary divisions. Martinez and Jarillo (1991) also found from their study of Spanish manufacturing subsidiaries that the level of integration correlates with the degree of co-ordinated activities. Himmelman (1996:27) defines coordination as 'exchanging information and altering activities for mutual benefit and to achieve a common purpose.' While this definition is remarkably similar to that of integration, Sadler (1994:149) argues there is a subtle difference between the two concepts. He reports that integration is a more diffused process than coordination as it has more to do with states of minds and attitude than with concrete activities and behaviours and therefore is the 'process of building a seamless organisation'. Control, coordination and integration are therefore three distinct but inter-related concepts. Harzing (1999) sums up the distinction between the first two concepts quite succinctly. She advises that 'control is a means to achieve an end called coordination, which in turn leads towards the achievement of common organisation goals' (p 9). By the same principle, integration is argued to be a means to achieve an organisation's goals, but one that includes the attitudes of organisational members.

Coordination challenges become greater within complex organisations with high degrees of vertical, horizontal and geographical differentiation (Lawrence and Lorsch, 1969; Galbraith, 1977; Porter, 1986). Cultural diversity, linguistic differences and conflicting demands of different host governments also create coordination challenges (Gupta and Govindarajan; 1991). Martinez and Jarillo (1989:490) suggest coordination mechanisms can be differentiated by degree of formality. The researchers identify the following coordination mechanisms by decreasing degree of formality:

1. lateral or cross-departmental relations: direct managerial contact, temporary or permanent teams, task forces, committees, integrators and integrative departments.
2. informal communication: personal contacts among managers, management trips, meetings, conferences, transfer of managers.
3. socialisation: building an organisational culture of known and shared strategic objectives and values by training, transfer of managers, measurement and reward systems.

Determining Appropriate Control and Coordination Processes

The preceding discussion has thus far presented an argument for the use of organisation control systems that comprise different mechanisms to control and coordinate activities that vary according to degree of formality. What it has not yet considered is which types of mechanisms are appropriate for organisations to employ and under which conditions. The suitability of different control and coordination mechanisms for different organisations has been considered by a number of authors (Gupta and Govindarajan, 1991; Birnberg, 1998; Harzing, 1999; Barki and Pinsonneault, 2005). Within international firms however, research studies investigating the impact of environmental and firm specific characteristics have yielded mixed results (Harzing, 1999). However, there has been greater consistency in findings on interdependence and MNC control[10]. The concept of interdependence was introduced in Chapter Two in relation to alliances and networks, but it was originally applied to subunits of a single organisation (Thompson, 1967). Martinez and Jarillo (1991) found in their study that as the degree of differentiation increases within firms, particularly horizontally, informal coordination processes are required in addition to formal control procedures. The relationship between interdependence and types of coordination and control is supported by a number of studies (Gupta and Govindarajan, 1991; Grandori, 1997a, 1997b; Barki and Pinsonneault, 2005). Thompson's (1967) model of interdependence is used In Table 3.2 to present the control and coordination processes identified as appropriate through previous empirical research.

[10] Harzing's (1999) study of control and MNC's identified a strong relationship between interdependence and control through bivariate analysis but the relationship was much weaker through multivariate analysis.

Table 3.2 Interdependence, Control and Coordination

Type & Degree of Interdependence	Definition	Control and Coordination Mechanisms Deemed Appropriate
Pooled: Lowest	Each organisation makes a discrete contribution to the output of the alliance, but these are not directly connected. Interdependence is pooled as each organisation is supported in some way by the alliance and may be threatened by the failure of any of its member firms.	Able to rely on more formal processes such as: • Clearly defined rules • Standardisation of skills, knowledge and norms • Standard operating procedures • Direct supervision • Monitoring adherence to the processes and rules • Low levels of vertical communication are deemed sufficient
Sequential: Medium	Each organisation makes a successive contribution to the development of a product or service as in vertical alliances.	Requires the formal control processes identified above plus: • More formalised planning • Scheduling of production activities • Scheduled meetings • Standardised output • Formal and informal communication that facilitates feedback to different organisation units
Reciprocal: Highest	Different organisational units contribute and interact in a number of ways to contribute to the output.	Requires the formal control processes identified above plus: • Coordinating mechanisms of cooperation and mutual adjustment • Horizontal (lateral) communication • When horizontal integration is required, more informal processes for communication and corporate socialisation become important

Compiled from Thompson, 1967; Martinez and Jarillo, 1991; Gupta and Govindarajan, 1991; Barki and Pinsonneault, 2005.

Table 3.2 identifies that as the degree of interdependence becomes greater, more control and coordination processes are required to effectively integrate organisational divisions. However, Gittel's (2000) investigation into two American airlines reveals control procedures can serve either to enhance or undermine coordination processes within firms. Similarly, Cardinal et al's, (2004) longitudinal study of a moving firm highlights the need for balance between formal and informal mechanisms within control systems. Their study identifies that control systems evolve through the life of a firm and are subject to periods of imbalance if there is an over reliance on either formal or informal mechanisms. As this imbalance can impact on organisational performance, the researchers recommend that balance must be sought through adding, subtracting, substituting or reactivating control mechanisms whenever an imbalance is achieved. This review suggests that control and coordination processes are closely interlinked within organisation design and as a result, they need to be developed or rebalanced in accordance with each other in a comprehensive control system. Control and coordination processes are also interlinked with those for decision making and communication and these are considered in the following section.

ii) Organisation Process for Decision Making and Communication

The impact of control and coordination on decision-making processes is well recognised in the literature (Galbraith, 1977; Martinez and Jarillo, 1989; Gupta and Govindarajan, 1991). Calori et al (1994) advise that formal control can even be measured through decision-making processes. They suggest that an understanding of the extent to which consensus is reached in decision making is important to develop an understanding of organisational control. Martinez and Jarillo (1989) identify three necessary and closely interrelated tasks for effective decision making:

1. ensuring relevant data are brought to bear on key decisions,
2. creating the conditions for consensus among managers and
3. managing relative power among managers.

The authors argue therefore that careful consideration must be given to the appropriate processes for data, people and conflict management. Data management includes information systems, resource allocation procedures, strategic planning, budgeting processes and measurement systems. These processes bear a striking resemblance to outcome control processes identified above. Decision-making processes are thus reliant on the flow of information through organisations and therefore on a firm's communication practices.

Gordon (1996) advises that communication processes can be can be classified according to a number of different characteristics. In the first instance, they can be formal or informal. Formal processes make use of established scheduled channels, such as the budgeting process. Informal processes are considered to be more spontaneous and take place without regard for the formal channels. As such they are reflective of the informal organisation. Communication can also be characterised by its direction and whether it is downward, upward or lateral, and whether it is one-way or interactive. Gordon (1996) suggests that coordination mechanisms such as specific boundary-spanning roles can facilitate interactive lateral communication. Gupta and Govindarajan (1991) identify one further characteristic of communication as its intensity along three dimensions; frequency, informality and openness, and density or the number of people who interact. These different dimensions are depicted in Table 3.3.

Table 3.3 Characteristics of Organisation Communication Processes

Characteristic	Scope/Direction
Degree of Formality	Formal or informal
Direction	Upward, downward or lateral (horizontal)
Direction	One way or interactive
Intensity	Frequency, openness and density

Compiled from the works of Gupta and Govindarajan, 1991 and Gordon, 1996.

Given these different characteristics, Gordon (1996:275) argues that it is important to understand the whole of a communication network including 'patterns of both formal and informal communication'. Communication patterns are regarded as a major determinant of an organisation's effectiveness in creating and diffusing innovation (Burns and Stalker, 1961; Gupta and Govindarajan, 1991). Martinez and Jarillo (1989) report that interactive communication practices help to create conditions for consensus amongst managers to enable effective decision making to take place. Luthens (1992) adds that interactive communication serves to aid task coordination, problem solving, information sharing and conflict resolution. However, there are a number of barriers to effective communication identified in the literature. Gordon (1996) reports that organisation structures and centralisation are commonly seen as communication barriers. Other barriers identified by the author include perceptual and attribution biases, interpersonal relationships, physical distance and cultural differences. Marschan, Welch and Welch (1997) add that language can be an impediment to effective communication. All of these barriers arguably have greater resonance with international firms.

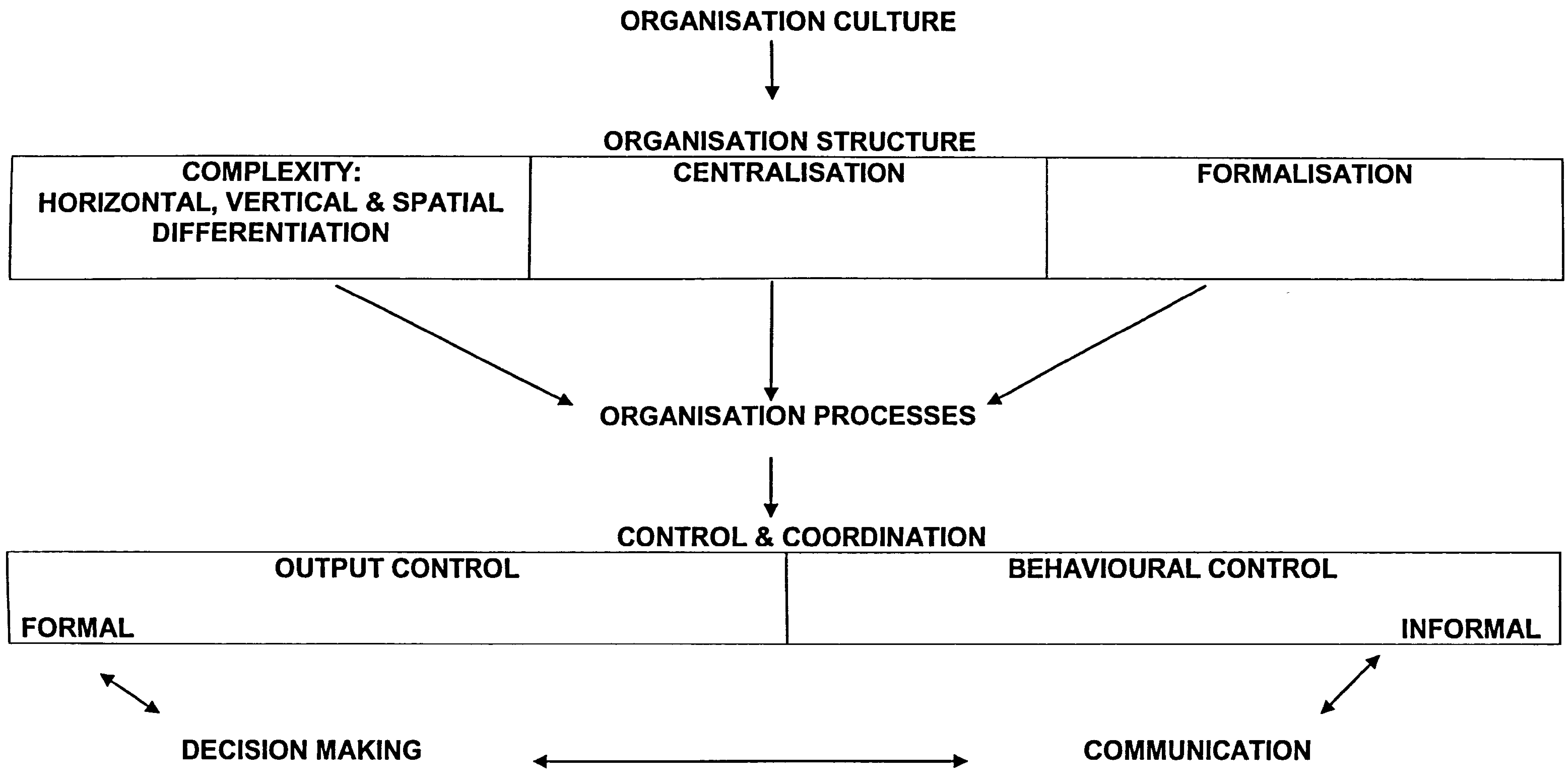
Birnberg (1998) suggests that degree of interdependency in firms is positively correlated to communication requirements and the complexity of decision-making. It was identified in Table 3.2 that there is a greater need for more coordination processes with higher degrees of interdependency. Ghoshal, Korine and Szulanski (1994) found from their research that interpersonal relationships developed through lateral coordination processes such as work teams and taskforces have significant positive effects on the frequency of both subsidiary-headquarters and inter-subsidiary communication. Lindsay et al (2003) also identify the importance of interpersonal relationships and communication in their study of international service firms. Gupta and Govindarajan (1991) report that coordination can be measured by the informal communication practices of the firm and through the cooperation between members or units. Harzing (1999) also identifies the positive influence of coordination mechanisms on communication amongst organisational members. Birnberg (1998) advises however, that control processes also need to reinforce cooperation rather than self-interested behaviour, an argument consistent with that of Gittel (2000).

Hall (1991) argues that the coordination mechanism of socialisation can help reduce communication problems within organisations. Personal behaviour is at the core of socialisation processes (Edstrom and Galbraith, 1997; Bartlett and Ghoshal, 1989; Gupta and Govindarajan, 1991) and what is deemed acceptable behaviour is learned and internalised by individuals thereby obviating the need for formalised control procedures (Edstrom & Galbraith, 1997). Socialisation is perpetuated mainly through management transfers as a socialising process and as a verbal information network (Gannon and Johnson, 1997). It encourages the development of personal networks, or informal links between individuals developed for commercial, social or communication purposes (O'Donnell et al, 2001). In this way coordination is achieved through the development of shared values amongst differentiated organisations. Communication is therefore at the heart of socialisation and this in turn is reported to enhance decision-making and to manage relative power amongst organisational members. This discussion therefore serves to highlight the inter-related nature of the requirements for effective decision-making identified by Martinez and Jarillo (1991) as well as the inter-related nature of organisational processes.

Summary of Dimensions of Organisation Design

Organisation designs are comprised of structural elements and formal and informal organisational processes. Control appears to be a dominant dimension of design, influencing both structure and process. Formal structures create a framework that impacts on organisational processes developed to achieve coordination and control. These processes in turn impact upon organisational decision-making and communication. These dimensions can be influenced by the organisation culture that can also serve as a control mechanism. The literature highlights the importance of developing organisational processes that are mutually supportive. Figure 3.1 depicts these dimensions of organisation design and how they inter-relate. The following section considers the relevance of these dimensions to inter-organisational designs.

Figure 3.1 Dimensions Of Organisation Design



(Arrows depict the direction of influence)

3.4 Dimensions of Inter-Organisational Design

Despite the proliferation of research on inter-firm alliances and inter-organisational relationships, there has been rather limited attention paid to the specifics of inter-organisational design (Grandori, 1997a). Speckman et al (1998:747) report a distinct research gap in the understanding of 'the practice of alliance management'. Dekker (2004) argues more specifically that there is comparatively little research into the actual structuring, management and control of inter-firm agreements and reports that research efforts to date focus on three interrelated issues:

1. motivation for formation,
2. choice of governance structure and
3. effectiveness and performance.

In order to identify the dimensions of design within inter-firm alliances, the following discussion draws predominantly on the research studies relating to governance structure and effectiveness and performance. It begins with an investigation of inter-organisational structure before examining inter-firm processes for control and coordination, decision-making and communication.

3.4.1 Inter-Organisational Structure

The structural dimensions of complexity, formalisation and centralisation are also deemed important in inter-organisational design (Provan and Skinner, 1994) yet they are reported to have received limited attention (Kauser and Shaw, 2004). The wide variety of inter-firm arrangements may explain this lack of attention as each dimension could vary considerably according to the type of agreement. By their very definition, alliance and network relationships are complex, but the degrees of horizontal and geographical differentiation could also differ substantially. Centralisation in inter-firm agreements can refer to both decision and control rights, as well as to property rights (Grandori, 1997b). Where independent governing bodies are created, there may be higher levels of centralisation yet within some arrangements centralisation may be dependent on what is stipulated in the contract between firms (Grandori, 1997b; Kauser and Shaw, 2004). Degrees of formalisation may also be reliant on contractual stipulations. In informal arrangements that are not underpinned by a contract, formalisation might also be more difficult to implement across organisational boundaries. These dimensions of inter-organisational structure therefore appear to be dependent on particular contractual agreements (Spekman et al, 1998) and the extent to which they are prescribed within them (Iberra, 1992). Taylor's (2005) study of software alliances identifies that these structural factors have an impact on alliance success. However, Judge and Ryman (2001) advise while contractual agreements are normally used to identify specific responsibilities and governance of alliances, they suffer from a number of shortcomings. A key limitation is that contracts cannot anticipate what will be necessary to cover all future contingencies (Ring and Van de Ven, 1994; Ivens, 2005). Dekker (2004) adds that shortcomings also arise as contracts do not normally consider the organisational mechanisms employed to control the relationship. As a result, Iberra (1992) argues that inter-organisational processes emerge from those originally prescribed by the contract. Inter-organisational processes are therefore generally considered a more relevant dimension than structure in inter-firm agreements (Geringer and Herbert, 1989; Ring and Van de Ven, 1994; Dess et al, 1995; Kauser and Shaw, 2004) and these are explored below.

3.4.2 Inter-Organisational Processes

Arino and de la Torre (1998) argue that procedural issues are of extreme importance from the start in collaborative ventures. However, Urban and Vendemini (1992) caution that developing and applying appropriate operating procedures across organisational boundaries is not easy to do in practice. As current research on inter-organisational design does not clearly identify inter-organisational processes, thirty-two studies (half of which are empirically tested) drawn from the literature on effectiveness and performance have been used to identify the key ingredients in successful inter-firm agreements. These ingredients are then used to determine relevant inter-organisational processes and inform the following discussion. Table 3.4 depicts these ingredients, the inter-organisational process they relate to, and the authors whose work supports the criteria.

Table 3.4 Key Ingredients of Successful Inter-Organisational Agreements

Key Ingredient of Success	Relevant Inter-Organisation Design Dimension	Authors Who Identify Criteria
Organisation structure	Inter-organisational structure	Perlmutter & Heenan, 1986; Kanter, 1994; Reardon & Spekman, 1994; Ahuja, 2000; Ellis & Mayer, 2001; Judge & Ryman, 2001; Mandal, Love & Irani, 2003; Kauser & Shaw, 2004
Appropriate control procedures/ governance	Inter-organisational control	Perlmutter & Heenan, 1986; Ajami & Khambata, 1991; Ring & Van de Ven, 1994; Buono, 1997; Sharma, 1998; Arino et al, 2001; Kaplan & Hurd, 2002; Anslinger & Jenk, 2004; Kauser & Shaw, 2004; Bamford, Ernst & Fubini, 2004
Defined & planned boundaries for resource sharing	Inter-organisational control	Ajami & Khambata, 1991; Brown, Lee & Dev, 1994; Kanter, 1994; Arias, 1995; Finn & McCarney, 2002; Bamford et al, 2004
Clear and realistic expectations of roles and rewards	Inter-organisational control	Ajami & Khambata, 1991; Reardon & Spekman, 1994; Ring & Van de Ven, 1994; Walters et al, 1994; Buono, 1997; Child and McGrath, 2001; Elmuti & Kathawala, 2001; Finn & McCarney, 2002; Kauser & Shaw, 2004; Taylor, 2005
Appropriate performance measurement	Inter-organisational control	Ajami & Khambata, 1991; Arias, 1995; Buono, 1997; Elmuti & Kathawala, 2001; Judge & Ryman, 2001; Pett & Dibrell, 2001; Bernhut, 2002; Mandal et al, 2003; Anslinger & Jenk, 2004; Kauser & Shaw, 2004; Bamford et al, 2004
Constructive conflict resolution	Inter-organisational control	Perlmutter & Heenan, 1986; Brown, et al, 1994; Ring & Van de Ven, 1994; Buono, 1997; Finn & McCarney, 2002; Anslinger & Jenk, 2004; Kauser & Shaw, 2004; Bamford et al, 2004
Development of trust	Inter-organisational control/coordination	Brown, et al, 1994; Kanter, 1994; Reardon & Spekman, 1994; Ring & Van de Ven, 1994; Walters et al, 1994; Buono, 1997; Arino et al, 2001; Child and McGrath, 2001; Judge & Ryman, 2001; Pett & Dibrell, 2001; Bernhut, 2002; Parise & Casher, 2003; Zeng & Chen, 2003; Kauser & Shaw, 2004; Lavie, 2004; Taylor, 2005
Senior management commitment	Inter-organisational coordination	Perlmutter & Heenan, 1986; Urban & Vendemini, 1992; Brown et al, 1994; Kanter, 1994; Walters et al, 1994; Buono, 1997; Elmuti & Kathawala, 2001; Finn & McCarney, 2002; Parise & Casher, 2003; Sherer, 2003; Anslinger & Jenk, 2004; Kauser & Shaw, 2004; Taylor, 2005

Table 3.4 continued...

Strategic alignment	Inter-organisational coordination	Perlmutter & Heenan, 1986; Ajami & Khambata, 1991; Kanter, 1994; Walters et al, 1994; Arias, 1995; Buono, 1997; Sharma, 1998; Judge & Ryman, 2001; Finn & McCarney, 2002; Kaplan & Hurd, 2002; Mandal et al, 2003; Anslinger & Jenk, 2004; Bamford et al, 2004; Taylor, 2005
Aligned work systems	Inter-organisational coordination	Child and McGrath, 2001; Judge & Ryman, 2001; Finn & McCarney, 2002; Kauser & Shaw, 2004
Compatible cultures	Inter-organisational coordination	Perlmutter & Heenan, 1986; Reardon & Spekman, 1994; Walters et al, 1994; Arias, 1995; Buono, 1997; Arino et al, 2001; Elmuti & Kathawala, 2001; Judge & Ryman, 2001; Pett & Dibrell, 2001; Parise & Casher, 2003; Taylor, 2005
Management of individual/social relationships	Inter-organisational coordination	Kanter, 1994; Ring & Van de Ven, 1994; Arias, 1995; Buono, 1997; Sharma, 1998; Child and McGrath, 2001; Kauser & Shaw, 2004; Taylor, 2005
Adaptability	Inter-organisational coordination	Ring and Van de Ven, 1994; Taylor, 2005
Effective decision making	Inter-organisational decision making	Kanter, 1994; Judge & Ryman, 2001; Bernhut, 2002; Finn & McCarney, 2002; Mandal et al, 2003; Anslinger & Jenk, 2004; Bamford et al, 2004
Effective communication	Inter-organisational communication	Kanter, 1994; Reardon & Spekman, 1994; Arias, 1995; Elmuti & Kathawala, 2001; Judge & Ryman, 2001; Pett & Dibrell, 2001; Finn & McCarney, 2002; Mandal et al, 2003; Parise & Casher, 2003; Zeng & Chen, 2003; Kauser & Shaw, 2004; Bamford et al, 2004

i) Inter-Organisational Processes for Control and Coordination

Table 3.4 highlights the importance of control processes in inter-firm arrangements. Dekker (2004:31) advises that the primary purpose of control in inter-organisational settings is to create the conditions to motivate partners to achieve desirable outcomes. He further maintains that it is appropriation concerns (as related to risks of dissemination) and the coordination of inter-firm tasks that creates this importance. These concerns are well noted in the alliance literature (Bucklin and Sengupta, 1993; Gulati and Singh, 1998; Spekman et al, 1998; Mohr and Sengupta, 2002). As contracts are known not to be able to cover every eventuality, Dekker (2004) argues that the degree to which hierarchical control processes are incorporated into inter-firm agreements is therefore related to the degree to which any firm has appropriation concerns. Despite this, Spekman et al. (1998) report control and authority structures are often ambiguous in alliance relationships and Das (1993) argues they are harder to understand. Clarke (2002) reports that many alliances fail as a result of the absence of typical control systems due to their loosely coupled and non-hierarchical nature. However, Ring and Van de Ven (1994) warn that control processes that incorporate excessive legal structuring and monitoring of the relationship can also be detrimental. Finding a balance therefore becomes important and Kauser and Shaw (2004) conclude from their research that the way in which control is executed directly impacts on alliance success.

Despite its importance, Kauser and Shaw (2004) report there are few definitions of inter-organisational control to be found in the literature. Geringer and Herbert (1989:236-237) however suggest that inter-organisational control is,

> 'the process by which one partner influences, to varying degrees, the behaviour and output of the other partner, through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms.'

While this definition was created for joint ventures, it is arguably applicable to all types of inter-firm relationships. Geringer and Herbert (1989) further suggest there are three dimensions of inter-organisational control: focus, extent and mechanisms. Control focus refers to the scope of activities monitored, extent to the degree to which control is exercised and the mechanisms, the means by which it is achieved. Kauser and Shaw (2004) argue that any investigation of inter-firm control needs to consider all three elements. Geringer and Herbert's (1989) definition also reflects the mixed use of price, authority and culture as within traditional organisational boundaries. Furthermore, it highlights the use of outcome and behavioural mechanisms. Table 3.4 depicts the support within the literature for the importance of measurement against mutually agreed goals and targets within inter-firm agreements. Pett and Dibrell (2001) advise that the development of processes to measure alliance outcomes is important in virtually every stage of an alliance agreement.

There is general consensus on the importance of behavioural control within inter-firm agreements (Das and Teng, 1998; Gulati and Singh, 1998; Dekker, 2004; Kauser and Shaw, 2004). In this context however, behavioural control has a broader perspective as it incorporates behaviour by and between individuals and partner organisations. Ivens' (2005) investigation of business-to-business customer/supplier relationships reveals that this relational behaviour affects the outcome of the agreement. On the basis of their study, Kauser and Shaw (2004) purport that behavioural controls are more important than structure in inter-firm designs. Larsen (1992) argues more explicitly that social controls are the most important to manage relational behaviour. While Spekman et al (1998) suggest it would be naïve to rely solely on these, there is a good deal of support for the use of social control processes to engender interpersonal relationships or personal networks (Bartlett and Ghoshal, 1989; Ring and Van de Ven, 1994; Arino and de la Torre, 1997; Lewis, 2000; Child and McGrath, 2001). Buono (1997) notes they can add to the development of shared ways of operating to enhance behavioural control and better coordinate the activities of different firms. Social processes are also reported to remove or break down organisational boundaries to increase the permeability between organisations (Martinez and Jarillo, 1989; Dess et al, 1995) and facilitate the development of emergent designs (Iberra, 1992). Table 3.5 summarises the three different types of control identified and provides examples of specific mechanisms used to achieve them drawing on empirical studies.

Table 3.5 Control Procedures in Inter-Organisational Agreements

Type of Control	Ex-Ante (before contract signature)	Ex-Post (after contract signature)
Outcome	**Determined through goal setting including:** • Short term and strategic goals • Incentive systems • Alliance fund management • Arbitration clauses • Lawsuit provision	**Performance monitoring against goals through:** • Open book accounting • Cost reductions • Cost and quality control **Rewarding:** • Sharing benefits of alliance outcomes
Behavioural	**Structural specifications for any of the following:** • Task groups • Quality plans • Intellectual property divisions • Innovation programs • Functional specifications • Ordering and supply procedures • Standard operating procedures • Conflict dispute procedures • Defined functional programs and rules	**Behaviour monitoring:** • Review of ideas for innovation • Board monitoring • Quality audits
Social	**Partner selection:** • Joint history and goal setting • Joint governance goals • Reputation • Trustworthiness • Long-lasting relationships	**Shared decision making and goals:** • Joint alliance board • Joint task groups

Adapted from Das and Teng, 1998; Gulati and Singh, 1998; Dekker, 2004.

Table 3.5 depicts two clear differences in control procedures in inter-firm agreements. In the first instance, it depicts the need to consider control before contractual agreements are finalised (ex ante) and after contract signature (ex-post). It also highlights the differences in the actual mechanisms used at these different stages in comparison to designs within single organisations. For example, far more attention is given to arbitration and conflict resolution procedures in inter-firm agreements. Table 3.5 also suggests that output and behavioural control mechanisms are more formalised than those for social control.

As such, social control mechanisms can be likened to the coordination processes employed within organisations.

Coordination considerations are extensive in inter-firm arrangements (Gulati and Singh, 1998). The complexities associated with integrating different firms while maintaining sufficient degrees of flexibility have also been noted (Hamel, Doz and Prahalad, 1989; Ring and Van de Ven, 1994). Coordination processes must also be carefully considered for any inter-firm learning to take place (Mohr and Sengupta; 2002). Furthermore, partner firms need to commit to the alliance, yet at the same time protect against loss (Hamel et al, 1989) and finding the appropriate coordination mechanisms can therefore be a challenge. The type of interdependence (pooled, sequential, reciprocal) between firms involved in the alliance can help guide the choice of coordination mechanisms used (Grandori, 1997a; Vetschera, 2000; Dekker, 2004). Sharma (1998) expands on the concept of interdependence for inter-firm agreements and argues it is a function of the interaction between the different firms according to:

1. interaction frequency,
2. interaction surface area: the number of people involved and the number of contact points,
3. interaction variety: the number of people from different functional areas who interact and
4. interaction medium: electronic, written or face-to-face interaction.

These interactions influence the coordination requirements between firms. Higher forms of interdependence require more complex coordination efforts (Dyer, 1996; Gulati and Singh, 1998; Dekker, 2004; Tuomela and Salonen, 2005). Grandori (1997a:909) reports typical inter-firm coordination mechanisms include partner specific communication, routines, rules and procedures, liaison and integration roles, inter-firm authorities, group work, planning programming and information systems, and forms of property-right sharing. Gittel and Weiss (2004) note from their review of the literature that many inter-firm coordination mechanisms include shared systems for supervision, selection and staffing, training, incentives and information systems. Tuomela and Salonen's (2005) pilot study of networks identifies the use of cross-functional teams, task forces and liaison roles. These processes are reported to be more difficult to manage and potentially more costly without the benefit of formal control processes implemented through hierarchy (Gulati and Singh, 1998; Dekker, 2004). However, Gulati and Singh (1998) conclude from their research on buyer-supplier relationships that firms will balance the cost of coordination against the risk of dissemination. They report that coordination costs in inter-firm arrangements reflect,

> 'the anticipated organizational complexity of decomposing tasks among partners along with ongoing coordination of activities to be completed jointly or individually across organisational boundaries and the related extent of communication and decisions that would be necessary (p782).'

The authors also caution that alliance partners are more likely to create a hierarchical governance structure when the degree of interdependence between firms is considered to create higher coordination costs. These findings suggest that some hierarchical control processes are deemed necessary to manage dissemination risks and are consistent with those of Dekker (2004). However, Gulati and Singh (1998) also identify that repeated ties diminish the use of hierarchical controls in buyer-supplier relationships. A number of researchers suggest this to be the case in all types of inter-firm relationships (Foss, Mahnke and Madhok, 2000; Arino et. al 2001; Dekker, 2004). Over time, there is less reliance on formal control and greater use of informal coordination mechanisms.

It is the development of trust between firms that reportedly drives this change from formal mechanisms to more informal self-enforcing safeguards (Dyer, 1996; Dyer and Singh, 1998; Barringer and Harrison, 2000). Table 3.4 clearly indicates the support in the literature about the role of trust in inter-firm arrangements. Trust relates to both capability to perform required tasks and goodwill, defined as the expectation that a firm will act in the best interest of the agreement (Cullen, Johnson and Sakano, 2000; Dekker, 2004). Conduct of organisational members is therefore reported to be an important element in the development of trust (Cropper, 1996) as it influences the relational atmosphere or the degree of closeness perceived in inter-firm relationships (Ellis and Mayer, 2001). Both conduct and atmosphere result from shared experiences between the firms and as such, are similar to the concept of relational behaviour discussed above. These relational experiences are reported to drive the development of shared norms of behaviour (Ahuja, 2000; Ivens, 2005) that serve to control the agreement more informally as it develops. Control systems therefore evolve in inter-firm agreements as informal cultural mechanisms emerge.

Researchers have attempted to conceptually link the development of trust to the development of inter-firm relationships (Arino et al, 2001; Vosselman and Meer-Kooistra, 2006). Kanter's (1994) seminal study of 37 international alliance agreements led to the identification of different stages of alliance development. A number of researchers have continued to explore the evolutionary nature of alliances since (Buono, 1997; Dyer, Kale and Singh, 2001; Judge and Ryman, 2001; Zineldan, 2002; Batonda and Perry, 2003; Poulymenakou and Prasopoulou, 2004). Connell (1997) also reports on the evolutionary nature of master franchise agreements. While these researchers have conceptualised or empirically identified different numbers of stages, they nevertheless serve to paint a broad picture that alliances go through a life cycle. The key sequential stages identified include partner selection and the negotiation process, implementation of the contractual agreement and then either dissolution or regeneration. Research has also outlined some of the key activities that take place at these different stages (Spekman et al, 1998). In addition, some effort has been made to identify the key activities that engender the development of trust in alliance evolution. For example, Aulakh, Kotabe and Sahay (1996) have identified a positive correlation between processes for information exchange and flexibility with the development of trust in their study of US Fortune 500 industrial firms.

However, within the literature there is a continued debate as to whether trust acts as a substitute or complement for formal control as it emerges (Ring and Van de Ven, 1994; Das and Teng, 1998; Gulati, 1998; Dekker, 2004). According to Dekker (2004) the supporters of a substitutive relationship argue that trust and formal control are inversely related, therefore more trust results in less requirements for formal control and vice versa. On the other hand, a complementary relationship sees informal control measures being added to formal ones. Das and Teng (1998) report that formal control mechanisms, from this perspective, are seen to enhance trust, through their objectivity and provision of track records. As a result of these disparate perspectives, Dekker (2004) concludes that the use of formal control mechanisms may be complementary and enhancing to trust up to a certain point. As trust is the low-cost option, it will substitute for formal controls whenever a sufficient level of control is perceived to have been realised. Relational trust will therefore only be damaged when the use of formal control exceeds this limit. Dekker (2004) purports therefore that trust may have a moderating effect on the relationship between coordination requirements and formal control.

Given these mixed findings on the impact of trust, Arino et al (2001) suggest that a more relevant concept is that of relational quality. The authors define relational quality as 'the extent to which the partners feel comfortable and are willing to rely on trust in dealing with one another' (p 111). Hopkinson and Hogarth-Scott (1999) advise it reflects the sense of unity and the balance of power in the relationship. Arino et al (2001) identify four elements that underpin relational quality as:

1. the degree of trustworthiness in initial conditions as defined by reputation, inherent characteristics, institutional context and any direct prior experiences,
2. the negotiation process that can enhance or diminish initial perceptions,
3. experience with each other's behaviour and interpretation of behaviour as a function of number, frequency and gravity of interactions and
4. behaviour outside the inter-organisational relationship that reflects both reputation and ethical behaviours.

As it is a broader concept than trust, relational quality incorporates other relevant inter-organisational characteristics identified in Table 3.4 such as degree of compatibility of corporate cultures, decision-making styles and communication. Parise and Casher (2003) label these relationship levers that enhance partner commitment to, and satisfaction with the alliance (Kauser and Shaw, 2004; Ivens, 2005). Morgan and Hunt (1994:23) define commitment as 'an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it'. Hopkinson and Hogarth-Scott (1999) also identify the importance of expectations of the future relationship to relational quality. Parise and Casher (2003) note however, that relational levers are frequently neglected in favour of technical aspects, particularly after contracts have been signed. They do however, impact upon processes for decision-making and communication as discussed below.

ii) Inter-Organisational Processes for Decision Making and Communication

The preceding discussion indicates that decision-making rights can be prescribed by the formal contract and whether a distinct governing body is created. It also identifies that as interdependency increases there is a greater need for coordination and joint decision-making amongst partner firms (Galbraith, 1977; Dyer, 1996; Gulati and Singh, 1998). High coordination efforts also require continuous communication to inform decision-making (Dekker, 2004). The quality of information, information-sharing processes and participation in goal setting are considered key communication attributes (Kauser and Shaw, 2004) that support decision-making and coordination. Ajami and Khambata (1991) further argue that coordination can only be achieved where communication exists.

Communication is also seen to be a way to nurture relationships (Singer, 2001) and there is much support in the literature on the relationship between effective communication and alliance success (see Table 3.4). One of the reasons for this is that frequent communication can also facilitate problem solving (Singer, 2001). It also supports shared decision-making and thus can reduce conflict (Speckman et al, 1998). The authors identify that inter-firm conflict arises when:

1. expectations of partner firms differ,
2. expectations of partner firms are unrealistic,
3. levels of commitment by different partners are not perceived as equitable and
4. reward levels are different between partners.

A breach in performance by one partner can also create conflict. Lorange et al, (1992) advise that firms are frequently guilty of creating 'black boxes' of knowledge of technologies or markets that they withhold from partner firms in order to maintain a stronger bargaining position. Urban and Vendemini (1992) suggest that this may be a result of 'strategic egotism' where individual managers feel the autonomy of their organisation is threatened or fear the impact of the Trojan horse syndrome. This type of behaviour is reported to create an atmosphere of mutual distrust, which jeopardises the stability of the alliance (Perlmutter and Heenan, 1986). In addition, opportunistic behaviour by one partner might also contribute to a breach in performance. The requirement for a perception of fair play by all partners has been reported by Lorange et al (1992). Speckman et al (1998) identify from their review of the literature that this perception is important to avoid conflict. Arino et al (2001) also note the impact of relational quality on conflict resolution.

The importance of partner selection and the negotiation process to clarify these expectations and reduce the potential for inter-firm conflict is also recognised. Ajami and Khambata (1991) highlight the need to clarify obligations to report, rights to initiate proposals, rights of participation in decision-making, the use of feedback and openness of information as important aspects of communication to clarify during negotiation processes to reduce inter-organisational conflict. They also suggest that defensive boundaries should be defined to ensure that only legitimate access to resources occurs. However, Judge and Ryman (2001) note that unanticipated conflicts often arise after contractual agreements have been signed. Therefore in addition to these preventative measures, clear and constructive conflict resolution processes become more important in inter-organisational designs as suggested in Table 3.4.

Summary of Inter-Organisational Design

The preceding discussion sought to determine the relevance of the dimensions of organisational design to inter-organisational agreements. The literature suggests that inter-organisational processes are more significant dimensions of design than inter-organisational structures. Inter-organisational designs have also been determined to be prescribed at the start of an agreement, but then evolve or emerge throughout the life of the agreement. Gittel and Weiss (2004) note however, that it is important to consider both prescribed and emergent designs. The studies reviewed have been undertaken either from a relational viewpoint or from a more traditional design perspective. However, to date there have been limited attempts to consolidate these two perspectives. As Graen and Hui (1996:64) advise, the two ways of regulating inter-firm agreements are:

1) through a relationship-based system that relies on relational networks of the system and

2) through a procedural-based system that relies on formalisation and institutionalisation of procedures.

Research investigating the relational nature of inter-firm designs has identified the role of trust and relational quality in achieving control. Trust is identified as an essential ingredient of relational quality. However, findings are mixed as to whether it acts as a complement to, moderator of, or substitute for formal control. In any case, inter-organisational processes for coordination and control impact upon those for decision-making, communication and conflict resolution and these also contribute to relational quality. Figure 3.2 depicts these dimensions of inter-organisational design.

3.5 Design of Diverse Affiliations

The preceding discussion highlights both similarities and differences in organisation design within and across firm boundaries. While the dimensions of design are similar, the starting point for organisation design is culture, whereas the starting point for inter-organisational design is the contract or formal inter-organisational agreement. Another point of differentiation is the importance of inter-organisational processes within inter-firm agreements relative to structure. The third difference is the evolutionary nature of inter-firm agreements. For international service firms that operate both within and across organisational boundaries, the differences in design dimensions can pose challenges for managers that have not been addressed in the literature. Organisation designs in diverse affiliations can therefore be conceptualised as in Figure 3.3. Different parts of the affiliation can rely more heavily on formal structures, whereas others may need to make greater use of organisational processes, both formal and informal, to achieve control.

FIGURE 3.2 DIMENSIONS OF INTER-ORGANISATIONAL DESIGN

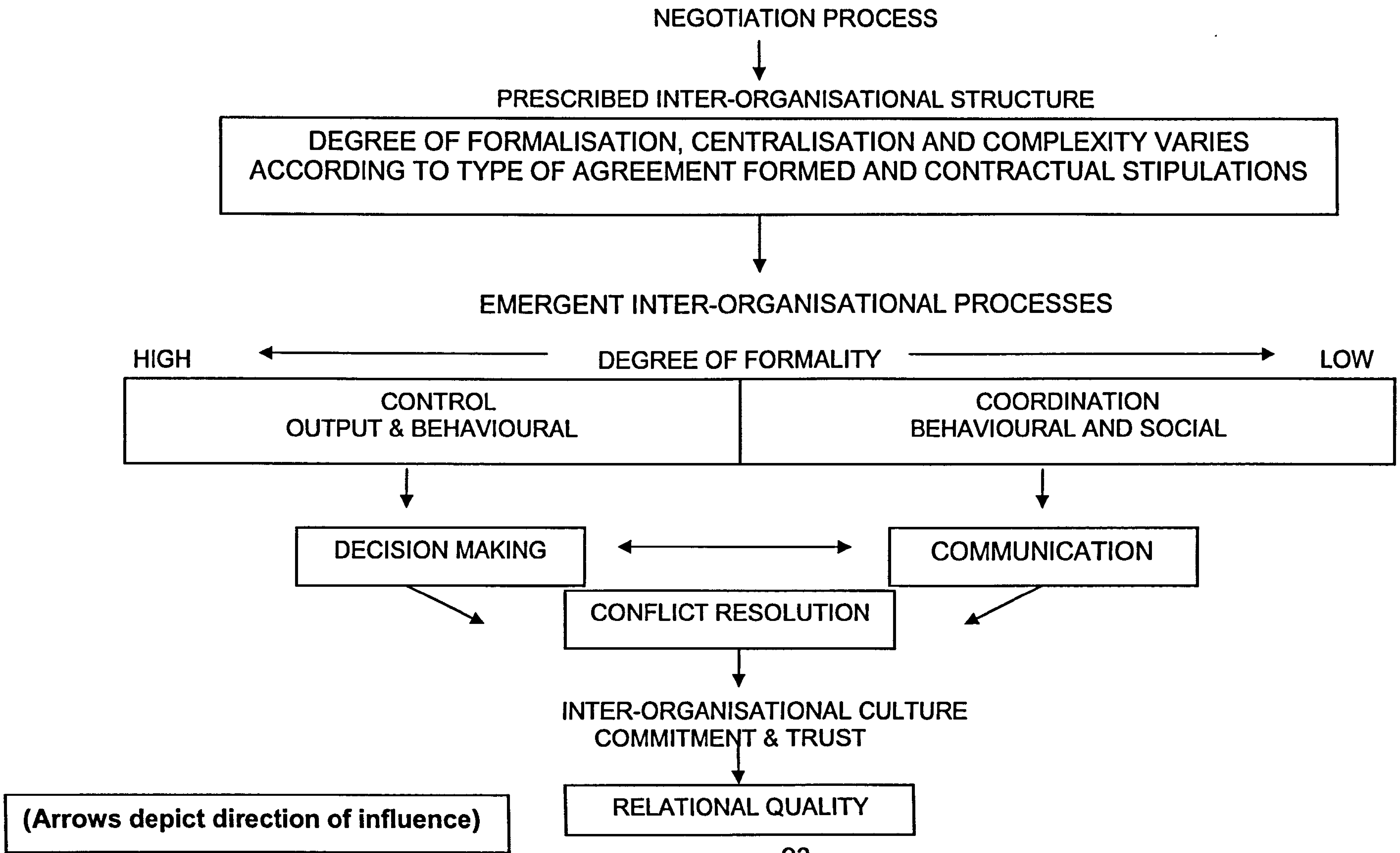


Figure 3.3 Dimensions of Design in Diverse Affiliations: Within and Across Organisational Boundaries

(Arrows depict direction of influence)

In addition, there appears to be limited research undertaken to date on the organisational and inter-organisational processes that impact upon flexibility. It is therefore not clear how these different dimensions of design, within and across organisational boundaries should be developed for diversely affiliated organisations. Galbraith (1977) however, reports that design must be consistent with a firm's strategy and this is considered in the following section.

3.5.1 Models of Design

Galbraith (1977) concluded after many years of research that there is no best approach to organisational design; rather it is a search for coherence between firm-specific characteristics, the environment and company strategy. In other words, organisation designs are contingent (Burns and Stalker, 1961; Chandler 1962; Woodward, 1965; Lawrence and Lorsch, 1969). According to contingency theories, changes in the environment lead to changes in strategy and then to changes in structure or organisation designs. While researchers within the process school report that there is no one best way to design MNCs, there have been numerous efforts made to develop alternative typologies of design and Harzing (1999) provides a good review of these different efforts. However, Egelhoff (1999) argues that these typologies can fit into two broad models of design, traditional or change models.

i) Traditional Models of Design

Traditional models of design are based on the underlying notion that organisations predominantly operate in conditions of environmental stability that are punctuated by predictable periods of change. As environmental conditions change, firms alter their strategies and then their structures to achieve a state of equilibrium. As equilibrium is associated with organisational performance, once achieved, designs are not changed unless they can no longer successfully cope with their environments (Romanelli and Tushman, 1994). As change is a relatively infrequent occurrence, these traditional models of design tend to utilise mechanistic organisation structures (Burns and Stalker, 1961). Drawing heavily on the classical school of management (Louadi, 1998), these designs rely on control through centralised decision making. High levels of efficiency are achieved through formal procedures, centralised authority, direct supervision, and specialised labour (Pugh, 1996; Tata, Prasad and Thorn, 1999; Curado, 2006). Control processes are hierarchical, involve vertical coordination and communication, and vertical dependency with fixed boundaries (Child and McGrath, 2001). Birnberg (1998) reports that tasks are routinised, there is a high degree of formality and the issue for control is on adherence to procedures and their outcomes. As a result, the role of trust and cooperation is minimal. Coordination and problem-resolution occur at senior hierarchical levels. Traditional design models include templates based around products, services, geographical divisions (Day, 1999) and matrix models (Bartlett and Ghoshal, 1993).

ii) Change Models of Design

As international business environments became more dynamic[11], the effectiveness of these models began to be questioned. Researchers within the process school in particular, highlighted the complexity faced by international firms who employ differentiated strategies to suit different national environments (see for instance Malnight, 2001). Accordingly, a number of 'change models' of design (Egelhoff, 1999) were developed including the heterarchy (Hedlund, 1984), the multifocal MNC (Doz, 1986), the transnational (Bartlett and Ghoshal, 1989), and the horizontal organisation (White and Poynter, 1990). These models were developed in order to enable firms to compete more effectively through the simultaneous development of global competitiveness, multinational flexibility and worldwide learning capabilities. Traditional models of design were not deemed sufficient to enable these three goals to be achieved concurrently (Pugh and Hickson, 1990) or to deal with differentiated strategies. The built-in boundaries between different hierarchical levels, departments, functions and geographical units create barriers to communication necessary for flexibility and responsiveness. Hastings (1993) suggests traditional models of design frequently suffer from 'organisational gridlock' and according to Dess et al (1995) this is due to the fact they focus on the maintenance of internal relationships rather than on organisational results.

[11] Dynamic environments are volatile or unpredictable (Anderson and Gatignon; 1986) as reflected by the frequency of change and turnover of market forces (Brown, Lee, and Dev, 1994a). The more dynamic the environment, the greater the level of uncertainty caused by unanticipated change.

Change models are based on the premise that environmental change is inevitable, is frequent and continuous, and is also unpredictable. Whereas traditional models rely on contingency theories to create equilibrium through the design of a structure that fits its environment and strategy, in the newer models environmental change is handled within the same organisational design and there are no predefined notions of equilibrium (Egelhoff, 1999). As a result, responses to change come in a more unstructured way and Hastings (1996) likens these new designs to kaleidoscopes with a constantly changing pattern of relationships. Fluid and organic structures are therefore deemed more appropriate for these complex and dynamic environments (Burns and Stalker, 1961) where differentiated strategies are more likely. Flatter or more horizontal organisational forms are the norm and these reduce hierarchical differentiation and the reliance on vertical control mechanisms. Child and McGrath (2001) report from their extensive review of the literature that authority, power, responsibility and resources are decentralised in change models of design. Managerial roles are to provide guidance, manage conflict and keep communication open rather than provide top down direction. Change models therefore reduce the core activities to a minimum and assign responsibilities to semi-independent units. The objective of this is to push decision making to where relevant knowledge and information reside. Decision-making therefore is decentralised and problems are solved at their source (Tata et al, 1999). Individual units take local initiative to achieve agreed goals rather than have goals imposed from above (Child and McGrath, 2001). In this way flexibility to be responsive to local market conditions is achieved. Greater emphasis is placed on lateral integration processes and more informal control and coordination processes (Curado, 2006). Malnight (2001) suggests characteristics of these new models include globally dispersed operations, interdependence and tight coupling of subunits, and an emphasis on cross-unit learning and flexibility. Martinez and Jarillo's (1991) research identifies that all informal coordination mechanisms must be used if a firm is to have enough flexibility to be both locally responsive and have enough consistency to take advantage of global opportunities. In these designs coherence and motivation are provided by shared vision and culture is developed through these coordination processes, not by top down instruction (Child and McGrath, 2001).

A number of questions about these newer design models are raised in the literature. Child and McGrath (2001) report that even though they are more flexible and cost effective, they may actually inhibit an organisation's ability to accomplish systematic innovations. According to Day (1999), they are reported to be difficult to achieve in reality or work in pure form, although Wolf (1997) reports on the growing use of heterarchical designs within MNC human resource functions. Nonetheless Egelhoff (1999) argues that there is little empirical evidence to support the notion that aggregating individual and small group coordinating mechanisms can effectively substitute for coordinating mechanisms at corporate levels. He purports that these models place greater demands on individuals within organisations to work across different countries and cultures. Traditional models on the other hand, reconcile global and local views at more senior organisational levels and therefore are better able to represent various views of different subsidiaries and their members. Child and McGrath (2001) contend that the economic effectiveness of traditional models has seldom been in dispute. Ives, Jarvenpass and Mason (1993) also report that hierarchical structures have frequently typified successful firms. Furthermore, highly formalised and tightly controlled, inflexible structures are still deemed appropriate in stable environments (Louadi, 1998). In a recent study of MNC design, Kidger (2002) identifies a trend towards global integration driven by the need for cost efficiencies.

iii) Hybrid Models of Design

Egelhoff (1999) purports that despite the difference in the underlying premise of traditional and change models, both recognise the need for more organic and flexible designs in dynamic and uncertain environments. In addition, 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. While change models facilitate innovation, flexibility and responsiveness, 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) further suggests that as there are still many elements of stability even in a changing, dynamic environment, both models remain relevant to international firms. The author therefore recommends a hybrid approach, where traditional models are retained at more macro (firm or corporate) organisational levels and change models at the micro (divisional or functional) level.

Ashcraft (2001) suggests that hybrid forms are calculated blends of governance structures that retain an element of bureaucracy. Similarly Schermerhorn, Hunt and Osborn (1994) report they comprise a mixture of organic and mechanistic models. Day (1999) adds more specifically that hybrids contain horizontal business processes with integrating and vertical specialist functions. These designs are based on horizontal processes backed up with vertical functional strengths that serve as coordinating mechanisms. Hybrid designs therefore encapsulate both the control and flexibility necessary for today's business environment and Day (1999) reports a trend towards their use in MNCs.

Bahrami's (1992) research within technology firms identifies three key building blocks of these new design models. He suggests that emergent organisational forms are more like federations, with the centre being seen in a support role whose purpose is to develop a shared organisational and administrative infrastructure and produce the cultural glue that can create synergies and ensure unity of mission and purpose. Bahrami (1992:39) reports these hybrid forms of design have dualistic systems with formal or 'bedrock structures' that change infrequently, but are overlapped with lateral design processes that use temporary teams to increase levels of flexibility. These designs are supported by staff functions, such as human resources, that are exposed to the reality of the front line. This latter feature, in turn, requires three elements. The first is a cosmopolitan mindset throughout the organisation so that individual firm members can reconcile global and local views. The second is the ability to get things done through capability or competence rather than authority based on a hierarchical position. The third feature is semi-permeable boundaries that facilitate information flows between different units or firms involved. Bahrami (1992) labels these bimodal organisations and concludes that in order to actually be flexible, organisations need to identify, and implement appropriate processes and tools to manage bimodality. Table 3.6 depicts the features of traditional models, change models and bimodal or hybrid models of organisation design.

Table 3.6 A Comparison of Design Models

Traditional Models	Change Models	Hybrid Models
Single centre in home country	Core centre, location flexible	Multiple centres
Expertise self contained at centre	Expertise self contained at centre but location is flexible	Steeples of expertise throughout organisation
Independent activities	Interdependent units	Interdependent units
Vertically integrated	Horizontally integrated	Multiple alliances, predominantly horizontal integration with some vertical integration
Underpinned by mechanistic structure	Underpinned by organic structure	Combine elements of mechanistic and organic structures
Uniform structure	Multiple structures possible	Diverse structures normal
Parochial mindset	Global mindset	Cosmopolitan mindset
Emphasis on efficiency	Emphasis on flexibility	Emphasis on flexibility, but not at the expense of efficiency

Adapted from Burns and Stalker, 1961; Morgan, 1986; Bartlett and Ghoshal, 1989; Bahrami, 1992; Birnberg, 1998; Egelhoff, 1999; Tata et al, 1999; Ashcraft, 2001; Child and McGrath, 2001; Malnight, 2001; Curado, 2006.

The preceding discussion identifies that current perspectives on organisation design reflect the support of hybrid models. Researchers recognise the strength and limitations of traditional and change models and argue that hybrid designs offer the best of both of these models. Hybrid designs are reported to facilitate control to achieve global integration and cost efficiencies as well as flexibility to adapt to changing market environments. However, there has been limited research conducted on these designs to date to assess their effectiveness or whether they are applicable to international diverse affiliations.

3.6 Chapter Summary and Research Propositions

This chapter sought to identify 'how' the variable risks inherent in diverse affiliations can be managed through organisational and inter-organisational design. Drawing on the extant literature and key ingredients of alliance success, relevant inter-organisational processes for control, coordination and communication have been identified. Through the determination of the dimensions of these different types of design, further complexities were revealed for diverse affiliations that operate within and across organisational borders. While both designs comprise formal structural dimensions and those of formal and informal processes, key differences include the starting point and the relevance of different design dimensions. Within firm boundaries, the literature suggests that organisation culture is the starting point as it influences the structural framework and the organisational processes that underpin that structure. In contrast, the inter-firm contract is the starting point in inter-organisational designs from which structures are prescribed and then processes emerge as the more relevant dimension. Culture also emerges in inter-firm designs. Given these fundamental differences, an argument has been presented that hybrid designs are the most appropriate for diverse affiliations to adopt. Hybrid designs are also considered the most relevant for firms that operate within complex and dynamic international environments as they are capable of delivering sufficient control to achieve global efficiencies as well as the flexibility to achieve local responsiveness. The different degrees of control and flexibility afforded within the portfolios of diverse affiliations also points to the relevance of hybrid designs. However, the specific structures and processes employed within these hybrid designs to manage the variable risks are not clear from the current literature. This research therefore seeks to shed further insight into 'how' these risks are managed through an investigation of the design of diverse affiliations, comprising both organisational and inter-organisational structure and process.

Drawing on the three streams of literature used to inform this study, eight research propositions are identified that frame this study as follows:

1. Ownership modes yield the strongest degree of control through hierarchal authority but limit the strategic and product flexibility afforded international service firms.
2. Contractual agreements yield the most strategic, product and volume flexibility, but can limit the degree and type of control afforded.
3. The degrees of control and flexibility afforded through hybrid arrangements vary according to the particular type of agreement formed.
4. In diversely affiliated portfolios, the creation of distinct organisation designs for different organisational forms may lead to the emergence of plural processes. These serve to enhance the levels of control and flexibility achieved.

5. Organisation and inter-organisational designs comprise both formal structural dimensions and those of formal and informal processes.
6. The starting point for organisational design is organisation culture. This influences formal structures adopted that in turn influence and provide a framework for organisational processes.
7. The starting point for inter-organisational design is the inter-firm contract or formal agreement that prescribes the inter-organisational structure. However inter-organisational processes and culture emerge as inter-firm agreements evolve. Trust and relational quality become important mechanisms in their management.
8. In diversely affiliated organisations designs must be considered within and across organisational borders. Hybrid designs may therefore be the most appropriate to facilitate the simultaneous achievement of control and flexibility.

The research propositions listed above identify a clear link between the streams of literature reviewed for this study. These propositions are used to investigate 'how' the variable risks inherent in diverse affiliations are managed through organisation and inter-organisational design in order to close the current gaps identified in the literature. The following chapter explains and justifies the research approach adopted in order to undertake this investigation and close the gaps related to 'how' international service firms (post-entry), inter-organisational agreements, diverse affiliations and international hotel chains are designed and managed.

CHAPTER FOUR

4. RESEARCH DESIGN

4.1 Introduction

The purpose of this chapter is to explain and justify the research design adopted for this study. According to Easterby-Smith, Thorpe and Lowe (2002:43) 'research designs are about organizing research activity, including the collection of data, in ways that are most likely to achieve the research aims.' While this definition suggests justification through an argument of 'fitness for purpose' (Wood, 1999), in reality researchers are required to make a number of sequential decisions on the most appropriate approach to answer the research questions posed. This chapter begins by explaining the research philosophy and approach underpinning this study. It then justifies the different strategies and data collection methods used for the different phases of the investigation. The chapter concludes by justifying the techniques employed to analyse the data.

4.2 Research Philosophy

Research designs begin with the researcher's view of knowledge and how it is gained. These views reflect philosophical beliefs, and their underlying paradigms, or 'ways of categorising a body of beliefs and world views' (Blaxter et al, 2001:60). These philosophies also reflect the ontological beliefs researchers have about the nature of reality (Taylor and Edgar, 1999:27), epistemological beliefs about the best ways of inquiring into the nature of the world (Easterby-Smith et al, 2002), and axiological beliefs, which reflect the beliefs about the role of values in research (Hannabuss, 2001; Hill and Wright, 2001). Research philosophies are therefore the starting point to determine the 'fitness' of research designs.

Research philosophies are frequently viewed from dichotomous perspectives or as Wood (1999:3) suggests, on the basis of 'simple bipolarities'. The two main philosophies are positivism and phenomenology, alternatively known as interpretevism (Veal, 1997; Marshall and Rossman, 1999; Wood, 1999; Bryman, 2004). Table 4.1 depicts the polar nature of the two main philosophies.

Table 4.1 Research Philosophies[12]

Characteristic	Positivist	Phenomenological or Interpretivist
Underlying Ontological Belief	Only true knowledge is scientific; facts are concrete	Depends on who establishes it
Underlying Epistemological Belief	External world determines behaviour	World is socially-constructed phenomenon based on human beliefs
Characteristics of researcher	Independent to what is studied	Involved in what is studied
Characteristics of research	Objective and unbiased	Subjective
Human Interests/Beliefs	Irrelevant, adopts a value-free approach	Main drivers for research, rarely is value-neutral
Research Aims	Demonstrate causality; explores interrelationships to search for laws of causation	Focus on meanings; Tries to understand what is happening
Research Approach	Hypo deductive	Inductive
Purpose of Data Collection	To test theories through application	To build theories
Data Collection methods	Predominantly quantitative	Predominantly qualitative Multiple methods employed
Concepts Investigated	Need to be operationalised; concepts need to be measured to systematically test hypothesis	Should include stakeholder perspectives
Unit of Analysis	Reduced to simplest terms possible	May include 'whole' complex situations
Sample	Large, often randomly selected	Small and chosen for specific characteristics
Findings Capable of	Explanatory generalisation through statistical probability	Theoretical abstraction
Validity Demonstrated through	Proof that concepts are measured accurately and reliably	Argument that researcher has gained full access to meaning and knowledge of informants
Research Yields	Universal truths through verification or falsification	Rich understanding of phenomenon

Adapted from Bryman, 1994, Stake, 1995; Veal, 1997; Clark et al, 1998; Wood, 1999; Finn et al, 2000; Thomas and Brubaker, 2000; Easterby-Smith et al, 2002; Saunders, Thornhill and Lewis, 2003.

As Table 4.1 identifies, research undertaken by positivists seeks to establish relationships between the concepts under study in order to demonstrate causality. To be valid, it must therefore be value-free and not shaped by the researcher's

[12] A number of other research paradigms are considered to lie in between the polar extremes including the social constructionist perspective (Easterby-Smith et al, 2002), postpositivism (Thomas and Brubaker), critical and postmodernism (Blaxter et al, 2001) and realism, constructivism and critical theory (Perry, 1998).

beliefs (Bryman, 2004). In contrast, phenomenologists' view the world as a socially constructed phenomenon (Wood, 1999). As such, reality is determined by human beliefs and knowledge and therefore depends on who establishes it. Research therefore is rarely value-free and its purpose is to understand meanings rather than causality (Clark et al, 1998). In reality, neither philosophy can be considered as right or wrong, rather as more or less appropriate to answer particular research questions (Robson, 2002).

In line with the beliefs of this researcher, a phenomenological approach is arguably the most appropriate to adopt. The focus of this research is on organisations which are viewed 'as living systems in a constant state of flux and in constant contact with their environment' (Patten and Appelbaum, 2003:63). This notion is clearly demonstrated through the literature reviewed in Chapter Three. Organisations are made up of people who undertake decisions on what designs to adopt and it is therefore essential to include the perspectives of these stakeholders to develop a richer understanding of organisation design. This research seeks to understand how diverse affiliations are designed and managed through an exploration of both structure and process. A phenomenological approach will enable the researcher to develop a deeper understanding of formal and informal organisational processes for control, decision-making and communication that reflect both organisational and inter-organisational design. As the majority of the design studies reviewed for this research have adopted a positivist and deductive research design (Martinez and Jarillo, 1991; Kogut and Zander, 1993; Kim and Maughborne, 1993; Weir, 1995; Ozsomer et al, 1997; Egelhoff, 1998b; Beamish et al, 1998; Tata et al, 1999), there is arguably a different contribution to make by examining organisation design from a phenomenological perspective. A number of noteworthy studies (for instance Bartlett and Ghoshal, 1987, 1993; Bahrami, 1992; Malnight, 1995, 2001; Golden and Powell, 1999; Kidger, 2002) have validated this approach. Furthermore, Connell and Lowe (1997:166) purport that with a phenomenological approach researchers are more open minded to what is really happening within the phenomenon being researched as they carry fewer preconceived ideas. Phenomenological research is also argued to be the most appropriate for inter-organisational studies (Das, 1993; Lawrence and ul-Haq; 1998) and this contention is well supported through previous research (Kanter, 1994; Buono, 1997; Sharma, 1998; Harris et al, 2000; Batonda and Perry, 2001; Mandal et al, 2003; Dekker, 2004; Taylor, 2005).

4.3 Research Approach

While there are always exceptions, generally speaking positivists tend towards quantitative research approaches, and interpretivists, towards qualitative. There are a number of key distinctions between these two approaches as identified in Table 4.2

Table 4.2 Distinctions between Quantitative and Qualitative Research

Quantitative Research	Qualitative Research
Seeks facts and causes of phenomenon	Seeks understanding of phenomenon from those involved
Assumes stable reality	Assumes dynamic reality
Presents organisational reality of amalgam of facts	Presents organisational reality as socially constructed
Research is objective in nature	Research is subjective in nature
Researcher adopts outsider perspective	Research adopts insider perspective
Theoretical reflection at outset of research	Theoretical reflection at different stages
Researcher imposes view on phenomenon	Participants perspective shapes understanding of phenomenon
Little attention given to context	Strong sense of context
Structured approach to research	Flexible and fluid approach to research
Rarely opportunity to change research direction	Enables researcher to capitalise on unexpected events or chance remarks
Research proceeds in discrete stages	No clear separation of research stages
Particularistic approach, considerable attention to refinement of operational definitions	Holistic approach
Outcome oriented	Process oriented
Obtrusive and controlled measurement	Uncontrolled and naturalistic observation
Single method of data collection	Multiple methods of data collection
Generates hard and replicable data	Generates real, rich and deep data
Interpretation based on numerical and statistical analysis	Interpretation by participants in their own language
Verification oriented; confirming theory	Grounded, exploratory and inductive; generating theory
Findings can be generalised	Findings cannot be generalised

Adapted from Veal, 1997; Clark et al, 1998; Marshall and Rossman, 1999; Blaxter et al, 2000; Finn et al, 2000; Bryman, 2001; Easterby-Smith et al, 2002; Saunders et al, 2003.

According to Stake (1995) the major difference between the two approaches is that the quantitative researcher seeks a collection of instances, expecting that, from the aggregate, relevant meanings will emerge, whereas the qualitative researcher concentrates on instance, trying to pull it apart and put it back together again more meaningfully. Qualitative research 'embodies a view of social reality as a constantly shifting emergent property of an individual's creation' (Bryman, 2001:20) and is 'grounded in the lived experiences of people' (Marshall and Rossman, 1999:2). This approach to research is more appropriate when the frequency of the phenomenon is not the issue and when the explanatory power behind it does not rely on statistical techniques, but rather on emergent meanings (Marshall and Rossman, 1999). As such, a qualitative approach is deemed most appropriate for this study.

Qualitative research genres have become increasingly important modes of inquiry for management research (Marshall and Rossman, 1999). The historical tradition for quantitative studies in management is reported to have created 'a huge gap between theory and business reality' as it removes the 'flesh and bones' of everyday life from the substance of the research itself (Patten and Appelbaum, 2003:62). Many of the empirical studies on organisation design and structure in the hotel industry have also employed a quantitative approach (Schaffer, 1984; Clark, 1987; Dev and Brown, 1990). While considered valid for assessing formal structures, this approach has also been criticised as being too far removed to understand the subtle nuances of organisational life (Mullins, 1999; Stacey, 2000). Qualitative research on the other hand, enables the researcher to get closer to participants (Shaw, 1999) in order to explain organisations through the very people that make them up (Hamel, Dufour and Fortin, 1993). Through a qualitative approach, this study should therefore yield richer insight into the design and management of diversely affiliated organisations. While many perceive qualitative research to be subject to researcher bias, it is consistent with an phenomenological belief that research is rarely value neutral. Furthermore, Patten and Appelbaum (2003) contend that quantitative research has been shown repeatedly to be affected by the bias of the researcher and participants.

4.4 Research Strategy

The next step is to determine the most appropriate strategy to implement. Research strategies are general plans to answer the research question and Saunders et al (2003:92) identify a number of strategies including grounded theory, action research, case studies, surveys, and longitudinal, exploratory, descriptive and explanatory studies. Robson (2002) advises that within any individual study different strategies may be appropriate at different points in the research process and can help to reduce inappropriate uncertainty. In this exploratory study, the research was conducted in three different phases, each of which adopted a different research strategy. This approach enabled the researcher to start with broad issues and funnel down into more detailed elements of organisation and inter-organisational design. Figure 4.1 depicts the overall research design adopted. Each research phase, its purpose and the data collection methods employed are discussed below.

4.4.1 Phase One: Verifying the Extent of the Phenomena

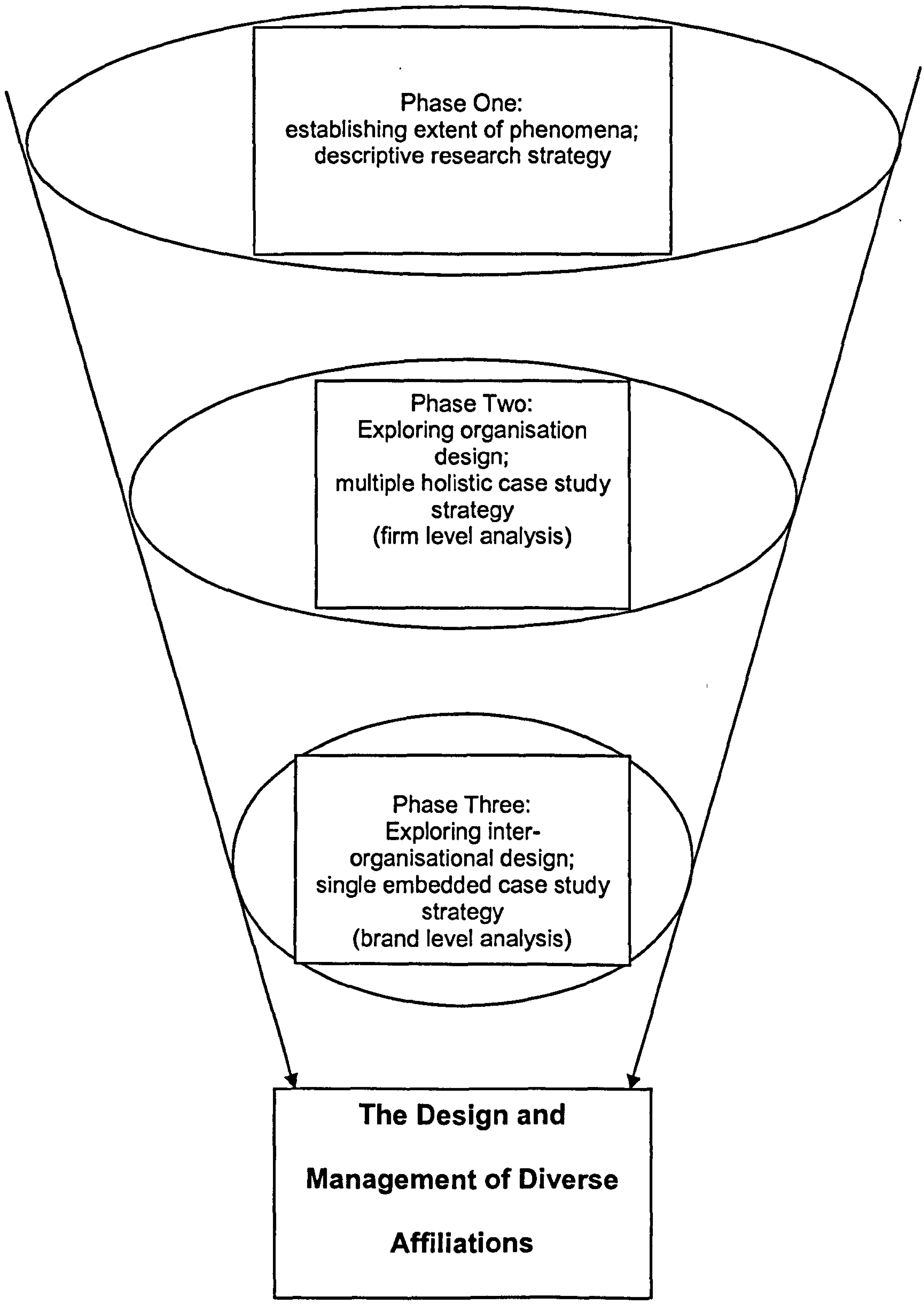
i) Purpose and Strategy

This phase of the research sought to assess the extent to which international hotel chains are diversely affiliated with their portfolio of hotels and verify the existence of the phenomena under study. Its purpose was to 'portray an accurate profile of persons, events or situations' and demonstrate the research was worth pursuing (Robson, 2002:59). This phase required the researcher to identify the key industry players, the size of their portfolio, and the different types of market entry methods used across their international portfolios. As such, a descriptive research strategy that enables that researcher to build a composite profile of international hotel chains that are diversely affiliated with their portfolio is considered 'fit' for this purpose (Wood, 1999).

ii) Data Collection

Yin (1994) argues that data are the sources of evidence the researcher will use to support answers given to the research question. During this phase of the study, only secondary data was used. Clark et al (1998:109) define secondary data as

Figure 4.1 The Research Design



'that which has been collected, collated and analysed by others.' While this data can be either quantitative or qualitative, the potential for secondary analysis of qualitative data is increasingly being realised (Blaxter et al, 2001). Litteljohn and Roper (1999) highlight the value of conducting research from the outside in organisational studies. The authors suggest that there is a wealth of information produced by commercial organisations, by the public sector and by trade or professional associations suitable for this purpose.

However, a number of authors (Bryman, 1992; Litteljohn and Roper, 1999; Marshall and Rossman, 1999) warn that researchers must be vigilant to the reliability and validity of secondary data. Marshall and Rossman (1999) further caution that the researcher must be resourceful, systematic and honest when utilising secondary data collection methods. They also advise that the data is open to multiple interpretations. Heeding this advice, desk research was undertaken to collect and corroborate secondary data from a wide range of sources including company Internet sites, company annual and interim accounts and reports, articles in trade magazines, press and hospitality analyst reports and corporate property guides. In addition, two commercial databases, Hoovers Online and Hospitality Browser were purchased to supplement the data available in the public domain.

Beginning with the definitive list of the 'Corporate 300' (Dela Cruz and Wolchuk, 2000), the largest industry players were first identified. Using data from the different secondary sources, a composite profile for each hotel chain was created comprising the country of headquarters, ownership, the number of countries of operation, the number of hotels, hotel rooms and brands in the portfolio and the different market entry strategies used. Many of the data sources provided incomplete information and this process proved to be quite time-consuming. However, the multiple data sources used enabled the research to triangulate evidence and over the course of six months a profile was completed for 35 international hotel chains. Of the original 300 chains, it was not possible to find sufficient information published on 159 of them through the research strategy employed. Interestingly enough, 103 of these (65%) were American. Of the 141 hotel chains remaining, those that only utilised one type of business format and operated in less than five countries were eliminated. Five countries were chosen as the cut off point as this was the minimal number of countries of operation in Todd and Mather's (1999) publication of global hotel brands. What remained was a list of 35 international hotel chains that operate in at least five countries and utilise more than one type of business format.

4.4.2 Phase Two: Exploring Organisation Design

i) Purpose and Strategy

This phase sought to explore organisation designs in international hotel firms and the key issues in their management using a case study strategy. Various authors describe a case study alternatively as a strategy (Eisenhardt, 1989; Hartley, 1994; Robson, 2002), a research approach (Blaxter et al, 2001), or a research method (Smith, 1991). However, Yin (2003), one of the foremost experts on case study research, argues it is a research strategy as it deals with the logic of design incorporating specific approaches to data collection and analysis.

Mitchell (1983) argues that a case can be defined simply as the documentation of a particular phenomenon. Brotherton's (1999:119) comprehensive review of the literature suggests it is 'a discrete, bounded entity within which the phenomenon and context are inseparable facets of the study'. However, Guercini (2004:464) distinguishes between the concept of a case study, which is the actual product achieved, and case analysis, which pertains to the research process. This distinction is consistent with the concept of a case study as a research strategy that encapsulates both data collection and analysis. Yin (1994: 13) suggests that a more appropriate definition would be,

> 'an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.'

This definition not only reflects both elements of a research strategy, but also indicates when it might be an appropriate strategy to adopt.

Case Study Classifications

There are a number of case study strategies identified in the literature. When used for research purposes, Yin (1994) contends that case studies can be exploratory, descriptive, or explanatory. Exploratory studies are designed to tackle new problems or issues (Phillips and Pugh, 1994). They seek to shed new light on 'little understood phenomena' and answer 'what' questions (Yin, 1994). Marshall and Rossman (1999) suggest that they can also identify salient themes, patterns, or categories of meaning for participants.

Descriptive case studies, on the other hand, try to establish a factual 'picture of the object of study' and are 'essentially informational in character' (Clark et al, 1998:9). According to Marshall and Rossman (1999:33) they document phenomena and can help identify 'salient actions, events, beliefs, attitudes, and social structures and processes occurring in [the] phenomenon'. The authors further suggest that many qualitative studies are descriptive and exploratory as they build rich descriptions of complex circumstances that are unexplored in the literature.

Finally, explanatory case studies attempt to explain the patterns of observed behaviour usually by establishing a causal relationship between concepts and phenomena (Clark et al, 1998; Veal, 1997) and are therefore not appropriate for this study.

In addition to these classifications, Yin (2003) identifies four distinct types of case study based on the criteria of number of cases and unit of analysis; the single holistic case, the single embedded case, the multiple holistic case, and the multiple embedded case. Determining which type of case study is appropriate requires the researcher to bound the collection of data or define the sample, as well as bound the territory or define the case (Miles and Huberman, 1994).

Multiple case studies are often considered to be more robust studies as the evidence produced is considered to be more generalisable (Wisker, 2001). However, they are not without their disadvantages, particularly when studying a little explored phenomenon. In multiple case studies the underlying logic is based upon replication. According to Yin (2003:47) each case must therefore be selected so that it either predicts similar results (literal replication) or contrasting results (theoretical replication). A key step in this process is to develop a rich theoretical framework that states conditions under which the phenomenon is to be found. This framework then becomes the vehicle for generalising to new cases.

Case studies are also classified as to whether they are holistic or embedded. A holistic case study is one that 'effectively conceptualises the case and the unit of analysis as the same entity' (Brotherton, 1999:121). By contrast, Rowley (2002) reports that embedded case study designs identify a number of subunits, each of which is explored individually. Yin (2003) advises the difference between these two is dependent on whether there is more than one unit of analysis within the case. Bounding the territory or defining the case requires the researcher to clearly determine the unit of analysis, although this is not always easy to do (Rowley, 2002). Miles and Huberman (1994) report that researchers often struggle to determine what their case actually is. They argue that any case has a heart as well as vague or indeterminate boundaries that define the edges of a case. By defining the unit of analysis, or bounding the territory, the researcher determines what will and what will not be studied. Yin (1994) argues that the unit of analysis must be related to the initial research question. It is important, therefore, to identify the unit of analysis to determine whether a holistic or embedded approach is more suitable.

a) Adopting a case study strategy

Case studies have been widely used across different research communities (Yin, 1994) and in particular within management and organisational studies (Bryman, 2001). One of the reasons for this adoption is proffered by Yin (1994) who claims that case studies can offer a unique contribution to our knowledge of organisational phenomenon. Case studies have the capacity to explore social processes as they unfold in organisations and allow the researcher to understand these processes in their organisational context (Finn et al, 2000) and from different perspectives (Kerssens-van Drongelen, 2001). As the data is drawn from people's experiences and practices within organisations, Blaxter et al (2002) argue they are seen to be strong in reality. Yin (1994:3) argues that a case study strategy 'allows an investigation to retain the holistic and meaningful characteristics of real-life events, such as organisational and managerial processes'. Rowley (2002:25) purports that it is the 'multi-facetted perspective' of case studies that is responsible for the rich data that is generated.

There is ample evidence to support the justification of a case study strategy for this phase of the research. Firstly, case studies are frequently associated with qualitative research designs that are exploratory and inductive in nature (Brotherton, 1999; Kerssens-van Drongelen, 2001). Yin (1994) also suggests that this strategy has a distinct advantage when:

- the research attempts to answer 'how' or 'why' questions,
- when behavioural events cannot be manipulated and
- the focus of the research is on contemporary events over which the investigator has little or no control.

Hartley (1994) adds to this argument and reports a case study strategy is appropriate when:

- satisfactory answers to questions are contingent upon developing an understanding of the context,
- the phenomenon is new or little understood,
- the intention is to explore a typical incidence of the phenomena and/or its emergent properties and
- the dynamics of the phenomena need to be incorporated.

In line with the purpose of this phase of the research, a case study is a suitable research strategy to adopt. Guercini (2004:466) argues a case is 'an important tool to pinpoint aspects concerning the evolution of corporate processes which are otherwise difficult to grasp in their entire complexity'. Furthermore, the researcher cannot manipulate organisational players, their chain affiliations, their managers, or behavioural events. The suitability of case study strategies to investigate organisation design is also supported through several notable studies (Bartlett and Ghoshal, 1993; Malnight, 1995, 2001; Golden and Powell, 1999; Kidger, 2002).

In order to increase the generalisability of the study, a multiple case study strategy was adopted for this phase. Given the complex nature of international hotel chains, the unit of analysis at this stage was a hotel firm. In order to ensure comparability across the research findings, the international hotel firm is defined as a discrete organisational entity with responsibility for developing, operating and supporting single or multiple branded portfolios. This definition enables the territory of the case to be bounded within the boundaries of a single organisation. For example, when franchising is employed, this definition includes the corporate and regional support for franchised properties within the hotel firm, but not the units where direct operational control is undertaken by the franchisee. Where the hotel firm is part of a larger diversified conglomerate, the discrete entity is defined as the hotel division.

Using these definitions, a multiple but holistic case study strategy was employed drawing from the list of hotel chains identified in phase one. However, as this research sought to investigate firms that use multiple affiliations, only those firms that employed at least three different market entry methods were considered for selection. As such, it reflects a purposive sampling approach, considered appropriate for this type of research (Shaw, 1999; Hill, McGowan and Drummond, 1999; Hill and Wright, 2001; O'Donnell, 2004; Alam, 2005). According to Shaw (1999:63) the power of purposive sampling lies in the selection of cases rich in information about the research problem.

Given the exploratory nature of this study, it was deemed important to gather data across as large a sample as possible. However, determining the appropriate number of cases is recognised as a difficult task (Yin, 1994). The desire for a comprehensive approach has to be considered in relation to the financial and time considerations of the researcher, and the danger of being overwhelmed by the amount of secondary and primary data collected. The sample at this phase comprised six hotel firms and this size is within the recommended range for multiple case studies (Miles and Huberman, 1994; Eisenhardt, 1989; Shaw, 1999; Batonda and Perry, 2001). However, as the following section indicates, there are a number of limitations to case study research that must be addressed.

b) Limitations of case study research

Despite their potential, case study research strategies are not without critics. Perry (1998:785) reports on the argument that one way to rectify the 'mindless empiricism of many doctoral dissertations would be to simply eliminate case study dissertations'. While this might be an extreme view, five main criticisms or limitations of case study research are reported in the literature as researcher bias, generalisability, lack of rigour or reliability, validity and difficulty.

The lack of objectivity of researchers is a recurring argument put forth by critics who insist that researcher bias may influence the direction of findings and the conclusions drawn (Bryman, 1992; Patten and Appelbaum, 2003; Guercini, 2004). However, the phenomenological paradigm reflects the belief that research is rarely value free and there are a number of ways to reduce bias. For example, multiple sources of evidence can be used to encourage convergent lines of enquiry (Yin, 1994). Researchers are also advised to look for negative instances in the data and to check for possible alternative explanations during the analysis stage (Yin, 1994; Stake, 1995; Marshall and Rossman, 1999). Both of these approaches were adopted in this study to reduce bias.

The lack of generalisability in case study research is perhaps one of the biggest criticisms (Hamel et al, 1993; Yin, 1994; Stake, 1995; Patten and Appelbaum, 2003). However, Bryman (1992:173) notes that 'the aim is not to infer findings from a sample to a population, but to engender patterns and linkages of theoretical importance'. Finn et al (2001) support this notion and suggest that the aim of a case study is to understand particular and unique features of the case as well as to draw out analysis that has a wider applicability. Yin (1994) argues that this can be achieved through analytical, rather than statistical generalisation. Analytical generalisation is achieved through the comparison of empirical results to previously developed theory, as theory is built during the case study and not in advance (Kerssens-van Drongelen, 2001). Hartley (1994) argues that the researcher should also be able to untangle case-specific conditions from those of a more generic nature where the phenomenon will be theoretically expected to occur in the same way. In addition, Patten and Appelbaum (2003) report that the generalisability of the case study is determined by the strength of the description of the context.

Lack of rigour in case study strategy is another noted criticism (Yin, 1994; Rowley, 2002; Patten and Appelbaum, 2003) that relates to the reliability of the research and whether subsequent studies would arrive at the same findings and conclusions (Yin, 2003). This limitation however, is easy to overcome through the use of a case study protocol to guide data collection (Yin, 1994; Perry, 1998; De Weerd-Nederhof, 2001; Rowley, 2002; Alam, 2005). Alam (2005) advises that protocols consist of details of informants, interview schedules, ethical considerations and research instruments. Yin (1994) also argues that making the steps as operational as possible is a good way to deal with the problem of reliability. He advises on creating a chain of evidence so that the reader can follow from research question to the conclusions drawn. Patten and Appelbaum (2003:66) recommend that reliability can be increased by[13],

> 'analysing data in different spaces, at different times and in different contexts; ...and using different data sources to study the same object...all serve to attain triangulation and increase confidence in conclusions.'

Reige (2003) claims that critics are also concerned with the validity of case study research which addresses the issue of whether what is measured is actually what the researcher intends to measure. Reige (2003) contends that few scientific techniques have been developed to test validity and reliability in qualitative case studies in particular. Drawing on the works of Eisenhardt (1989), Miles and Huberman (1994), Yin (1994) and Marshall and Rossman (1999), he identifies a number of techniques to increase construct, internal and external validity as well as reliability.

Yin (1994) defines construct validity as the establishment of appropriate operational measures, internal validity as the establishment of causal relationships and external validity as establishing the domain to which a study's findings can be generalised. Yin (1994) advises however, that internal validity is only relevant for explanatory case studies, and not for descriptive or exploratory ones. Reige (2003) proposes various techniques that are appropriate to achieve validity and reliability in case study research. For example, multiple sources of data and chains of evidence can increase construct validity and in qualitative studies these sources of evidence can be triangulated. This technique is 'the act of bringing more than one source of data to bear on a single point' (Marshall and Rossman, 1999:94) and is discussed in further detail below. External validity can be increased by comparing

[13] Appelbaum (2003) also suggests using different researchers from different backgrounds during the analysis phase, but this approach is obviously not suitable for this study.

findings with the extant literature and reliability increased by the development of case study protocols and databases. Table 4.3 depicts the different techniques to overcome the limitations of case study research and the phase of the research in which they should occur.

The final limitation perceived with a case study strategy is its difficulty (Hartley, 1994; Kerssens-van Drongelen, 2001; Rowley, 2002). Hartley (1994) counsels that the researcher is often faced with an overwhelming amount of data to try to sort and analyse. As a result, it is a labour-intensive strategy and researchers have a tendency to be overly descriptive when writing up (Kerssens-van Drongelen, 2001). However, these final limitations can also be overcome through careful planning and the application of specific analytical techniques.

The preceding argument identifies that a case study research strategy can produce valuable organisational studies as long as the researcher builds measures into the research design to overcome potential limitations. This study adopted a number of measures as marked in Table 4.3, including the use of a case study protocol, multiple sources of evidence, triangulation, comparing evidence with extant literature and the creation of a case study database. Specified procedures were also followed through the data collection process as identified below.

ii) Data Collection

This phase of the research involved the collection of both primary and secondary data, a common practice in case study research. Blaxter et al (2001) argue that secondary data can complement primary data as it can help confirm, modify or contradict findings. Yin (1994) identifies three types of secondary data collection techniques available as document review, archival analysis and physical artefacts. While the latter technique is normally associated with ethnographic studies, the first two are appropriate for this study. Collecting documents from external sources such as journals, newspapers and Internet sites enabled the researcher to build a background to the case prior to primary data collection. Marshall and Rossman (1999) report that document review is useful for describing complex interactions, documenting major events and providing context information. It also serves to

Table 4.3 Techniques For Establishing Validity And Reliability In Case Study Research

Design Tests	Case Study Techniques	Qualitative Techniques	Phase of Research
Construct Validity	Multiple sources of evidence*	Confirmability audit	Data Collection
	Establish chain of evidence*		Data Collection
			Report Writing
	Key informant review of draft reports	Triangulation of sources and methods*	Data collection & analysis
Internal Validity	Within case analysis & cross-case pattern matching		Data Analysis
	Explanation building		Data Analysis
	Assure internal coherence of findings and concepts		Data Analysis
			Data Collection & Analysis
		Peer debriefing	Data Analysis
		Member checks	Report Writing
		Researcher's assumptions, worldview, orientation*	Research Design
External Validity	Replication logic in multiple case studies*	Predetermined questions	Research Design
	Define scope and boundaries of generalisation*		Research Design
	Compare evidence with extant literature*		Data Analysis
		Thick description*	Data Collection
		Triangulation of sources and methods	Data Analysis
		Cross-case analysis*	Data Analysis
		Specific procedures for coding and analysis*	Data Analysis
Reliability	Full account of theories and ideas*	Dependability audit	Research Design
	Congruence in research issues and study design*	Clarify researcher's theoretical position and bias*	Research Design
	Case study protocol*		Research Design
	Use multiple researchers		Data Collection
	Record concrete observations and actions*		Data Collection
	Develop case study database*		Data Collection
	Assure meaningful parallelism of findings across multiple data sources*		Data Collection
	Use peer review/examination		Data Analysis

Adapted from Reige, 2003:75-86.
* These methods have been applied in this research design.

inhibit researcher bias. Archival analysis, or internal data collection was also deemed suitable for this research. Yin (1994) categorises organisation charts within the domain of archival records. As one of the objectives of this research is to determine the formal structure of international hotel chains these records were considered essential to inform this study. The suitability of document review and archival analysis in case study research is supported by a number of studies (Bartlett and Ghoshal, 1993; Kanter, 1994; Malnight, 1995; Golden and Powell, 1999; Kidger, 2002). Secondary data collection is also deemed a good way of supplementing research interviews (Bryman, 1992; Marshall and Rossman, 1999) and as the following section explains, this was the primary data collection technique employed in this study.

Primary Data Collection

Interviews are well recognised as appropriate for social science research (Lucas, 1999; Wood, 1999) and in particular, organisational case studies (Bartlett and Ghoshal, 1993; Kanter, 1994; Malnight, 1995). Clark et al (1998:32) suggest the reason for this is because the interview 'is most useful when it gives insight into how individuals and groups think about their world.' Easterby-Smith et al (2002) add that they are appropriate when it is necessary to understand the constructs that the interviewee uses as a basis for opinions and beliefs to develop an understanding of the respondent's world. Interviews are therefore an appropriate data collection method to determine how international hotel chains are designed and in particular, to develop a clear understanding of the organisational processes used within these designs that may not be formally documented.

Marshall and Rossman (1999) identify a number of advantages of interviews including their flexibility, their ability to foster face-to-face interaction, provide contextual information, facilitate immediate follow-up for clarification, and their utility in describing complex interactions. Interviews are also purported to be useful for obtaining data on nonverbal behaviour that enable researchers to assess emotions, values and attitudes of informants (Clark et al, 1998; Marshall and Rossman, 1999).

However, there are also a number of limitations associated with interview techniques. For example, its inherent flexibility provides the opportunity for bias to seep into the research (Lucas, 1999; Wisker, 2001). Easterby-Smith et al (2002) counter argue that if the research is adopting a phenomenological approach there is no one objective point of view to be discovered that could be subject to bias. However, the authors do concede that the interviewer may inflict their own personal frame of reference on the interview, both when asking and interpreting questions. In order to overcome this limitation, a number of techniques were adopted as advised by the authors. For instance, open-ended questions were employed and when drawing out respondent answers either silent probes or the respondents own words were used. Lucas (1999) suggests that interviews are also time consuming and can be expensive. Other limitations of interviews are cited as the need for the researcher to gain cooperation of respondents who may have particular reasons for hiding the truth, the potential for volumes of data generated, and the difficulty in replication (Marshall and Rossman, 1999). However, as the preceding discussion has indicated, replication is not necessarily an issue in inductive research, but some degree of consistency to facilitate comparability is important and this was provided through the structure of the interview. Semi-structured interviews based on defined themes were used. Compared to structured interviews, these allow for a greater degree of flexibility to pursue emergent lines of enquiry (O'Donnell, 2004), yet they also provide a sufficient degree of structure to facilitate comparability of data (Marshall and Rossman, 1999).

Interviews conducted with senior or influential organisation members are termed key informant (Bryman, 1992) or elite (Marshall and Rossman, 1999) interviews. This practice is frequently used in organisational studies as it provides an economical approach to gaining 'global' data on an organisation (Bryman, 1992:49). Marshall and Rossman (1999) advise that while they may be more difficult to gain access to, key informants can provide a more holistic overview and thus are a valuable source of information. Key informant interviews were therefore adopted for this study in order to gain this holistic view of design, an approach supported by the studies of Malnight (1995 and 2001), Golden and Powell (1999) and Kidger (2002).

iii) Designing the Research Instrument

Even in inductive studies, it is advisable to use the literature to inform the research and build a conceptual framework for investigation (Marshall and Rossman, 1999) or a map of the territory to be investigated (Miles and Huberman, 1994). Perry (1998:788) recommends that 'starting from scratch with an absolutely clean theoretical slate is neither practical nor preferred'. This step enables the researcher to formulate a clear research question to better focus research efforts (Eisenhardt, 1989) and avoid data overload (Hartley, 1994:217). Determining which literature is relevant is aided by the clear definition of the unit of analysis (De Weerd-Nederhof, 2003). In this study, the initial review of the literature on international market entry, alliance and network management, and organisation design enabled the researcher to develop a number of research propositions. These propositions formed the starting point in the development of the research instrument, as did the identification of the dimensions of organisation and inter-organisational design.

iv) Testing the Research Instrument

In order to test the validity of this instrument, a pilot study was conducted with one hotel firm, identified for this study as Firm A. This firm is affiliated with two of the hotel chains identified in phase one, through three different franchise agreements. Accessibility and geographical location were used to select this firm; an approach Yin (1994) suggests is acceptable for pilot studies. An interview was held with a key informant from the corporate level which lasted around one and one-half hours, was tape-recorded and transcribed. A copy of the raw transcript is included in Appendix A. Immediately following the interview a case study summary sheet was written to capture initial impressions, observations and reflections on relevant issues as advised by Miles and Huberman (1994) and Perry (1998). Prior to the interview, secondary data was gathered on the pilot firm through desk research. Company documentation including the organisation chart was requested at the time of the interview. After several follow up phone calls, these documents were received.

A profile of this pilot study firm was written up drawing on and triangulating secondary and primary data. This process enabled the researcher to test whether the data collection methods and the research instrument provided the necessary data to achieve sufficient understanding of 'how' international hotel chains are designed and thus the overall aim and objectives of the study. However, it also led to a refinement of the research instrument as identified in Appendix B. Using this refined research instrument, data collection for phase two of this study got underway.

v) Negotiating Access and Ethical Considerations

Access was negotiated to six firms from the hotel chains identified in phase one using a purposive sampling approach. Access refers to both formal permission from senior management to gather data, and more informal access to people and documents (Easterby-Smith et al, 2002). Marshall and Rossman (1999) suggest negotiating access is an iterative process and within the study the researcher had to undergo a good deal of negotiation with senior managers and their gatekeepers to undertake this study. An opportunistic approach using contacts within organisations was employed in this study, an approach advocated by Easterby-Smith et al (2002) and Robson (2002).

In order to facilitate access, a project summary was developed. This summary was designed for two main reasons; firstly to stimulate interest in the research study and secondly to address relevant ethical issues up front. To attract interest in the research, the summary sought to clearly explain the purpose of the research and its potential value to international hotel chains and to the individuals who participated. It therefore sought to establish an element of reciprocity (Easterby-Smith et al, 2002). It also set out to clearly explain the commitment required by individual informants so that they could determine the trade-off between their time and the potential value of the research. Finally, in order to reassure the participants and their organisations, it also aimed to establish the credibility of the researcher to enhance the perceived value of the research. The summary sheet was provided to the initial contacts within the case study organisations and then provided to each key informant in advance of the interview. In some instances, it was also sent to gatekeepers of the informants. If further information about the nature of the research interview was requested, the prospective participants were sent a copy of the indicative themes for discussion drawn from the research instrument.

The project summary also proved useful in addressing a number of ethical concerns in organisational studies. Veal (1997) reports that ethics address issues of the rights of individuals and the reporting of results. Robson (2002:65) advises more simply that ethics refers 'to rules of conduct'. The summary used in this research sought to address both of these issues. It requested individuals to participate in the study and advised their identity and that of their organisation would be kept confidential, as recommended by de Weerd-Nederhof (2001). While ownership of the data collected is another ethical issue for consideration, the summary sheet did not specifically address this issue and nor was it raised subsequently by any informants or made a condition of access. However, a number of steps were undertaken subsequent to data collection in line with ethical practice and these are discussed below. A copy of the project summary can be found in Appendix C.

v) Conducting the Interviews

Using this research instrument, semi-structured interviews were held with a key informant from each of the six cases. The interviews were held with corporate level informants in the home country of each firm. The one exception is Firm D where the informant had regional responsibility. Each interview lasted approximately one and one half to two hours (eleven hours in total) and was tape-recorded for accuracy. As familiar surroundings are conducive to relaxed and open discussions (Hill et al, 1999), interviews were conducted in the informants' office. Table 4.4 contains a list of the interviews conducted, the sample firms, their key characteristics and the position occupied by the key informant.

During the interviews, care was taken to follow the procedures identified above to avoid introducing bias. Each interviewee was offered the completed transcripts for validation; however, none of the informants were willing to undertake this process. In one instance an informant contacted the researcher following the interview and

Table 4.4 Research Interviews in Phase Two

Hotel Firm	Characteristics	Key Informant
Firm A (pilot)	UK plc that is affiliated with two firms identified in phase one	IA: Director of Marketing
Firm B	European operator of 5 global brands; part of a larger, multi-division plc	IB: Vice President Strategy and Development
Firm C	North American operator of 5 brands; part of a larger, multi-division privately-owned company	IC: Vice President Human Resources
Firm D	North American plc that operates 2 brands, one in the home country and one internationally	ID: Regional Director Operations
Firm E	Asia Pacific plc that operates 2 hotel brands	IE: Chief Operating Officer
Firm F	North American plc that operates 2 hotel brands	IF: Vice President Operations
Firm G	European operator of 2 brands; part of a larger, multi-division plc	IG: Vice President Distribution Services

this was to double-check the anonymity of responses. When offered a copy of the transcript again, it was once more declined. The reason given by most informants was that they were confident that the tape-recording process would ensure accuracy. However, the researcher suspects in reality, it was the reluctance to commit further time to this project. Repeated efforts were made to ensure that transcripts were recorded accurately and the primary data was triangulated with secondary data to overcome this potential limitation. Immediately following each interview, a case summary overview sheet was written to record observations about the interview. An example is included in Appendix D.

vi) Triangulating the Evidence

The concept of triangulation was introduced previously in this chapter. Yin (1994) argues that the value of triangulation is in corroboration, elaboration and illumination of data and possible interpretations of that data. As such, it increases the validity of the findings (Clark et al, 1998; Reige, 2003). As access was granted to only one informant from each of these firms, other data sources were considered essential for triangulation purposes. Brotherton (1999) suggests that a research study can be likened to a jigsaw puzzle where the use of multiple data sources ensures the researcher can complete the full puzzle and see the whole picture. Nonetheless, Clark et al (1998) caution that the generation of a greater range of data can also lead to a loss of focus by the researcher. Marshall and Rossman (1999) therefore recommend that research considerations at this stage should include practicality, efficiency and feasibility. Rowley (2003) advises however, that in case study research the actual data or evidence to be gathered is defined as it is collected.

As with the pilot study, documents were collected from external sources prior and subsequent to the interviews taking place. These documents included corporate press releases, annual and interim accounts and reports, hospitality analyst and investor reports and academic and trade journal articles. This secondary data served to enable to the researcher to update the profile developed during phase one as well as provide insight into the development and growth of the firm, recent design changes and organisational practices. During the interview internal company documents, including the organisation chart, employee magazines, company newsletters and brochures, internal memos, job descriptions, brand standards and operating procedures were requested. These documents served to provide detailed insight into the organisational processes of the different firms and to corroborate informant responses. For instance, organisation charts identified the degree of complexity and differentiation within the firms and the reporting lines between the different layers. Brand and operating standards and job descriptions revealed the extent to which formalisation was used within the firms to retain centralised control. A list of external and internal documents collected is included in Table 4.5. While not all of the documents listed in the table were available for all firms, at least eight types of documentation were collected for each case, including the organisation chart. All documents obtained, the tape recordings and their transcripts were stored securely in a case study database for ethical reasons.

Summary of Phase Two

As only a single interview was conducted within each firm at this stage, it could be argued that these cases were rather limited. However, they do constitute a case according to the definitions provided earlier in this chapter. In addition, care was taken to triangulate the data. This strategy yielded a number of key findings and these are reported in detail in the following chapter. However it is important to note at this point that the diversity in organisation structures and processes employed for different brands within the portfolios of the sample firms clearly indicated the complexity of organisational design within international hotel chains.

Table 4.5 Secondary Document Collection

Data Source	Type of Document
Internal	Brand Standards
Internal	Brand Operating Procedures
Internal	Company Newsletters
Internal	Corporate Brochures and Directories
Internal	Employee Magazines
Internal	Organisation Charts
Internal	Job Descriptions
Internal	Memos
Internal/external*	Annual Accounts and Reports
Internal/external*	Interim Accounts and Reports
Internal/external*	Corporate Press Releases
Internal/external*	Corporate Web Site
External	Analyst Reports
External	Investor Reports
External	Articles Trade Magazines
External	Articles Academic Journals

Internal/external*: this data is published by the company but was accessed through external sources.

In order to develop a clearer understanding of design issues, the unit of analysis was redefined for phase three of the research.

4.4.3 Phase Three: Investigating Inter-Organisational Design

i) Purpose and Strategy

The final phase of the research sought to explore designs across organisational boundaries. A case study strategy was again deemed the most appropriate, however this phase employed an in-depth embedded case study. Yin (2003) purports that single case studies are appropriate for typical or representative case studies and for revelatory case studies where the phenomenon has not been observed before. The case adopted for this phase is one international hotel brand operated by Firm C. Phase two of this study identified this to be a typical case of a diversely affiliated hotel firm. Firm C wholly owns this brand and individual hotels are operated through ownership, management agreements, strategic alliances and different types of franchise agreements that provide various levels of support. A brand was adopted as the unit of analysis as the territory bound within the case included the owner of the hotel brand and its affiliated partners. In this way, inter-organisational designs could be explored. In addition, this approach enabled multiple perspectives on design and management to be gathered in order to increase the validity of the findings. The territory bounded for this case study therefore is Brand C1 and its hotels. Within this territory are two affiliated firms that have operated hotels under franchise agreements with the owner of the brand for over ten years. This case also allowed for further research into the design issues identified in phase two. The case represents an exploratory single embedded case study (Yin, 2003) as there are two dyadic agreements explored between the Brand Owner and each affiliated firm.

ii) Primary Data Collection

Using the project summary sheet further access was negotiated to key informants within the three affiliated firms. Multiple interviews were held in each firm to provide cross-checking opportunities and increase the accuracy of the findings (Bryman, 1992). Ten interviews were conducted over a period of three years with respondents in three continents and four different countries of operation, totalling approximately fifteen hours. These interviews are in addition to that conducted with Firm C in phase two of the research. While seven of the interviews were conducted in person following the processes employed in phase two, three were conducted by telephone. Two instances were as a result of the key informants being called away at the last minute, despite the researcher having flown to the corporate headquarters. The third telephone interview was planned. Given the distance and expense involved, it was not considered feasible to travel to one regional division of the Brand Owner. While there are limitations associated with telephone interviews, Bryman (1992) reports on their feasibility. Lucas (1999:80) argues that telephone research may increase respondents' feelings of relative anonymity and this reduced intimacy may make it easier to elicit sensitive information. However, many researchers recognise that telephone interviewing does not allow the researcher to pick up on nonverbal clues, although Clark et al (1998:132) suggest that the loss of non-verbal clues gained through direct observation can be overcome by listening to the 'silences' and a 'paralanguage of humphs and grunts'.

All individual respondents identified were working within the corporate level of their respective firms with different responsibility for brand development. While one of the informants was at the regional level, this region is operated under a joint venture agreement and the informant works within the corporate level of the firm created to run the joint venture. While this agreement potentially creates a third dyadic relationship for exploration, insufficient data was obtained about this particular agreement to include within the findings. In each of the three firms included in this study, at least two respondents had been involved in the original development of the affiliation between the firms thereby providing longitudinal perspectives that are considered important in alliance research (Buono, 1997; Arino et al, 1998; Ahuja, 2000; Perks and Halliday, 2003; Wagner, 2003; Lavie, 2004). For each of the affiliated firms, two interviews were held within a relatively short space of time and one further interview conducted some time later. This process enabled the researcher to look for gaps in the data collected and to identify issues that needed further clarification. It also enabled the researcher to overcome potential limitations on verifying the data experienced in phase two by providing an additional cross checking opportunity. The interviews were tape recorded and transcribed following the same procedures as the previous phase. In addition, a case summary sheet was written immediately following each interview. Care was taken to follow the case study protocol to facilitate comparability, increase accuracy and address ethical issues. However, further refinement of the research instrument was required at this phase as indicated in Appendix E. The details of the interviews conducted are included in Table 4.6.

Table 4.6 Research Interviews in Phase Three

Hotel Firm	Characteristics	Key Informants (Labelled in order undertaken)
Brand Owner (Firm C).	North American owner of international brand that uses diverse market entry methods	• IBO1: Executive Vice President Development • IBO2: Vice President of Marketing • IBO3: Executive Director Operations (one geographic subsidiary run as a joint venture) • IBO4: CEO of Brand
Affiliate A	European Owner of domestic brand that operates its portfolio under a franchise agreement with the Brand Owner	• IAffA1: Director of Marketing and Sales • IAffA2: Director of Marketing • IAffA3: Commercial Development Director
Affiliate B	European Owner of international brands that operates one brand under a franchise agreement with the Brand Owner but also uses diverse market entry methods within its portfolio	• IAffB1: Director of Marketing • IAffB2: Director of Development • IAffB3: Chief Financial Officer

iii) Secondary Data Collection

As with phase two, documents were collected from external sources prior and subsequent to the interviews taking place. Company documents, including the organisation chart, were requested during the interviews. This secondary data was used for triangulation purposes in the same manner as in phase two of the research The internal and external secondary sources used to triangulate the findings for this case study are listed in Table 4.5. For each partner firm, at least eight data sources were collected, including the organisation chart. All documents were stored together in a case study database (Yin, 1994; Eisenhardt, 1989) that remained restricted to the researcher according to the ethical procedures discussed above.

Summary of Phase Three

This final phase of the research sought to explore inter-organisational design through an in-depth, embedded and typical case study. In order to do this, it followed the protocol adopted in phase two. This phase also signified the end of the data collection. The following section explains how the data was analysed.

4.5 Data Analysis

Within qualitative research studies, data collection and data analysis frequently overlap (Mintzberg, 1979; Stake, 1995; Eisenhardt, 2001; Gibbs, 2004). Gibbs (2004:2) suggests that the process of qualitative data analysis is 'commonly iterative, recursive and dynamic' and as a result, researchers do not feel constrained to keep data analysis as a separate phase of the research. In this study there was considerable overlap between data collection and analysis and this was viewed as a way of continually refining the research and exploring issues that emerged.

Miles and Huberman (1994:16) identify 'three concurrent flows of activity' in data analysis as data reduction, data display and conclusion drawing. The authors explain that these steps help the reader to 'follow how a researcher got from 3600 pages of field notes to the final conclusions.' The steps undertaken for data analysis during phase two and three of this study are explained below according to these three activities.

4.5.1 Data Reduction

Miles and Huberman (1994) define data reduction as a process for selecting, focusing, simplifying, abstracting and transforming data. Brotherton (1999) advises that the first step involves scanning and initial coding of data for organisation purposes. Bryman (2004) notes that given the unstructured nature of qualitative data, a great deal of thought must go into the process of reduction.

In this study, the researcher first went through a process of familiarisation with the data generated (Altinay, 2001). For the primary data, this involved listening to audiotapes several times to understand their content. The transcripts were then read through repeatedly in order to start to establish key concepts contained within them. The secondary data was next examined to identify key concepts that matched those within the primary data. Rowley (2002) notes that good qualitative analysis makes use of all relevant evidence and this process was essential to triangulating the primary and secondary data.

The primary data, including interview transcripts and case study memos were then entered into NVivo, a computer assisted qualitative data analysis software (CAQDAS) programme. Bryman (2004) argues that CAQDAS facilitates the operation of the key steps involved in analysis. Gibbs (2004:11) presents a stronger argument that this software makes data analysis easier, more accurate, more reliable and more transparent. Lee and Esterhauizen (2000) suggest these programmes facilitate data management, enhance the researcher's grasp of the data and control tendencies towards superficiality. This software also facilitated the initial coding of the data. In the first instance, descriptive coding (Gibbs, 2002) was undertaken using the themes contained within the research instrument. The codes used at this stage therefore included:

- Informant background
- Organisation history
- Organisation culture
- Growth strategy
- Organisation structure
- Control
- Communication
- Decision Making

According to Bryman (2004: xix) this step helps the researcher to 'boil down and conceptualise' the data. A second stage of descriptive coding was then undertaken related to the different market entry methods employed by the sample firms using the following codes:

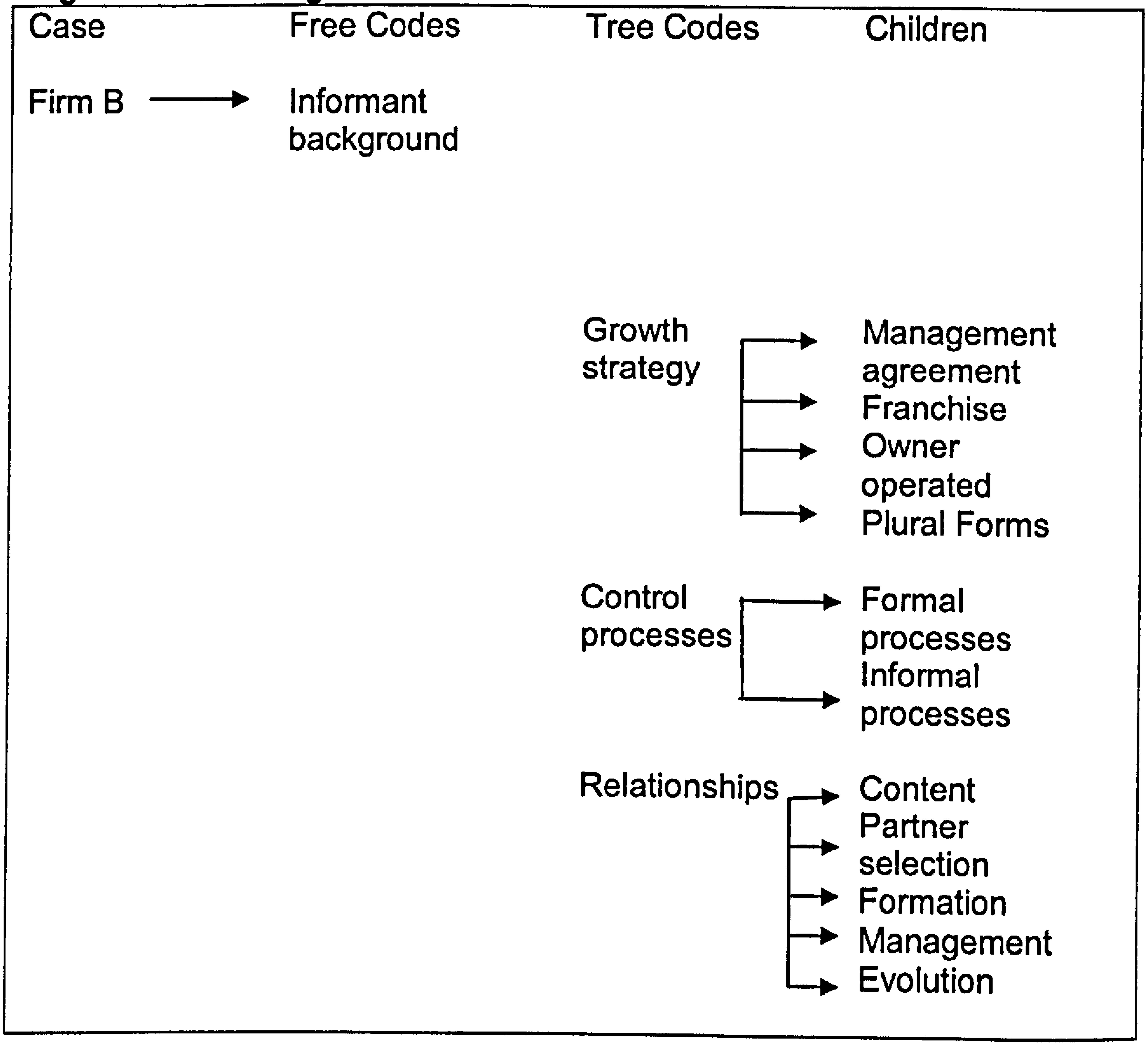
- Ownership
- Leasehold
- Management contracts
- Franchising
- Alliances
- Plural forms

This process enabled the researcher to compare and contrast the data generated through these different codes. In addition, for each data set a process of constant comparison (Gibbs, 2004) was undertaken, involving repeated reviews of the transcripts and the codes to ensure accuracy and consistency.

Using NVivo, all data coded under a particular construct heading is stored under a node. The data stored under each node was then further coded according to emergent concepts or themes. This represents interpretive coding (Gibbs, 2004) and can be undertaken using either the researcher's or the informant's views or a pre-existing theory or framework. For example, informants in phase three of the research frequently used the term 'relationship' and this became an interpretive code.

NVivo enables the researcher to create different types of nodes; case, freestanding and tree nodes. Case nodes refer to any data belonging to an individual case. In this study, each firm in phase two is treated as an individual case for the purpose of this analysis. In addition, in line with the unit of analysis of phase three, each dyadic inter-firm agreement is also a case. Free nodes are not linked in any way to any other nodes created, but can be traced to individual cases. For example, informant background is a free node that links to each hotel firm, but not necessarily to any other node. Tree nodes enable the researcher to identify themes that emerge within codes, creating a hierarchy of nodes that are interrelated. For instance, the codes for control, decision-making and communication were each broken down into nodes related to formal and informal processes. Informal control processes were then categorised as coordination. The interpretive code of relationships was subsequently broken down into a number of categories from partner selection to relationship management. In a similar manner, this round of coding enabled the researcher to break down nodes for the different market entry methods into sub nodes for structure, control, communication and decision-making. This process is referred to as In-Vivo coding (Gibbs, 2004). An example of how these coding relationships work is contained in Figure 4.2.

Figure 4.2 Coding with NVivo



Different colour codes were used to identify the different stages of analysis for the data sets. Each node had a full description to ensure consistency in the coding process and linked memos (Shaw, 1999) were created to record details on the coding process. An example of a memo is included in Appendix F. This coding process was repeated for all the different nodes until there were no further emergent themes. A similar coding process was also undertaken for secondary data collected. However, given the diverse nature of the documentation collected this was undertaken manually.

4.5.2 Data Display

Miles and Huberman (1994) define data display as the organised and compressed assembly of information. Using the coded data contained within the different free and tree nodes, documents were created within NVivo to start to record the findings. The data was therefore split in a number of different ways. In the first instance, the data was written up as a profile for each firm using the original codes in the research instrument and the emergent codes. This within-case analysis helps the researcher to gain familiarity with data and allows patterns to emerge before generalisation is undertaken (Eisenhardt, 1989; Rowley, 2002). An example of a case profile is included in Appendix G.

In the second instance, the data was written up for display according to the different market entry methods employed but according to the original codes. This process resulted in the creation of documents related to owned and leased hotels, hotels operated under management agreements and franchised hotels. Appendix H contains a sample of this data display. Both types of data display were used for comparative purposes, and a number of themes emerged through this process. This procedure enabled the researcher to cross check the findings from a number of different angles, check for negative cases and ensure that data was exhausted (Gibbs, 2004) in order to increase the reliability and validity of the findings. Rowley (2002:540) notes the cross case comparisons are important to reduce the dangers of leaping to conclusions, being overly influenced by some data or respondents, or inadvertently dropping disconfirming evidence. The author argues that the way to counteract these tendencies is to look at the data in divergent ways. The approach adopted in this study sought to 'go beyond initial impressions through structured and diverse lenses on the data to improve the likelihood of accurate and reliable theory' (Rowley, 2002:540). This process also enabled the researcher to reach a point of closure (Eisenhardt, 2000; Hartley, 1994; Yin, 1994). Eisenhardt (2000) reports that this is the stage when the iteration process stops, as the incremental improvement to the theory is minimal.

4.5.3 Conclusion Drawing

The final activity identified by Miles and Huberman (1994) concerns the induction of meaning from data and testing for validity. Patten and Appelbaum (2003:67) argue that creating links back to the literature is one way of determining the validity of the research so that conclusions can be drawn. There is much support in the literature for the use of this process (Eisenhardt, 1989; Perry, 1998). Eisenhardt (1989) further advises that both confirming and conflicting literature is important to raise theoretical levels. While the comparison with conflicting literature sharpens construct definition, the comparison with similar literature sharpens generalisability and improves construct definition. The final stage of the research design therefore sought to relate the themes that emerged from the research back to the extant literature so that conclusions could be drawn.

4.6 Chapter Summary

This chapter sought to explain and justify the research design adopted for this study. An inductive and qualitative approach to the study has been argued to be the most appropriate to provide a detailed picture of all the dimensions of organisational and inter-organisational design and achieve the research aim and objectives. This chapter also justified the need for different research phases in order to verify the extent of the phenomena and then to determine organisational and inter-organisational designs employed in diverse affiliations. The research process is summarised in Figure 4.3. The following chapter presents the findings from these different phases according to emergent themes. Chapter Six then relates these back to the extant literature before conclusions are drawn in the final chapter.

Figure 4.3 The Research Process

initial literature review conducted

↓

PHASE ONE: VERFICATION OF PHENOMONA
descriptive research strategy
identification of potential cases

↓

PHASE TWO: EXPLORING ORGANISATION DESIGN
development of research instrument
pilot study
in-depth interview with Firm A
secondary data collection (pre and post interview)
data input, coding and analysis
development of profile Firm A

↓

redevelopment of research instrument (appendix B)

↓

access negotiated to multiple cases
semi-structured interviews Firm B, C, D, E, F & G
secondary data collection (before, during and post interview)
data input, coding and analysis
development of firm profiles (Appendix G)
development of profiles by market entry (Appendix H)

↓

adaptation of research design to brand level

↓

PHASE THREE: EXPLORING INTER-ORGANISATIONAL DESIGN
main case study with three affiliated firms (single embedded case study)

↓

refinement of research interview (Appendix E)
access negotiated to key informants
semi-structured interviews (10 interviews with Brand Owner, Affiliate A & B)
secondary data collection (before, during and post interview)
data input, coding and analysis
data reduction and display
development of affiliate profiles (Appendix I & J)

↓

report research findings and relate to the extant literature

↓

draw conclusions

CHAPTER FIVE

5. RESEARCH FINDINGS

5.1 Introduction

This chapter reports on the findings from the three different research phases. It begins by presenting the findings generated from the secondary data collected for phase one. The findings from phase two and three that draw on both primary and secondary data are then presented according to emergent themes.

5.2 Phase One: The Extent of the Phenomenon

As previously identified, this phase of the research served to verify the extent of the phenomenon under study. The secondary data sources used enabled the researcher to identify 35 international hotel chains that operate in at least five countries and use more than one market entry method. These diversely affiliated hotel chains are representative of the largest industry players as identified through the Hotels Magazine annual research survey in 2000. In total, the hotel chains operate 5,176,528 rooms or 64% of the 'Corporate 300' (Dela Cruz and Wolchuk, 2000) global room stock between them. They comprise 42,130 hotels or 58% of the corporate hotel stock. Table 5.1 displays these international hotel chains and their operating characteristics.

As Table 5.1 indicates, the hotel chains are drawn from three main geographical regions; 17 from the EMEA (Europe, Middle East and Africa), 12 from the Americas, and 6 from the Asia Pacific. Ownership and management contracts are the most popular type of affiliation across the sample, followed by franchising and then by joint ventures and alliances. However, the data does not reveal how joint ventures are distinguished from alliance agreements within these chains and to what extent these business arrangements are between the chains listed in Table 5.1.

Table 5.1 Operating Characteristics of the Largest International Hotel Chains

Name	HQ	Owner ship	# Coun- tries	# Rooms	# Hotels	# Brands	Own Operate	Franchise	Mgmt Contract	Joint Venture	Alliance
Cendant	USA	plc	23	542630	6315	8		yes*			
Bass	UK	plc*	98	471680	2886	9	yes	yes*	yes	yes	yes
Marriott	USA	plc*	56	355900	1880	10	yes	yes*	yes	yes	
Accor	France	plc*	81	354652	3234	13	yes	yes	yes	yes	yes
Choice	USA	plc	36	338254	4248	8	yes	yes*			
Hilton C	USA	plc*	20	290000	1700	4	yes	yes	yes		yes
Starwood	USA	plc*	80	217651	716	5		yes	yes	yes	
Carlson	USA	private*	57	114161	616	8	yes	yes*	yes	yes	yes
Hyatt	USA	private*	35	85743	195	3		yes	yes		licensing
Wyndham	USA	plc	5	73215	303	3	yes	yes	yes		
Sol Melia	Spain	plc	27	69178	260	8		yes	yes		yes
Hilton Int	UK	plc*	53	61889	217	2	yes		yes		yes
Forte	UK	plc*	51	58636	449	6	yes		yes		
Millennium	UK	plc*	10	30247	117	3	yes	yes	yes		
Friendly	UK	Plc	11	23751	342	3	yes	yes*		yes	
Riu Hotels	Spain	plc*	10	23000	86	1	yes	yes	yes		
Scandic	Sweden	plc*	10	22470	133	1		yes	yes		
Shangri La	HK	plc*	10	19202	37	2	yes		yes	yes	
CP	Canada	plc*	5	18160	36	3	yes	yes	yes		
Nikko	Japan	plc*	18	17634	52	2	yes		yes	yes	
Barcelo	Spain	private*	11	16593	65	1	yes		yes		
Four Seasons	Canada	plc*	13	13744	47	2			yes	yes	yes
Dorint	Germany	private	8	13744	80	3	yes	yes		yes	yes
Occidental	Spain	private	9	13070	53	1	yes		yes		

Table 5.1 continued...

Name	HQ	Owner ship	# Coun tries	# Rooms	# Hotels	# Brands	Own Operate	Franchise	Mgmt Contract	Joint Venture	Alliance
Tryp Hotels	Spain	private	6	11789	64	3 sub	yes		yes	yes	
Husa	Spain	private*	6	11538	147	1+subs	yes	yes	yes		yes
Protea	S Africa	private*	7	8949	103	3	yes	yes	yes	yes	
Kempinski	Germany	plc*	10	7565	30	1			yes	yes	yes
Taj Group	India	plc*	9	7256	54	4	yes		yes	yes	
Jolly	Italy	plc*	5	6399	41	1	yes	yes	yes		yes
Park Plaza	USA	plc*	18	6122	41	2	yes	yes	yes		
Allegro	Dom Rep	private*	7	6000	26	4	yes		yes		
Dusit Thani	Thailand	plc*	5	5368	23	3	yes	yes	yes		
Oberoi	India	plc*	6	5362	28	2	yes		yes	yes	
Century Int	HK	plc*	6	5332	20	3			yes	yes	

As at year end, 2000.

Ownership* represents groups that are part of larger conglomerates with interests outside the hotel industry.

Franchise* represents groups that use both direct and direct investment franchising and corporate and master franchising. In some cases the groups are the franchisors, in some cases the franchisee and in others, both. Therefore these arrangements can technically reflect more than one distinct type of market entry as is the case with Cendant.

Table 5.1 reveals that all the chains from the USA use franchising. However, there are no clear geographical patterns depicted with other types of affiliation. Hotel chains from all geographical regions use ownership, management contracts, joint ventures and alliance agreements. What the findings do reveal however, is that those chains that utilise the most types of affiliations are also the most geographically diverse. For example, the three firms that use all five types of affiliation all operate in over 50 countries. Of the 35 chains listed, 27 employ at least three distinct market entry methods. Given the international market locations of the individual hotel units within the chains, these findings support the contingency perspective for modal choice decisions (Contractor and Kundu, 1998a; 1998b). Secondary data reinforces this finding. For example, the CEO of the hotel division of Firm C revealed as far back as 1995 that expansion was, 'not restricted by geographical boundaries, not limited by narrow strategies.' Company and investment reports reveal that Firm C continues to employ different entry modes for different brands in different regions to take advantage of opportunities available. Similarly, the CEO for Firm B reports in their 2000 Annual Review that 'in building brands we adopt different operating and ownership models as appropriate' and the CEO of Firm D reported in 2001 that its growth strategy would rely on diverse market entry modes.

Table 5.1 also reveals that the majority of the chains operate more than one brand. However, what is not clearly depicted in Table 5.1 is whether these brands are proprietal. For example, Choice Hotels of the USA owns eight different brands, but Friendly Hotels of the UK operates its entire portfolio under one of these Choice brands. Similarly, Scandic Hotels of Sweden operates some of its portfolio under another Choice brand label. Wyndham Hotels of the USA operates some of its portfolio under the Wyndham brand name but also manages some other properties for other hotels as different brands. While this provides evidence of chains of affiliation, it also means that some hotel stock may be double counted in this annual survey, as the authors themselves recognise. Until recently, the list compiled by Hotels Magazine has always included a separate category for hotel management companies to prevent this double counting. However, as more and more affiliations are formed between different hotel chains, this task of separating out different hotel firms and their portfolios becomes increasingly difficult. The current approach to ranking hotel chains is arguably far more reflective of the growing trend towards diverse affiliation and the use of inter-firm agreements within the industry. As Todd and Mather (1999:22) point out,

> 'the picture of consolidation, merger and acquisition has meant that the dividing lines of real estate hotel companies, management companies, and corporate chains either managing or franchising branded hotel properties have become ever more blurred.'

These findings clearly illustrate the complexity of many international hotel chains. The growing use of multiple methods of market entry, inter-firm alliances and the operation of both propriety and non-propriety brands demonstrates that traditional organisational boundaries between individual hotel chains are becoming harder to distinguish. These findings also indicate that international hotel chains provide a suitable context for the study of diverse affiliations. The potential complexity involved in designing and managing these chains is investigated in phase two of this study.

5.3 Phase Two: Designing International Hotel Firms

This phase sought to investigate the organisation design and management of international hotel chains but within the boundaries of individual firms. By focusing on the hotel firm as the unit of analysis, a clear line of distinction is drawn between different organisations involved in operating hotel portfolios. As many of the hotel chains identified in Table 5.1 are also part of larger, diversified conglomerates, the unit of analysis is defined as the hotel firm or hotel divisional level. This section begins with a brief introduction to the sample before presenting the findings according to three key themes that emerge from the data.

5.3.1 The Research Sample

The sample comprised six cases of international hotel firms from the list identified in Table 5.1. Using a purposive sampling approach the firms that were deemed suitable cases were those having at least three types of affiliations with their portfolio as identified in the research design. The operating characteristics of the case firms are displayed in Table 5.2. However, as Table 5.2 indicates, during the course of undertaking primary research, Firm F began to reduce the types of marketing entry methods it employed. 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, or the number of hotel rooms outside the home country. Organisation cultures (as described by informants) are also quite different yet all informants identify a link between the historical origins of their firm and the current organisation culture. Despite these differences, the analysis reveals three key themes associated with the design and management of these international hotel firms.

5.3.2 Key Themes in Designing International Hotel Firms

The three emergent themes comprise the changing nature of organisational designs, the reliance on traditional organisation designs, and the use of different designs within a firm's portfolio. Both primary and secondary data were used for triangulation purposes and within case and cross case analysis conducted to identify these themes. Where direct quotes are used for illustration, these are attributed to the relevant informant immediately following the quote using the coding scheme depicted in Table 4.4.

i) Theme 1: The Nature of Change in Organisational Designs

The data identifies that formal organisation structures of international hotel firms are subject to change. According to informants, structural adaptations are made in line with changes in international growth strategy. Two different adaptation patterns are depicted in this study and these reflect firm size and extent of internationalisation. The growth patterns of firms in early stages of internationalisation, such as Firm D and E, depict the first adaptation pattern. For these firms, structural changes amounted to an increase in international divisions and hierarchical positions to accommodate this growth. For example, the informant from Firm D reported that new management positions were recently created at corporate and country level for new international markets. This was corroborated through secondary data with the CEO of Firm D reporting,

Table 5.2 Operating Characteristics of Phase Two Firms

Characteristic	Firm B	Firm C	Firm D	Firm E	Firm F	Firm G
Background	Hotels established for over 60 years	Hotels established for over 40 years	Hotels established for over 100 years	Hotels established for over 20 years	Hotels established for over 40 years	Hotels established for 60 years
Ownership	Part of a publicly listed diversified conglomerate	Part of privately owned diversified conglomerate	Part of a publicly listed diversified conglomerate	Publicly listed hotel company with major shareholder privately owned diversified conglomerate	Publicly listed hotel company	Part of a publicly listed diversified conglomerate
Home Region	Europe	North America	North America	Asia	North America	Europe
Brands	5 brands	5 brands	2 brands	2 brands	1 core brand	2 brands
Market Level	Economy to upmarket	Mid to upmarket	Mid and upmarket	Upmarket and luxury	Luxury	Mid and upmarket
Size: hotels	3063	723	114	41	67	384
Size: Rooms	491,064	127,213	41,000	20,228	18,610	64,500
Extent of Internationalisation	100 countries of operation; different brands with different degrees of internationalisation	61 countries of operation; internationalisation began after developing home market	5 countries of operation; internationalisation only recent despite long history	12 countries of operation; limited to Asia Pacific region until recently	28 countries of operation; internationalised at early stage of development	70 countries of operation; internationalised at early stage of development
Market entry methods reported	Owner-operated, leasehold, franchising, management agreements	Owner-operated, franchising, master franchising, management agreements, joint ventures	Owner-operated, franchising, management agreements, partial equity investments through REIT	Ownership and management agreements with various levels of equity investment	Recently restricted to management agreements with various levels of equity investment	Owner-operator, leasehold and management agreements
Organisation Culture described as:	Formal and autocratic	Entrepreneurial; influenced by founding father	Centralised; no question as to who the boss is	Financially driven by owners	People oriented as founding father planned	Intensely international; cosmopolitan

As at year end, 2002.

> 'a new development structure that is intended to accelerate growth through future acquisitions, joint ventures and new development opportunities.'

Informants identified a number of factors that influence the creation of new international divisions including:

- the size or number of hotels in the geographical area,
- the level of competence of individuals responsible for the area,
- the economic climate in that region,
- desired or key target markets and
- the nature of ownership relationships.

The first two factors are fairly self-explanatory. Once a certain number of hotels are developed in a geographical area, a new division is created. The specific number of hotels however, is dependent upon the other factors listed above. New divisions may be created more quickly if there is difficulty finding individuals deemed competent to run the hotels. This second factor is also related to the market level of the brand. For instance, informants considered upmarket and luxury properties to be more complex to manage and require a greater degree of competence. Economic stability of different areas also impacts positively on the willingness of firms to invest further resources to create new divisions. In addition, when target markets are global customers, informants identify a greater urgency to create divisions with appropriate hierarchal levels to enhance degrees of control afforded to the corporate office. This desire is driven by the need to ensure brand consistency for these homogenous customers.

The nature of ownership relationships refers to the specific market entry methods employed. Informants suggested there is a preference for additional hierarchical layers of control in geographic regions with owned, leased and managed (OLM) properties. This preference is reported to be particularly important when corporate managers perceive the need to manage particularly difficult relationships with owners of hotels operated under management contract. One informant summed up this situation accordingly:

> 'You've got arguably different priorities where you've got an owner to look after, to cosy up to all the time or a wholly-owned hotel where you sort of get on with things.' (IG)

The second pattern of structural adaptation is somewhat different for firms with higher levels of internationalisation, either with predominantly single brand (Firm F) or mutlibranded portfolios (Firm B or C). Growth strategies for these firms reflect the desire to further increase the size of their portfolios as well as achieve growth through higher financial returns. Structural changes have been designed to drive greater economic growth through better economies of scale. With this adaptation pattern, firms have sought to consolidate divisions in order to share functional support across different brands (Firm B and C) or different geographic regions (Firm G). Corporate downsizing was also reported within these adaptation patterns, for example in the new management structure reported to be recently adopted by Firm G. These changes were often described as more radical than those in the first adaptation pattern and quite frequent in some firms. For example, in Firm B, both primary and secondary data identify the latest structural change to be 'the third in four years' (IB). Similarly, Firm C was reported to,

> '...constantly evaluate, re-evaluate, change to meet the needs and the strategy, which is designed to meet the needs of the customers. So 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.' (IC)

Structural changes to the case study firms therefore appear to be driven by organisational growth strategies and vary according to the stage of international development. In the early stages of internationalisation, they depict growth through additional divisions and hierarchical layers and in later stages, they reflect efforts to achieve a higher degree of integration. Despite these design adaptations, the data revealed a continued reliance on traditional design models.

ii) Theme 2: Reliance on Traditional Design Models

Three different organisation structures were used within the cases. Some firms employed a brand management structure with responsibilities further divided on a geographic basis whilst other firms used a geographic structure with responsibility further divided by brand or brand cluster. Only one firm was reported to use a third type of structure, a matrix structure, where different geographic subdivisions had dotted lines of reporting to different functional units at the corporate level.

Simplified versions of these structures drawn from the organisation charts collected are depicted in Figure 5.1. These structures are generally associated with traditional models of organisation design. The data also reveals that two key structural dimensions, centralisation and formalisation, feature prominently in these firms.

Centralisation and Underpinning Organisational Processes

Company organisation charts depict clearly defined organisational layers of authority and the reporting lines between them. While the exact number of organisational layers varied across the sample, the informants perceived these structures to be 'hierarchical' (IC), 'highly centralised' (ID), and even 'bureaucratic' (IB). Two main reasons were reported for using these types of structures. For one firm it was perceived as a type of motivational tool to enable employees to accelerate through the organisation. It was suggested that,

> 'there is a lot of perceived value at the bottom where someone can go from being a Receptionist to a Senior Receptionist to whatever they would go to next. In this society there is quite a lot of value in a title.' (IE)

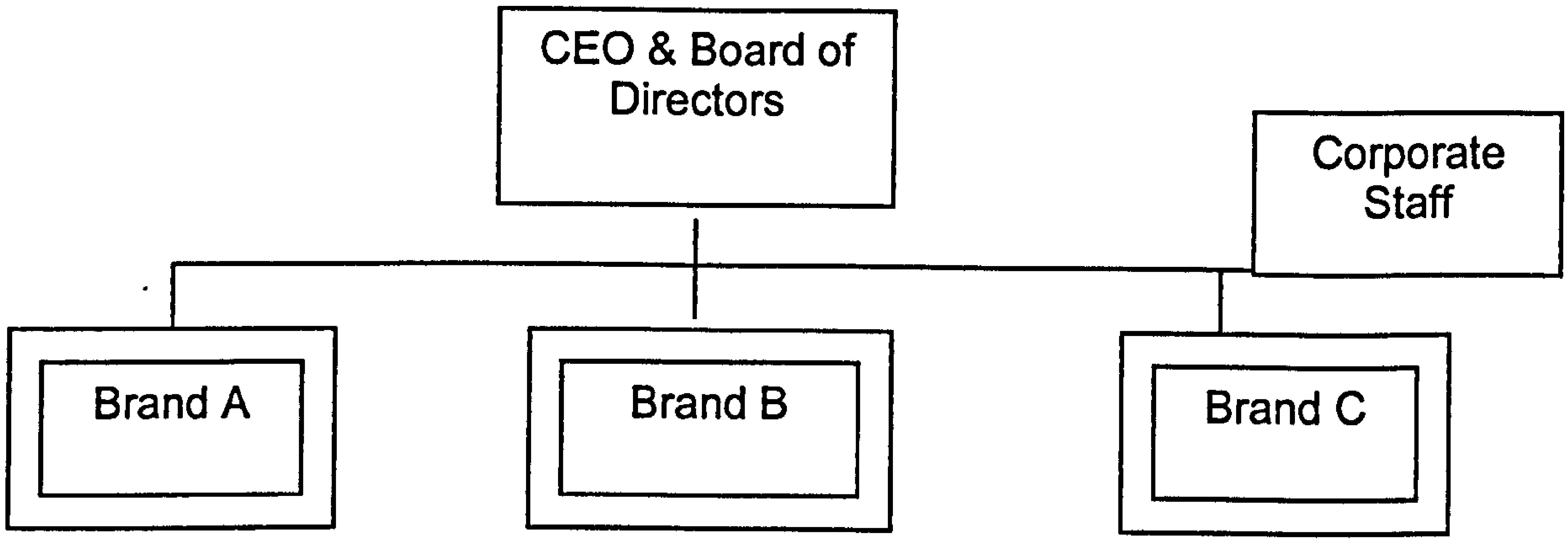
The other key reason for using a centralised structure however appears to be related to retaining control. The evidence of this is predominantly found in the decision-making procedures reported by informants. It was suggested that much decision-making power remains at the corporate level, even if 'much of the legwork' (IG) or the 'crunching of numbers' (IF) is undertaken at regional levels. While these decision-making processes were reported to frequently create a 'bottleneck' (IB) at the corporate level and slow down the decision-making process, these were perceived necessary to retain organisational control.

However, it was recognised that there needed to be a trade off between financial gains and customer satisfaction. One informant summed this up by suggesting,

> 'the key factors to try and consider is the degree to which centralisation creates financial benefits versus the impact that it could have in terms of customer requirements.' (IG)

Figure 5.1 Organisation Structures in Phase Two Firms

1) Brand Structure Adopted by Firms B, C, D



2) Geographic Structure Adopted by Firms E, G

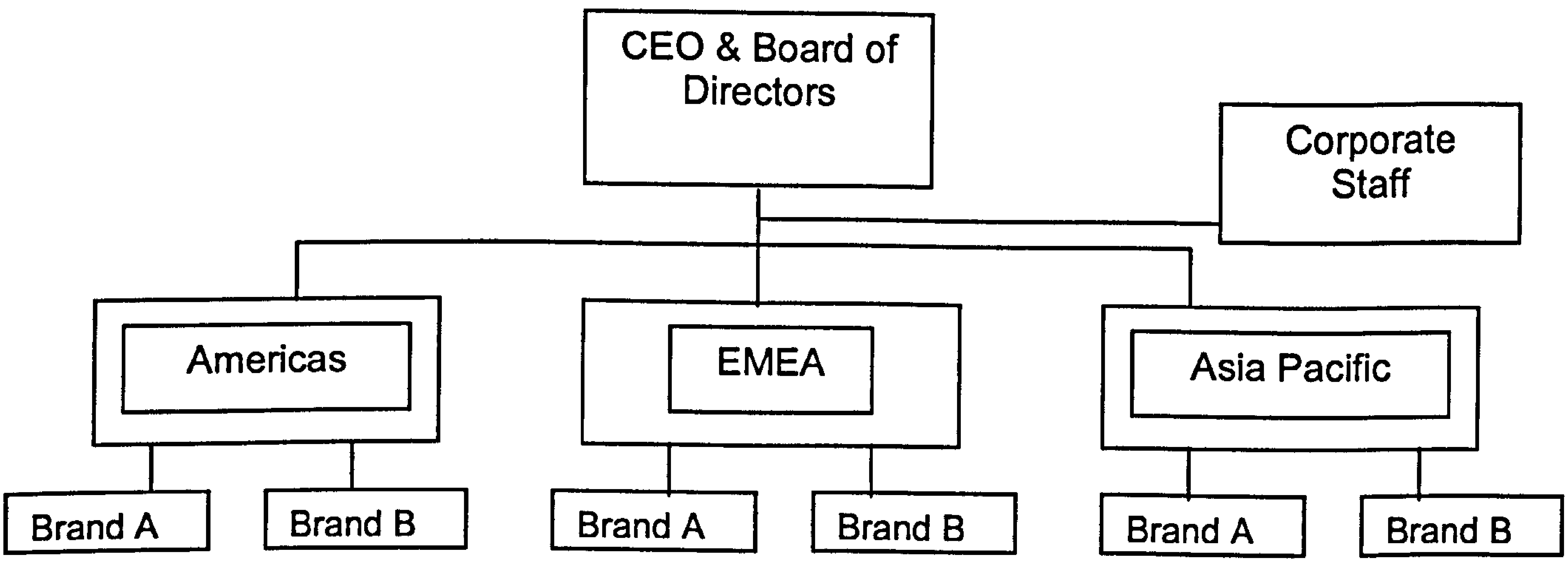
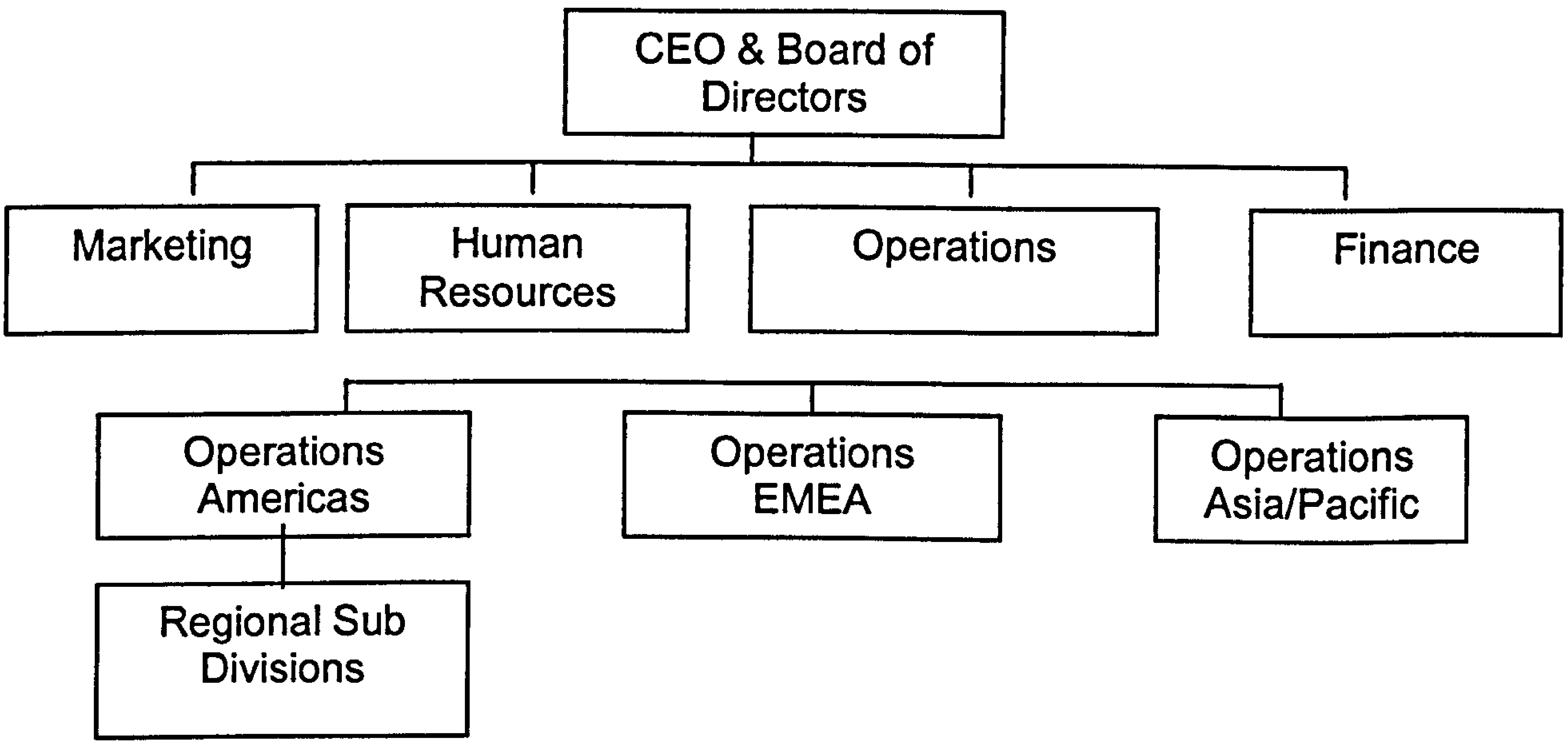


Figure 5.1 continued

3) Structure Adopted by Firm F *



The structures above have been adapted from the actual company organisation charts collected.
*While the informants indicated there were dotted reporting lines from corporate functional areas to the regional subdivisions indicative of a matrix structure, these were not depicted on the organisation chart.

However, within this trade-off, the general perception of informants was reflected in the following comments related to the fact 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 mangers] at any one time. I mean that isn't going to happen for a start so you need some sort of regional management structure.' (IG)

Centralised decision-making appears to be one of the key ways to ensure that control is maintained. Ironically, informants perceived that there was a good deal of decision-making autonomy given to GMs of individual hotels. However, this perception is not fully supported by the data, particularly within marketing and finance functions. All informants emphasised the need to control the marketing of branded hotel products centrally. The data suggests that centralised control over customer databases, distribution systems and brand collateral are particularly important. Welcome key booklets given to guests when they check in provide a good example of control over brand collateral:

> 'There is a certain amount of information that they [the booklets] all have to have inside them. And they can't deviate from that. ...And the design of it, it will be this size, it will have this message here, you can choose the picture, but this is the format of how it will be.' (IE)

It was also reported that when it comes to new marketing initiatives,

> 'much of what comes from "corporate" is a directive of 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 everybody knows about it.' (ID)

This centralisation of the marketing function was reported to be critical to maintaining brand integrity and thus the value of brands within the portfolio.

Within the financial function, informants reported that there is autonomy to manage the budget at unit level. However, within the entire sample the budgeting process reflects a 'bottom-up' approach requiring approval at successive hierarchical levels. One informant summed up the autonomy within this functional area accordingly:

> 'If they want to do a promotion for XYZ then that is up to them. As long as it makes money, as far as we're concerned. That's all for that hotel General Manager to make a decision on.' (IE)

However, informants identified clear parameters to decision making at unit level for decisions regarding pricing structures, pay levels for hourly employees, hiring or firing at assistant or department head level, and capital expenditures. Minor considerations like the opening hours of staff support services were also reported to need corporate-level approval in some firms. Even if this formal approval wasn't technically required, one informant suggested that:

> 'They [the GMs] usually refer the majority of decisions to the regional level.' (ID)

This approach was seen as a way of 'keeping people in the loop' (ID) in order to maintain good working relationships. This is also perceived as a way of [GMs] avoiding any repercussions if things go wrong. The exact degree of autonomy therefore varies somewhat by functional area. One informant summed this up by reporting that GMs get,

> ' appropriate autonomy so, they get no autonomy in the way that the property is displayed in electronic [marketing distribution] systems for instance, that's the [brand] standard, that's something that 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.' (IG)

Formalisation and Underpinning Organisational Processes

High levels of formalisation were used to support centralised control and the case study firms all employed a comprehensive range of formalised documentation. The data reveals the use of the following types of documentation within the sample firms:

- corporate policy manuals that specify correct functional procedures to follow at unit level,

- standard operating procedures for each functional area,
- brand standards broken down into individual units and functional areas at unit level,
- detailed opening and closing procedures for food and beverage outlets,
- formalised interview templates/questions (including psychometric testing) for specific hierarchical job roles,
- detailed job descriptions,
- pro forma documents to facilitate decision making for budgets and determining merit increases and
- pro forma documents for reporting, including operating reports, budgets, employee turnover and health and safety reports.

Informants emphasised the role of detailed brand specifications or brand standards in controlling quality. Brand specifications reflect the technical or tangible aspects of brands such as room standards, finishing standards, staffing levels and amenities, whereas brand standards incorporate both tangible and softer or more intangible elements. Documentation from the case study firms relating to brand standards identifies minimal acceptable levels of service that reflect employee attitude, body and verbal language. For example food and beverage brand standards in Firm D identify when the hostess should make eye contact and when employees must use scripted dialogue. Many of these documents even provide explicit detail on how to 'wow' guests by exceeding the brand standards. For example in Firm G, banqueting employees can achieve this higher level attainment by offering a welcome drink to function organisers or giving them a bottle of champagne or flowers to take away with them.

Brand standards were likened to the company 'bible' (IB) and were reported to be 'rigidly applied' (IE), 'pretty inviolate' (IB) or 'not to be violated' (IC). However, there does appear to be some leeway as to how rigidly these were applied in franchise agreements and management contracts. In the more upmarket and softer brands there was generally some room for negotiation. However informants were clear that it was the hard or technical standards of the brand that were negotiable, particularly if they reflected local market standards or cultures. Informants were also adamant that within these same brands, softer issues that reflect service quality standards were generally non-negotiable.

Brand standards were monitored through well-documented and formalised procedures. While there was some variation reported in the specific organisational processes, there was generally a reliance on external firms to monitor both hard and soft elements of brand standards. Customer satisfaction levels were also monitored through external agencies to gauge perceptions of brand and service quality. Informants described these processes as 'fairly sophisticated' (IG) and quite granular' (IB). Informants also report that feedback was passed down from corporate level to the unit level where the responsibility to identify problem areas and appropriate corrective measures lay. These were then reported back up to the corporate level within a specified time period deemed appropriate for the circumstances.

One firm reported that GM's had to self-assess their properties twice a year according to how they adhered to the processes identified in the formalised documents. This self-assessment was reported to involve a five-page checklist developed at the corporate level. Any items not adhering to the corporate standards had to be identified and the appropriate approval documentation attached to these checklists and sent to the corporate level. These documents were reported to be scrutinised and,

> 'obviously if we go down and we find something that has not been correctly documented, we will obviously go back to the General Manager 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".' (IE)

These high levels of formalisation were also perceived by informants as essential to maintain 'control of the brand' or 'brand integrity' (IB). According to one informant:

> 'A brand is a promise. When somebody goes in to a [Brand C], we've made certain promises that we market and we can't have people who are abusive of that and don't prescribe to it.' (IC)

The preceding discussion identifies high levels of centralisation and formalisation within the case firms. Organisational frameworks, such as formalised documents and templates, reinforce clearly defined parameters for decision-making and support the hierarchy and centralisation reported by informants. Informants perceive that these processes and structures are important to maintaining control over their hotel brands. However, the findings also reveal that there are design differences within the case study firms.

iii) Theme 3: Design Differences

Design differences within individual firms were apparent in both formal structures and organisation processes and these are discussed below.

Structural Differences

In the multi-branded firms, informants reported distinct differences in their organisation structures. One informant suggested:

> 'I think we have three or four organisational structures within the same organisation. But it's very confusing to run. Its very complicated and I have to say that this is one of the more complicated business directives, everything is run a little different, and every structure is a little different....and it is very confusing.' (IC)

Further probing of the informant revealed that these differences are based upon how particular brands are affiliated with their portfolio of hotels. The designs used therefore depend on the market entry method employed with the biggest difference depicted between OLM hotels and franchised elements of the portfolio. As one informant explained:

> 'The franchise operation is still very much separate and there is almost two divisions. There is one which is owned and managed and they look after all the ones we have an interest in and we actually operate those hotels. And then the other is franchising... so it's more of a sales and marketing outlet. Those two haven't really been pushed together particularly well.' (IB)

Organisation charts clearly depict the differences in these structures through the number of hierarchical layers and the different spans of control granted to managers within these separate divisions. One informant identified:

> 'In the managed hotels we have three VPs of Operations, the Executive Vice President, rooms representations, technical experts, and they of course are more involved to the bottom line. The other ones are interfacing on brand issues, on sales issues, we also have the regional sales people, the world-

> wide accounts people all of those people are out there working to help those hotels get more business.' (IC)

As a result,

> 'the standard control in the managed chain is much tighter. Each Vice-President is only going to have seven hotels, whereas each Vice-President of a franchised chain has 90 hotels.' (IC)

These different structures are reported to add complexity to the decision-making process, particularly to those at the corporate level. As one informant explained:

> 'It doesn't really cause the regions themselves much confusion on a day-to-day basis. I think it causes problems from a decision-making point of view at the top level.' (IB)

There were also some minor structural differences reported in different geographical markets. For instance, different positions or functions were added as senior managers felt necessary to cope with the environmental and cultural differences and demands of the different markets.

These findings suggest that major structural differences within the portfolios of the multi-branded firms are driven by the nature of the affiliation with the unit level hotel. Clear structural distinctions have been identified between OLM units and those operated under franchise agreements. There were also variances reported in the organisation processes that underpin these formal structures as identified in the following section.

Process Differences

Further design differences can be depicted between these two elements of hotel portfolios in the processes employed for control, co-ordination, decision-making, and communication as discussed, in turn, below.

a) Control and coordination processes

The data reveals both similarities and differences within quality control processes employed in the different structural designs identified. For instance, actual processes for establishing and monitoring quality standards are the same across franchised and OLM divisions. There are however, distinctive differences reported in the action undertaken in response to performance measurement ratings.

Informants reported corporate level willingness to undertake punitive action when individual hotels do not adhere to brand standards within the franchised divisions. For instance, in one case, 160 franchised hotels were reported to have been forcibly removed from the system over the course of five years. One informant from another firm explained,

> '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 that back. So we have stepped up our aggression, if you will, or stepped up our compliance to standards and are much more focussed on making sure people do the right thing and do things right.' (IC)

Punitive action is therefore deemed necessary to maintain the control of brand integrity and compensate for the greater autonomy within franchised hotels. This control is perceived necessary not only from a consumer perspective, but also from the perspective of being able to continue to grow the brand through franchising. One informant summed up this situation accordingly:

> 'As I understand it, you have got 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. It's I am buying a [Brand], I know what they are, I know how they perform, I know what they look like and I know as soon as I have signed up for this in a couple of years time they are not going to change all the standards.' (IB)

This punitive action is taken more readily against failure to adhere to the hard or technical brand standards. The softer elements of the brand standards that are more reflective of service quality were reportedly given more leeway. For instance,

> 'it would be highly unlikely to terminate a franchisee contract on the basis of service quality. Historically, it is on quality as audited by the company according to the brand manual.' (IB)

In contrast, a greater emphasis on the softer elements of the brand standards was reported within the OLM quality control processes. These softer elements of the brand standards were reflected in customer perceptions of service quality and were reported to be of great interest to corporate level members. One example of this type of involvement was given in relation to customer feedback on employee behaviour:

> 'And we had a glitch earlier in the year, and the President of the company... he noticed out of the blue that suddenly we had two or three rude employee comments [made by customers at one unit]. So he called [the GM] and said what's going on? So he monitors it and when the President calls you know you have to do something.' (ID)

In addition, the data identified that there is also more support offered to the unit level to rectify any problems highlighted through these control processes. This support is provided through the smaller spans of control for the OLM divisions. The general perception by respondents was that,

> 'the management services side, those people really are totally responsible for the day-to-day operations. Not that they are doing them, but they have to intimately know the details. Because we have so much money at risk we are asking them to perform at a much different level. On the managed side you always have that responsibility because you are in charge of the asset.' (IC)

Because of the responsibility for managing these risks, there is one final difference in the quality control processes utilised. Whereas punitive action is threatened against poor adherence to standards in the franchised division, in the OLM estates, managers are incentivised through bonus payments to achieve high scores. These differences suggest a 'carrot 'approach for OLM managers, but a 'stick' approach to franchised properties.

There were a number of differences also reported in financial control processes between franchised and OLM elements of the portfolio. These differences appear to be related to accessibility of data at the unit level and this again, is reflected in the autonomy granted through the contractual agreement. Within the franchised estates, the corporate level is reported to,

> 'have access to a lot of data, not profit and loss, but the contribution to the system from the member hotels. Occupancy, contribution to revenue, revenue per available room, all of those kind of standards, we watch those very carefully.' (IC)

In other words, the corporate level only has access to revenue figures. It was reported that,

> 'there is definitely the split between the two again [franchised vs. OLM] in terms of what we can get and what we can't. The [franchisees] are not interested in showing us how much money they are making.' (IB)

The informant further explained that franchisees might fear that the franchisor would try to buy back their hotel if they were seen to be profitable. While contractual agreements do not require franchisees to divulge financial figures beyond revenue, within OLM divisions financial control procedures measure both revenue and profitability. These measures are reported to be necessary to reflect the financial commitment and risk involved in operating through these types of affiliation.

These findings reveal a clear distinction between organisational processes for both quality and financial control between franchised and OLM elements of the portfolio. These differences appear to be reflective of the degree to which decision making can be centralised and the structural differences in their design. One informant summed up the control process differences as follows:

> 'So it is, it's a different set of drivers, you know its, [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?' (IB)

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 firm. Nonetheless, these 'drivers' may also influence the coordination processes employed in the different portfolio elements. In the OLM divisions, there was a wide variety of coordination mechanisms employed across the case firms. However, the degree to which coordination processes are used appears to be related to the extent of a firm's internationalisation. Each case study firm has an annual or bi-annual general manager conference as well as a number of functional meetings organised on a geographical basis. It is the firms that are the most international, for instance Firms B, C, F and H that also make use of further coordination mechanisms. Informants identified the use of task groups, functional work teams, project teams, corporate universities and electronic chat rooms.

In contrast, within franchised divisions, the data revealed that fewer coordination processes are employed. The informants reported the use of franchise forums and/or annual conferences as the key coordination mechanisms used. In addition, informants reported that the conferences were essentially a tool to make the franchisees feel involved. One informant revealed:

> 'Franchisees can go and have a chat ....and we listen to their concerns and share current thinking with them, they are made to feel included.' (IB)

These remarks suggest that conferences were used predominantly for dissemination purposes.

b) Decision-making processes

Organisational processes for decision-making appear to reflect the degree to which the corporate level has the ability to use hierarchy of authority to centralise the decision-making process. As a result, within the franchised elements of the portfolio, informants reported that the corporate level can 'only advise on many of the issues and offer guidelines for the franchisees to work within' (IC) as contractual agreements provide a greater degree of autonomy at the unit level.

Evidence of this greater level of autonomy is most clearly demonstrated through the implementation process of new corporate or brand initiatives. Informants reported the need to persuade franchisees to adopt any new initiatives that were technically outside their contractual obligations. As a result, senior organisational members adopted different organisation processes in order to get 'buy-in'. As one informant summarised, 'it's very much done through relationships and showing what the benefits will be and encouraging them' (IC). Financial benefits were reported to be the most effective. In order to demonstrate financial benefits, many initiatives were tried and tested within owned and operated hotels in order to prove their viability before attempting to roll them out across the different types of affiliates. One informant summed up the process as follows:

> '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 will start to spread it to the master franchises and management contracts first. We will go and see the owners and say, "we want to do this, it works in our hotel and we will put the money in behind it" So we put our money where our mouth is effectively and gain credibility.' (IB)

New initiatives were therefore reported to trickle down through the different types of affiliations. Interestingly, informants also reported there was a need to use this buy-in process within units operated under management agreements as well as franchised properties, even though there were no structural differences between OLM properties. The reason for this was identified as the greater level of involvement of hotel owners in the decision-making process. It was suggested that the reason for this is because the,

> 'owner profile has changed in the last 10 years. They are just much more knowledgeable than they used to be. And they are no longer prepared to just hand it [the hotel property] over like in the old days, and give it to the operator. It's no longer the case.' (IF)

Another informant suggested 'we get things like the owner now wanting to make decisions' (ID). The owners of hotels operated under management contract were reported to now have greater input into decision making in relation to hotel budgets, operating expenses charged back to the owner, and the hiring decisions of senior executives at the unit level. Hotel operators are spending increasing amounts of time managing the relationships with hotel owners as a result of this input. One informant suggested this 'occupied almost 50%' (IF) of his time and another that there frequently were 'considerations about stroking owners fur' (IG).

With master franchise arrangements the degree to which there is autonomy to adopt new initiatives appears to be related to particular functional areas. For example, informants reported more leeway in human resource initiatives than for those within marketing. In addition, how these initiatives are rolled out through the master franchisees' portfolio is reported to be dependent on the master franchisee. It was suggested that this approach sometimes resulted in programmes for different brands running in some geographical regions but not others.

These findings suggest that decision-making processes do vary according to the type of affiliation and also by functional area. Decisions within the function of marketing appear to be the most centralised in order to protect brand integrity. While this is important in both divisions of the portfolio, it is reportedly more difficult to achieve in franchised estates.

c) Communication processes

According to the data, informal communication processes also reflect these organisational divisions. For instance, within OLM elements of the portfolio, communication is reported to be 'frequent', 'informal', 'on a first name basis' and 'multi-directional' across the sample. One informant summed up this 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; and then I would probably call his regional vice president and say, 'oh, by the way, I've chatted to so and so', and if anything of note came up I would tell his boss. The nature of us as people is that we don't get territorial about that stuff.' (IF)

Similarly, informants identified that informal communication can be initiated at the unit level in order to discuss issues and share ideas with more senior organisational members. This type of communication is reported to be based on 'who you know' (ID), but is supported through formal communication vehicles that encourage networking opportunities. These vehicles include those identified above as coordination processes.

In contrast, there does not appear to be this informal communication between the corporate or senior organisational levels and the franchised properties. One informant suggested:

> 'But it is not, you know, 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.' (IB)

The rationale for this practice is the clear organisational boundaries between the owners of the brands and the franchisees. The situation was described as one where 'franchisees are definitely on the other side of the wall, it is a commercial agreement' (IB). This lack of informal communication appears to reinforce the distinction between franchised and OLM elements of the portfolio. As previously identified, vehicles such as franchise forums and associations encourage communication between franchisees to a certain extent, but formal vehicles that support networking across franchised and OLM estates are more limited. While franchisees are included in the annual conferences, other formal vehicles tend to be restricted to franchise representatives. For example, in regional marketing planning meetings, only an elected franchisee representative is likely to be invited to attend. In some cases franchisees are entitled to participate in these formal vehicles if they reach a predetermined size (e.g. 20 or 30 hotels). These communication practices help to maintain perceptual distinctions between these organisational divisions and one informant suggested that as a result of these distinctions, 'never the twain shall meet' (ID).

5.3.3 Summary and Emergent Themes from Phase Two

Three key themes have been identified through this phase of the research. In diversely affiliated firms, organisation designs are subject to change in response to changes in organisational growth strategies. Despite these changes, international hotel chains still appear to rely on traditional design models where high degrees of centralisation and formalisation are used to maintain tight control. There are however, differences in design that relate to the type of affiliation between the corporate and unit level of the firm. The most profound variations are between franchised and OLM elements of portfolios. These differences are evident in structures and the processes used to support them. Table 5.3 summarises these differences for these two elements of the portfolio. However, there are also some further differences in organisational processes depicted for management contracts and for master franchise elements of the portfolio.

Table 5.3 Variations in Organisation Design

	OLM Hotels	Franchised Hotels
Structure	• Hierarchical with small spans of control (6 to 8 hotels)	• Hierarchical with large spans of control (60+ hotels not unusual)
Decision Making	• Centralised • Within clearly defined parameters at unit level • Some input from owners in units run under management contracts	• More decentralised • Greater autonomy at unit level • Functional marketing decisions centralised as much as possible
Financial Control	• Focus on bottom line • Supported by structure • Reflective of perceived risk	• Focus on contribution to revenue (top line) • Access below that line restricted
Quality Control	• Adherence to brand standards and customer satisfaction levels • Focus on both hard and soft elements of service quality • Corporate level involvement at unit level • Corrective measures and clear feedback loops	• Adherence to brand standards and customer satisfaction levels • Punitive action taken but against adherence to technical or hard elements of quality only
Coordination	• Use of coordination mechanisms increases with extent of internationalisation • Conferences, tasks groups, project teams, corporate universities and electronic chat rooms reported	• Limited use of coordination mechanisms • Franchise forums and/or annual conferences most commonly used mechanisms
Communication	• Frequent and informal • Multi directional across different organisational levels • Based on personal networks • Formal vehicles support the development of personal networks	• Mostly formal by way of reporting • Uncommon between corporate and unit level of franchised hotels • More common between franchisees • Formal vehicles support communication between franchisees, but limited support for communication with OLM

The findings from this phase suggest that design variations occur when the operation of hotels crosses traditional organisational boundaries. The next phase of the research therefore sought to explore these inter-organisational designs in further detail.

5.4 Phase Three: Inter-Organisational Design

This phase of the research sought to build on the findings from phase two through an in-depth case study. The unit of analysis adopted for this phase was the hotel brand as it enabled the researcher to investigate inter-firm designs from the perspectives of all firms involved in the agreement. This section begins with a brief background on each of the firms that comprise the case and how they are affiliated with each other. It then presents the findings under one further emergent theme.

5.4.1 Background to Case Study Firms

This 'typical' case study incorporates three separate hotel firms and was drawn from the phase two sample. These three firms all operate one international hotel brand that belongs to Firm C. For the purposes of clarity, these firms will be referred to from this point on as the Brand Owner, Affiliate A and Affiliate B. A brief background to each of these firms is given below.

i) Brand Owner

The Brand Owner has ultimate responsibility for the portfolio of approximately 450 up-scale full service hotels. The portfolio is located in airport, city centre and resort locations in 60 countries targeting international and domestic, and business and leisure travellers. This brand was developed predominantly through single and multiple franchise agreements in the home country. International expansion has taken place through a mixture of ownership, management contracts and through master franchise agreements held with local firms in several geographical areas. Through this expansion, the Brand Owner became affiliated with A and B. The brand headquarters and functional support are located in the home country and responsibility is then divided geographically as depicted in Figure 5.2. A full profile of the Brand Owner (Firm C) is contained in Appendix G.

ii) Affiliate A

Affiliate A is a privately-owned firm whose main business interest is a small portfolio of luxury hotels in prime locations in its European home country. The key target markets are international business and leisure guests. Affiliate A fully owns and operates all the hotels within its portfolio. A franchise agreement was signed with the Brand Owner over ten years ago that resulted in the co-branding of Affiliate A's entire portfolio. This agreement does not include any territorial rights and is therefore what Connell (1999) identifies as a corporate franchise agreement. However, press releases issued by Affiliate A refer to this inter-firm arrangement as a strategic alliance. As Affiliate A operates in one country only, its organisation structure is not as complex as other firms within this study and is depicted in Figure 5.2. A profile of Affiliate A is included in Appendix I.

iii) Affiliate B

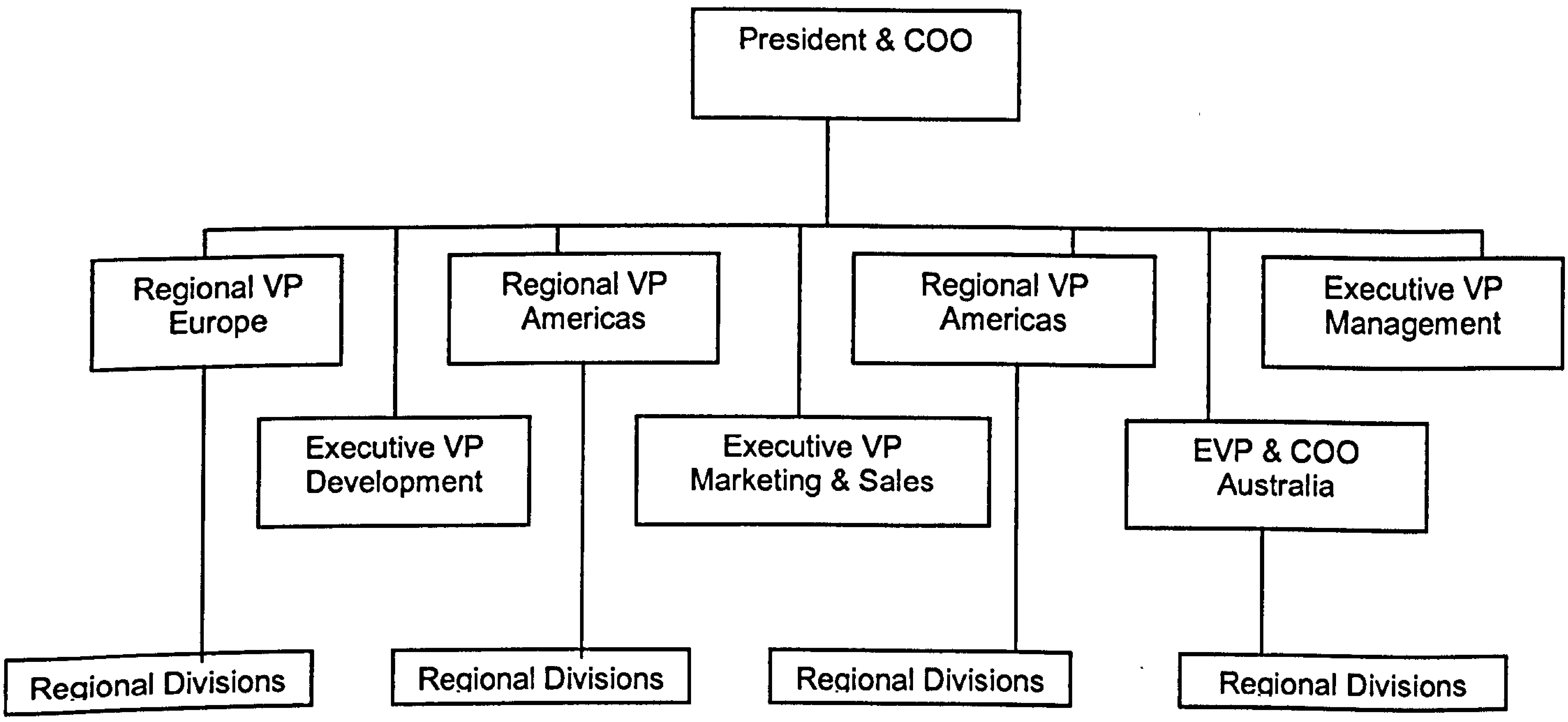
Over ten years ago, a long-term franchise agreement was also signed between the Brand Owner and Affiliate B. While the press refers to this agreement as a strategic alliance, in reality it is a master franchise agreement that grants Affiliate B the right to develop the brand within a defined geographical territory. This development has taken place rapidly through ownership, leasehold, management and sub-franchise agreements. As the CEO reported in the 2002 annual report,

> 'Starting out as a small and unknown operator, the only way to achieve fast growth without massive investment of funds, was to accept a higher financial risk level in the contract portfolio of hotels.'

In other words a trade-off has been made between financial risk and rapid growth. This strategy to employ multiple market entry methods has resulted in a portfolio that comprises 110 co-branded upmarket hotel properties located in 38 countries in city centre, airport and resort locations. Affiliate B targets domestic and international, business and leisure travellers and supports each segment with its own brand loyalty programmes. Its portfolio is supported through a geographically divided organisation structure as depicted in Figure 5.2. A profile of Affiliate B is included in Appendix J.

Figure 5.2 Organisation Structure of Phase Three Firms

1) Organisation Structure of Brand C*



2) Organisation Structure of Affiliate A*

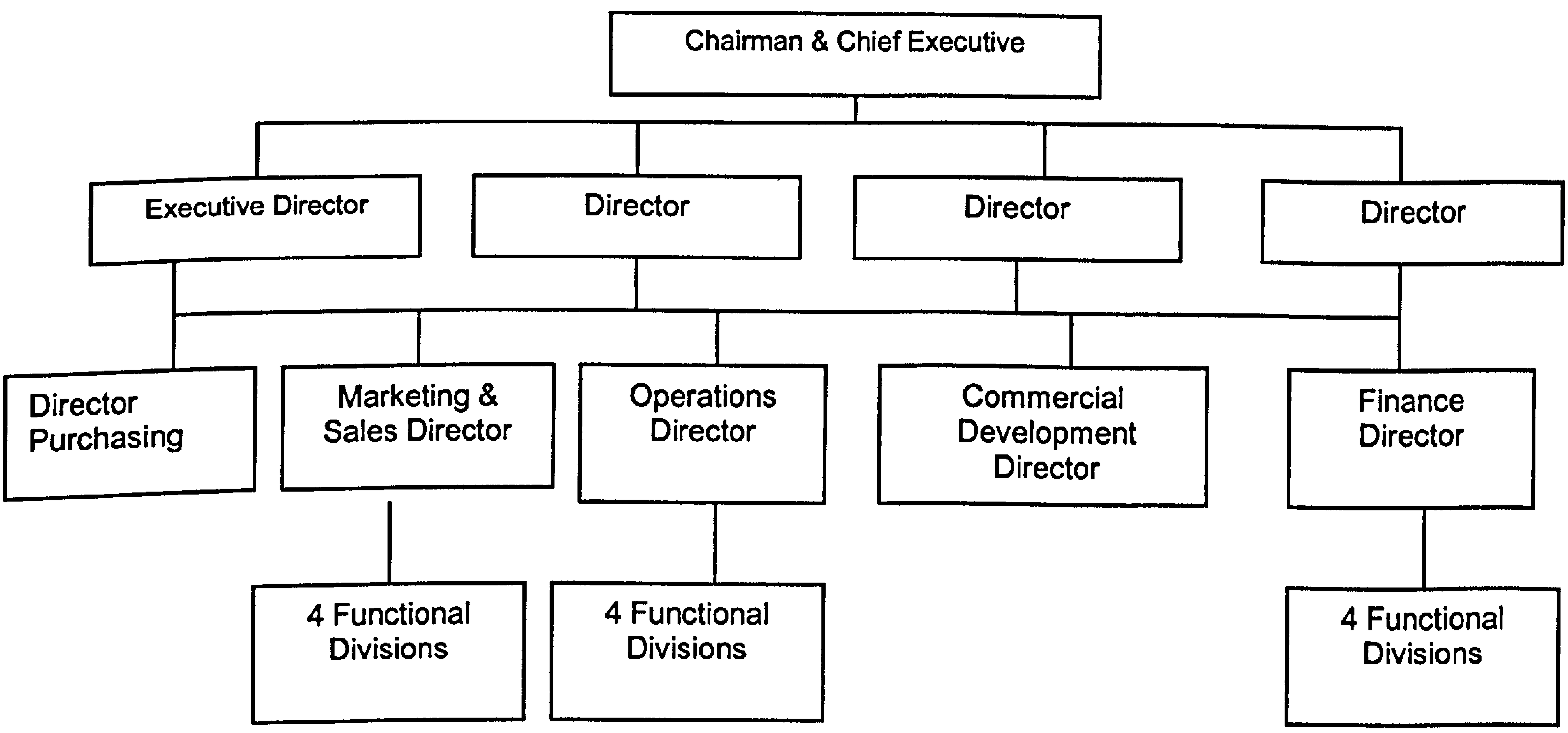
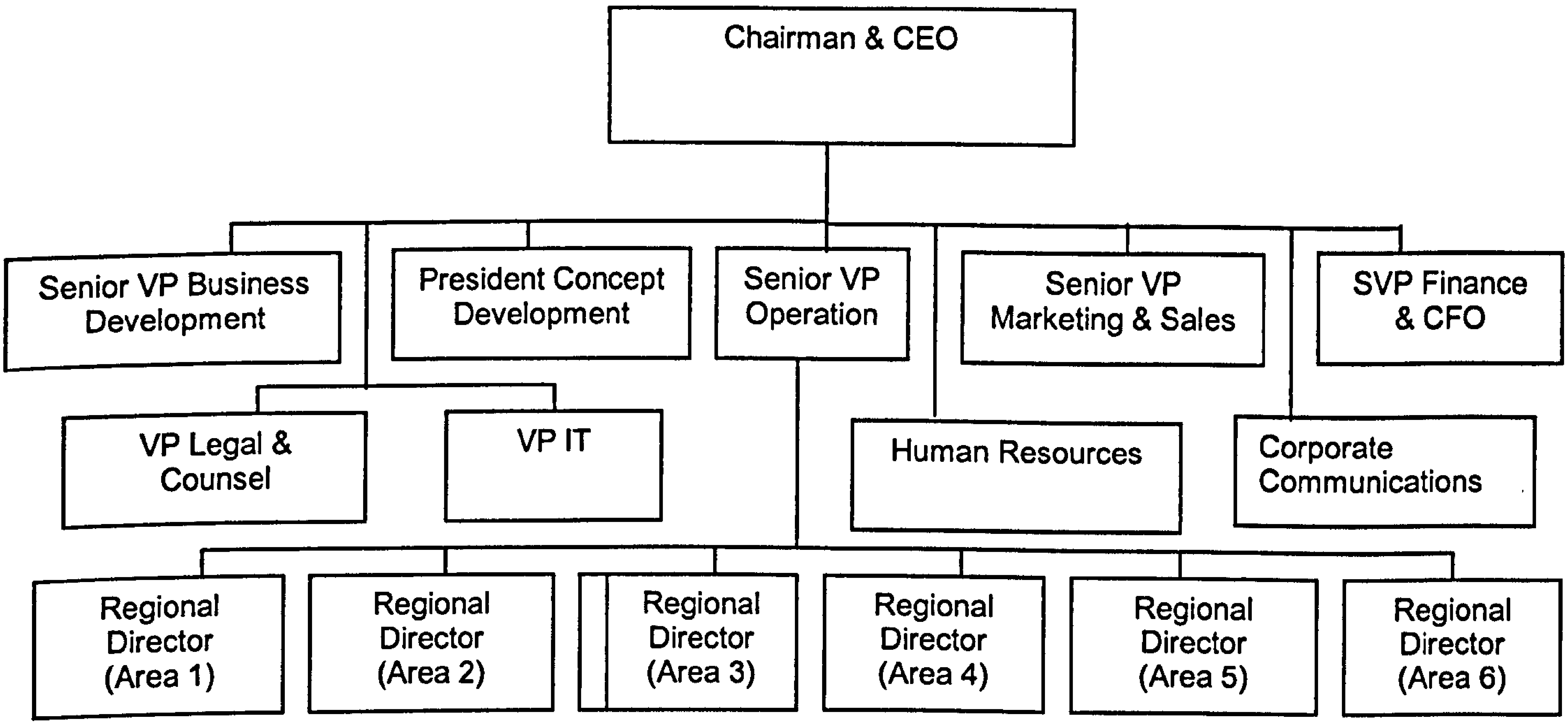


Figure 5.2 continued

2) Organisation Structure of Affiliate B*



*Adapted from the actual organisation charts collected.

This brief review serves to highlight the disparities in the operating characteristics of the firms embedded within the case and these are displayed in Table 5.4. Each affiliate has a separate contractual agreement with the Brand Owner and it these dyadic relationships that are explored at this phase. However, the data revealed a great deal of similarity in the inter-firm designs. The following discussion is therefore written from a comprehensive perspective rather than through a comparison of the embedded cases.

Table 5.4 Operating Characteristics of Phase Three Firms

Firm	Brand Owner	Affiliate A	Affiliate B
Ownership	Private	Private	Public
Owner	Part of multi-divisional conglomerate	Hotel firm with some diverse interests reported	Part of a multi-divisional conglomerate
No. Countries	60	1	38
No. Hotels	450	10 + 2 in development	110
No. of Rooms	99,246	1926	29,000
Market Level	Mostly 3-star properties	4- and 5-star properties	Mostly 4-star properties
Affiliated with Portfolio through	Majority franchise agreements plus master-franchise agreements, owner-operated, management contracts, strategic alliances	All owner-operated, expansion planned through leasing and management contracts	Majority management contracts with varying degrees of equity involvement, owner-operated, franchise agreements
Affiliation with Brand through	Ownership and master franchisor for Affiliate A & B	Corporate franchise agreement with Brand Owner with defined geographical scope	Master franchisee of Brand Owner with development rights for defined geographic territory
Organisation Culture Described As:	Informal, accessible, classless	Informal, entrepreneurial, non political	Entrepreneurial, idiosyncratic, family-run

As at year end, 2003.

5.4.2 Inter-Organisational Design

During the data collection, it became increasingly apparent that the inter-organisational designs within the case study were best understood through inter-organisational processes rather than formal inter-organisational structures. Furthermore, none of the organisational charts collected depicted the inter-organisational agreements. When questioned directly about the structure of the inter-firm arrangements, informants from all three firms referred only to the technical nature of the contracts as franchise agreements. The contracts however, only broadly defined the inter-firm structure in relation to the hierarchy of authority and the levels of formalisation. The Brand Owner, as the franchisor had the ultimate authority. At the next level Affiliate A and B had authority over their defined geographic territories. As a master franchisee, Affiliate B had further authority over its sub franchisees. Formalisation was also depicted in the contract but again, only at the broadest level. The contracts were reported to contain minimal requirements for standardisation and these related to marketing communication activities and basic brand standards. These standards were already met within the portfolios of Affiliate A and B at the time of contract signature. The broad design parameters in the contract therefore do little to aid in the understanding of how these inter-firm agreements are designed and managed. Thus, inter-organisational processes for control and coordination, decision-making and communication were the dominant design dimensions. However, the data revealed that these processes changed over the lifetime of the inter-firm agreements. This finding forms the basis of the fourth theme identified in this research and that is the nature of change in inter-organisational designs. As with the previous phase, both primary and secondary data were used for triangulation purposes and analysed according to the processes described in Chapter Four. Where direct quotes are used, these are attributed to the informant with the labelling scheme presented in Table 4.6. For example, IBO2 refers to the interview conducted with the second Brand Owner informant.

i) Theme 4: The Nature of Change in Inter-Organisational Designs

The findings highlight the evolutionary nature of inter-organisational designs through three distinct stages. The first stage began with the identification of the need for a partner and lasted throughout the negotiation process. This stage ended when the contracts were signed and the inter-firm affiliations were officially formed. The second stage began with the implementation or operationalisation of the agreement. The third and final stage began when the different affiliated firms began to work collectively for the good of the brand and were reported to have reached a stage of maturity. Within each of these stages, a number of factors influenced the actual inter-firm designs and thus the inter-organisational processes for managing the affiliations and these are discussed below.

Stage One: Affiliation Formation

Three key factors influenced the development of inter-firm design in the affiliation formation stage. The first of these was the actual purpose of seeking an agreement with another firm. This purpose then informed the specific partner selection criteria used by the different firms. Both of these factors were then used in the negotiation process and used to define the affiliation. Each of these factors and how they influenced the design of inter-organisational processes are discussed below.

a) Purpose of affiliation

All three firms had a clearly defined purpose for seeking an affiliation. The Brand Owner was seeking to enter a new geographic market and in line with its preferred market entry strategy, was looking for local partners to achieve this goal. Affiliate A was also seeking organisational growth by accessing new markets but in this instance, senior managers,

> 'were not looking for growth in terms of numbers of hotels, but needed to drive revenue and one way of achieving that goal was perceived to be through international markets and international travellers.' (IAffA1)

Accordingly, Affiliate A decided it 'needed a big brother' (IAffA3) to gain access to global distribution channels. Affiliate B was also seeking organisational expansion outside its home market. As one informant explained:

> 'The reason why this came up there in the early 90's is because we started on a path of developing the chain outside of [the home market] and then we realised very fast that the [proprietal] brand name which is very strong in [the home market] was very weak outside of [the home market]. We needed to have a different brand in order to be able to grow market share and brand awareness.' (IAffB3)

In addition to gaining access to a brand name, Affiliate B also required, 'a catalyst for growth because there was a sense that [our firm] was not big enough, strong enough or well recognised enough to be able to go out and do it on their own.' (IAffB1)

Over the previous thirty years, Affiliate B had only grown its portfolio by one hotel a year. The 'catalyst' was deemed essential to achieve a more global reach in the distribution of their hotels.

All three firms were therefore seeking an affiliation with another hotel firm in order to realise their organisational growth strategies. However, particular goals for growth varied for the different firms. Growth was to be achieved through brand development for the Brand Owner, through market development for Affiliate A and through portfolio development for Affiliate B. All three firms required access to different types of resources therefore in order to realise these goals. These specific purposes then informed the particular partner selection criteria used by the different affiliates.

b) Partner selection criteria

All three affiliates used specific criteria to identify potential partners and to inform the negotiation process. These criteria are listed in Table 5.5.

Table 5.5 Partner Selection Criteria

Brand Owner	Affiliate A	Affiliate B
Ability to retain control through ownership structure	Ability to retain control of portfolio	Ability to retain control of portfolio
Perception of mutual value/risk	Ability to retain identity	Ability to retain identity
Chemistry between individuals	Perception of mutual value/risk	Perception of mutual value/risk
Similarity of organisation vision/goals/values	Chemistry between individuals	Similarity of organisation values
Local expertise	Similarity of organisation values	Similarity of organisation culture
Reputation/credibility	Similarity of organisation culture	Resources to achieve objectives
Credit worthiness	Resources to achieve objectives	Perception of a fair deal
	Reputation	
	Perception of fair deal	

As can be seen from Table 5.5, there was a great deal of similarity in the criteria used by the different firms. It must be pointed out however, that despite the way the criteria are listed in the table, informants were not willing to prioritise the criteria used. However, the data did reveal which of the criteria were deemed more important than others and how the criteria were used in different ways throughout the negotiation process.

Both the Brand Owner and Affiliate A identified that reputation or credibility of different hotel firms was a criterion used. One informant suggested that 'who your cousins are is as important as having cousins' (IBO4). This criterion was used as a pre-selection tool to identify potential firms that would make suitable affiliates. It was assessed through what individual organisational members knew, heard or had read about the different potential affiliates, rather than through formalised procedures. In this way an initial assessment was made as to whether the potential affiliate had the necessary resources to achieve the objectives of the affiliation and whether the potential affiliate would be appropriate to build a business partnership with.

Once the negotiation process began between the firms, the most important criterion identified by informants from all three firms was the need to maintain control of their own portfolios and in the case of the Brand Owner, over the brand as well. One informant summed up the situation accordingly:

> 'In the back of the head was only one thing that we wanted, to keep our own independence with backing.' (IAffB2)

All three affiliates had previous inter-firm experiences, and not all of these were deemed successful. Affiliate B had the most publicised negative experience and as a result was somewhat more cautious in the negotiation process. As one informant reported:

> 'From our experience with [previous affiliated hotel chain] which we were almost in the way of disappearing basically, we wanted to be in the driver's seat and actually control the thing.' (IAffB2)

Closely related to this was the requirement for both Affiliate A and B to retain their own sense of identity. What both affiliates wanted therefore was a co-branding relationship with the Brand Owner. Both Affiliate A and B had been successful in their own right and had been operating for over 30 and 40 years respectively. For

Affiliate A, the firm had grown under the sole directorship of the current chairman. As a result, there was reported to be a lot of personal pride and emotion attached to the brand. As one informant summarised, 'we wanted to have a brand that we would be in charge of in our geographical areas' (IAffB2).

Another closely related criterion was recognition of the mutual value brought to the affiliation. Informants within the case study were quick to point out the value that they brought to the agreement. For example, informants from both Affiliate A and B identified their local market knowledge as a key resource and it was important to each of these affiliates that the Brand Owner recognised the value of this resource. Similarly the recognition of the mutual risk each firm was undertaking was also identified as important. Informants from Affiliate A and B were keen to point out that they were taking a risk by entering into the agreement with the Brand Owner and that they wanted this to be duly recognised. One informant suggested:

> 'We took a huge risk. We were taking on faith that their vision of growing the brand, their vision of asserting the synergies from [their] chain of families, their vision for technological leadership, that's the risk. Would that all come to bear?' (IAffA3)

Both Affiliate A and B also noted the risk that the Brand Owner was undertaking by allowing them to retain control of their own portfolios and through a co-branding agreement. Co-branding within the international hotel industry was 'virtually unheard of' (IAffB3) at the time, and there was clear recognition of the risk with this untested branding strategy.

Whether this risk was deemed acceptable or not was down to another criterion listed in Table 5.5 and this was the personal chemistry between those individuals involved in the negotiation process. Informants reported that negotiations with other potential partner firms had broken down, as 'there really wasn't chemistry between the individuals' (IAffA3). This chemistry was perceived as an essential ingredient to keep communication channels open between the members of the different firms. It facilitated the communication between these individuals that was reported to be 'frequent', 'informal' and 'face-to-face' by informants from all three affiliated firms. Furthermore both personal chemistry and communication were instrumental in enabling the individuals involved in the negotiation process to develop perceptions of similarities in organisational goals, values and cultures, further criteria identified in Table 5.5.

All the criteria identified by the different affiliates were therefore used in different ways in the relationship formation stage. Reputation and perceived ability to deliver resources required were used as pre-selection tools prior to negotiations taking place. The three criteria that were important early in the negotiation process were the ability to retain control of portfolios, retaining individual firm identity, and recognition of mutual value and risk. Personal chemistry and perceptions of similar organisation cultures and values were important in drawing the negotiation process to a successful conclusion. While all the criteria were used throughout the negotiation process, the ability to retain control of portfolios, retain own identity, and recognition of mutual value and risk were considered to be the non-negotiable criteria. Informants reported that negotiations continued because 'we are not bound by any manuals' (IAffB2) but also of 'walking away from the table' (IAffA3) during other negotiations driven by operating manuals and the requirement to adhere to brand owner regulations. These three criteria were also instrumental in defining the inter-firm affiliations as discussed below.

c) Affiliation definition

The non-negotiable criteria discussed above also appeared to be influential in defining the affiliations between the case study firms. Despite the fact that both Affiliate A and B operate under franchise agreements with the Brand Owner, this term was only used by informants when questioned directly about the inter-firm structure. At all other times throughout the interviews, informants referred to each affiliation as a strategic 'alliance' or 'partnership' between the organisations. None of the corporate press releases collected by the researcher used the term franchise. Nor did any of the internal documentation collected, such as employee newsletters and magazines. The interview transcripts also identified that informants avoided the term franchise when discussing the inter-firm agreements. When questioned about this, informants reported that strategic alliance was probably a more accurate descriptor. As one informant explained:

> 'It's strategic in the extent that it is global and in terms of having a global strategy as opposed to localised. ...It's an

> alliance also in the sense that they [the Brand Owner] don't dictate. They have no control over us whatsoever.' (IAffA2)

Defining the inter-firm arrangements in this manner reflected the control that was important for each affiliate to retain. In addition, it recognised the value that each affiliate brought to the agreement. This was further reflected in the co-branding arrangements that also enabled each firm to maintain a sense of identity.

The preceding discussion identifies that three inter-related factors, purpose of affiliation, partner selection criteria, and affiliation definition were critical factors during the negotiation process. The purpose of the affiliation informed the selection criteria, which in turn influenced the affiliation definition. These three factors were also instrumental in shaping the original design of the inter-firm affiliation. The affiliation definition clearly reflected the autonomy that all members wanted out of the relationship. It represented a decentralised organisation design with much autonomy for decision-making resting with each affiliate. As one informant commented:

> 'For us it was more that we felt that we could basically develop our business the way we thought it should be done without interference or any big hurdles which we have to jump in the relationship.' (IAffB3)

The negotiation process allowed each firm to retain a good deal of independence in decision making within their own portfolio. For example, while each new hotel project was subject to Brand Owner approval, the decisions about which geographic markets to enter and by which market entry strategy were left to the discretion of Affiliate B. Both Affiliate A and B maintained a high degree of decision-making authority over operations, marketing, human resource, and financial functions. As one informant summed up:

> 'We retained total operational control of our product; ...... nobody would be throwing any manuals at us.' (IAffA3)

While the contracts dictated the requirement for adherence to the brand standards as an inter-organisational quality control process, affiliates were not subjected to operating and brand manuals that dictated formalised inter-firm policies and procedures.

In terms of the overall brand however, the agreement identified that each affiliate participated in decision making through a number of formal inter-organisational vehicles. A good example of this is the Global Brand Council. This was a formal decision-making vehicle that involved all global partners of the brand and was used for both marketing and human resource decisions. The secondary data revealed that this was created as a vehicle that enabled decisions to be shaped together by global partners.

Inter-firm processes for financial control were really rather limited as Affiliate A and B maintained complete control over their capital and operating budgets. The Brand Owner, as franchisor, was entitled to access to revenue figures, as is the norm in franchise agreements. The contracts also dictated the fee structure between the Brand Owner and each affiliated firm. In addition, the Brand Owner set annual revenue targets for each affiliate to achieve. Within the master franchise contract of Affiliate B, the Brand Owner also relied on development targets as an inter-firm control mechanism.

Some inter-organisational processes to achieve both financial and quality control of the brand were therefore incorporated into the inter-firm designs through the contractual agreement. However informants reported that these were 'minimal' in the formation stage. The inter-firm processes designed at this stage reflected a high degree of decentralisation with much decision-making and control devolved to the affiliated firms. The limited degree of formalisation also supported this decentralised approach that reflected the control that both Affiliate A and B maintained over their own portfolios. Once these design decisions were agreed, the contractual agreements were signed. According to informants, the implementation of the agreement was the starting point for the second stage.

Stage Two: Affiliation Development

One informant referred to this stage of the affiliation as 'the honeymoon period', which was 'painfully slow, hugely lacking in trust, and there was limited dialogue' (IAffA3). In the early stages of implementing the contract, a number of problems materialised. The data revealed that these problems were brought about by the more tangible differences in the affiliated firms, despite the perceptions of inter-firm similarities in the formation stage. When implementing the agreement the actual differences in the portfolios, administrative and technological systems were realised. Cultural differences also became increasingly apparent, as did the differences in the priorities of the affiliates. These differences created a number of 'territorial issues, cultural issues, technology issues and priority issues' (IAffA3).

The way in which the Brand Owner tried to deal with these issues however, only served to exacerbate them. It was reported that the Brand Owner began to use the contract to govern the agreements. Despite the efforts undertaken to create decentralised inter-firm designs in the negotiation phase, the contracts between the affiliated firms clearly depicted that the balance of the power lay with the Brand Owner. The Brand Owner began to use its authority to increase the degree of centralised decision-making and the degrees of formalisation across the portfolios of the three firms. As such, organisational processes for control and coordination, decision-making and communication were somewhat different than those suggested in the previous stage.

a) Inter-organisational control and coordination processes

The contractual agreements between the Brand Owner and its affiliates clearly dictated the requirement to adhere to brand standards. In the formation stage, this was not considered to be an issue as it was perceived by informants that each firm would be responsible for ensuring adherence to these standards within its own portfolio. However, in this stage, the Brand Owner wanted to adopt a more centralised inter-organisational process for monitoring quality. It was suggested that the Brand Owner,

> 'had a sense of we must control the brand everywhere in what they do.... if you own a brand you really want to have as much control centrally as possible to ensure that there is consistency.' (IAffB1)

When this process was proposed, the differences in the portfolios of all three firms, as illustrated in Table 5.4, became far more readily apparent. It was reported that this approach led to feelings of resentment amongst members of Affiliate A and B that someone with an inferior product should dictate and monitor brand quality. It also did not reflect the appropriate level of control that the affiliated organisations had negotiated.

There were also financial issues that arose at this stage. The contracts clearly indicated the affiliate's contribution to revenue targets and the Brand Owner's access to revenue performance data. One measure of contribution to revenue was through the Brand Owner's electronic distribution channels. The data revealed that this particular measure led to affiliates also monitoring the performance of the Brand Owner and whether the Brand Owner's fees were justified through the number of reservations derived through these distribution channels. This situation was most apparent in Affiliate A where one informant summed up the situation as follows:

> 'You spend a lot of your time trying to get the host organisation to prove that the business they gave you was incremental, which is an object lesson in futility.' (IAffA3)

As a result, members of the organisation tried to avoid paying fees to the Brand Owner as,

> 'we were still thinking me, you, us, prove your incrementality! You are not good on this or that, all this sort of thing. So there was an opportunity and the heart and the reason companies think about that is that every time you have to pay a separate reservation fee, it focuses their mind that if they could bypass the system and send the business directly to the hotel, they would get out of the fee.' (IAffA3)

The informant added:

> 'I know it is not logical and you don't see it in those terms at the time, but essentially, having joined the club, you behave very badly'. ...which is; they don't really want to play by the rules of the club. So you spend all your time trying to make an exception.' (IAffA3)

This focus on incremental revenue served to further emphasise the differences between the affiliated firms and the organisational boundaries that separated them. This issue was complicated further by the need for both affiliated firms to maintain their own sales force in the Brand Owner's home country. Affiliates did not consider the Brand Owner's sales team to be qualified to sell their products as they did not know enough about the different country markets and the affiliates' portfolios to adequately sell these on their behalf. However, informants from Affiliate A and B suggested that their own sales members sold a good deal of the Brand Owner's hotels in their respective markets. One informant summed up the situation accordingly:

> 'We sell globally, and our sales people are conditioned to sell globally because we have hotels in 38 countries that we control, versus a US sales person who has hotels in one country in one language, and is suffering from a 3-star product.' (IAffB1)

This example serves to illustrate a lack of integration between the affiliated firms and the need for further coordination mechanisms at this stage of the agreement. Mechanisms employed at this stage were the Global Brand Council and a number of functional task forces as discussed in the following section.

b) Inter-organisational decision making processes

As previously identified, the Global Brand Council was a formal vehicle set up for the purposes of participative marketing and human resource decision-making. While the Brand Owner's rhetoric was that this vehicle enabled decisions to be shaped together by global partners, when it came to sorting out the issues identified above, it was reported that 'nobody was under any illusions, it was led by [the Brand Owner]' (IAffA3). In other words, the Brand Owner used its ultimate authority and the power within the contract to influence or steer the decisions that were made. For example, one informant reported that within marketing 'the development of new initiatives [were] on a global basis and [so was] their execution' (IBO2). This centralised approach was also reported to be adopted within other formal inter-firm decision making vehicles. For instance, a marketing forum known as SMART group was also run in a centralised and hierarchical manner. Affiliates perceived this to be,

> 'quite a problem, because from a cultural point, the head of the SMART group of America, ... who had never really travelled internationally, arrived at [our] SMART group to tell us all how to do it.' (IAffA3)

In addition, informants from Affiliate A and B considered that the Brand Owner didn't understand the cultural differences to begin with. It was suggested:

> 'They saw, and they sort of understood that it was different theoretically that it was roughly the size of America, so fine, we are very experienced, we have lots of different groups, we get Florida together with California. We get Minneapolis together with Canada you know, they are two different countries even.' (IAffA3)

As a result, the Brand Owner was reported to have felt the need to dictate what should be done according to home-country practices. However, as one informant reported of the European SMART group:

> 'It was a big region, lots of different languages, lots of different issues. It had resorts, and it had city centre hotels, just in this small group of people. So we had just come to grips with that. Even I, who was chairing it, said we are not going to come up with one solution here.' (AffB1)

Nonetheless, the Brand Owner undertook centralised decisions and implemented standardised advertising campaigns. They believed they,

> 'needed to get all of us advertising in a format that was exactly the same, because we were so disparate that we didn't have a global voice. So at that time, we actually created an advertising format that was exactly the same in every part of the world' (IBO2)

This centralised approach to decision making was not felt by affiliates to be in their best interest. Nor did it reflect the participative decision-making process expected by Affiliate A and B and their desire to control their own portfolios. Furthermore, the data revealed that it served to highlight the cultural and portfolio differences of each firm. Inter-organisational communication processes were reported to help solve these issues.

c) Inter-organisational communication processes

At the start of this affiliation development stage, there was reported to be 'limited dialogue' (IAffA3) between the firms. Despite the formal communication vehicles that were set up to encourage inter-firm communication, the centralised approach adopted resulted in much of the communication being one way and top down from the Brand Owner. In the face of the escalating issues between the firms, senior members of the Brand Owner recognised the need to 'step up communication' (IBO4) practices. One key member of the Brand Owner's organisation took a lead role in developing more effective communication practices and a number of informants reported this becoming more 'frequent, informal, verbal and frequently face-to-face' between senior management (IBO4, IAffA2, IAffB2, IAffB3).

Through these inter-organisational communication processes, the Brand Owner gained a better understanding of the differences in the markets served by the affiliated firms. The Brand Owner was also reported to have fully recognised that they needed to draw on the strong local market knowledge that the affiliated organisations had in order to achieve the goals set for the development of the brand. A senior member of the Brand Owner added that,

> 'it wasn't necessarily a re-negotiation, it was a realisation you know what? Europe isn't America, and Asia isn't America and we can't deploy the same tactics that we use in America in other peoples' cultures because they do business differently.' (IBO4)

The communication also led to a recognition by members of Affiliate A and B that while the Brand Owner had been taking a centralised approach to decisions, they had, in reality, been acting in good faith. As one informant suggested, the perception was that of,

> 'the obligation that if they are paying fees maybe we should come up with some programmes, sort things out for you and show leadership. So it was positive, but it wasn't always interpreted that way.' (IAffB1)

The preceding discussion identifies that inter-firm communication processes were vital in creating a better understanding of the differences between the affiliated firms and the markets they served. It was through this communication that things started to gradually improve between the firms and the affiliation moved towards the final evolutionary stage. However, moving on to the next stage took some time and informants reported a prolonged period of tensions between the firms. In the case of Affiliate B, the tensions were reported to have remained between the firms for a number of years. However, according to an informant from Affiliate A:

> 'We went through a period much like that when there were tensions for a year, 18 months, but essentially it was working, despite ourselves, it was working!' (IAffA3)

It was senior members of the affiliated organisations who were instrumental in resolving the issues between the affiliated firms. One informant added:

> 'We have agreed to agree that the only way to make this work is by face-to-face meetings on a regular basis.' (IBO4)

Personal communication in particular was reported to have shifted the perceptions of managers from one of recognising the differences that were a root cause of the inter-firm issues, to one of 'accepting the differences' (IBO4) and learning to work around them.

iii) Stage Three: Affiliation Maturity

The affiliation was reported to have moved into this final stage when the Brand Owner realised that using the contract to manage the inter-firm relationship was not the best approach. With hindsight, one informant from the Brand Owner reflected that:

> 'The implication is the second you define your relationship as the terms in your contract, you have a real problem. You know you have to have a legal document that defines how the relationship works and why, but that almost needs to be put in the desk drawer...........If you start pulling out the documents and pulling out specific things, sub paragraphs you know you are in for a bit of a battle.' (IBO4)

However, it was still recognised at the start of this stage that the relationship between the firms hadn't 'quite gelled' and that 'the heart of the problem was we were still thinking in terms of 'me' and 'you' and not 'us' (IAffA3). With this realisation, a number of changes were made to the inter-organisational processes and these are identified below.

Inter-organisational Control and Coordination Processes

Within this third and final stage of evolution, the Brand Owner did try to maintain some centralised control over the brand. There were reported to still be 'certain core elements that [were] sacred' (IAffB1), particularly within marketing. For example, there remained standardised elements that had to be incorporated into any advertising campaigns. One informant commented, 'theoretically, they [the Brand Owner] could force us to hold the line on how the advertising is projected in the marketplace' (IAffA2). However, the Affiliates were given greater freedom to run marketing programmes and concepts that were not available in the home country of the Brand Owner at this point.

A further decision undertaken at this stage was to replace the brand standards determined in the formation stage with brand values. The brand values were wider than the original brand standards and enabled greater degrees of local variations that reflected market and portfolio differences. In addition, it was determined that monitoring adherence to brand values would be the responsibility of each individual affiliate until an appropriate global third party organisation could be identified. These findings suggest that inter-organisational quality control processes adopted at this stage once more reflected the degree of decentralisation that was so important to affiliates in the formation stage. In addition, there appeared to be greater levels of reciprocity between the affiliated firms. For example, one informant identified 'service concepts' and 'customer handling techniques' developed by the affiliates that were adopted by the Brand Owner (IBO2) at this stage.

Inter-organisational processes for financial control also underwent some changes. In the previous stage, there were reported to be some issues that resulted from monitoring contribution to revenue through electronic distribution channels. However, it was reported that:

> 'We struck a deal by which the reservations became all part of the fee, and it didn't matter whether our business was coming directly or via them, they got paid on everything.' (IAffA3)

Informants also identified that while the majority of financial performance measures were the responsibility of each individual firm, there was a greater willingness to share data beyond contractual requirements. According to one informant, if the Brand Owner asked for it, they would willingly send it off. This was seen as way of engendering trust between the parties, even if the data potentially contained confidential information. While it was perceived as risky, the benefits of developing the relationship were believed to outweigh the risks. One informant suggested, 'the more open a relationship is the more trust you generate. So I just send it to them and take a chance' (IAffA2). This openness was also reported between Affiliate A and B as well. For instance, data on room rates were readily shared between these firms, even in competing markets. It was suggested that the reason for this was 'because it is a strong relationship and we trust them and vice versa' (IAffA2).

In addition, the issues of sales teams became accepted and Affiliates A and B developed processes to work within these conditions. As one informant suggested:

> 'It took me some time to realise that the job of sales person in America is very different and that if I didn't invest then I would basically be shooting myself in the foot. So now it is not an issue. We just ensure that our people have a very strong communication and dialogue with the American team and there is full support and cooperation so there really is no problem.' (IAffB1)

Informants identified that the affiliated partners became more 'customer focused' (IAffA2), rather than proprietal, in terms of managing key accounts. This now means that,

> 'whoever is closest to that customer will work with that customer. So as an example, Nokia, someone from my team in Finland will manage it globally for the brand and handle the annual contract and so on...And we support each other and reciprocate that way.' (IAffB1)

Informants also identified greater use of inter-organisational coordination processes at this stage to help achieve this integration. Annual conferences were reported to have changed from being 'a bit of a jaunt ' for franchisees to an opportunity to 'share success and best practice' (IAffA2). Members of the different affiliated firms reported using the conference to proactively network with members of the different firms. Furthermore, at this stage, informants report greater movement of staff members between the organisations. While this had occurred on an ad hoc basis in the earlier stages, informants from both Affiliate A and B reported a more pro-active and strategic approach at this stage. However, one informant suggested that this was the planned approach all along (IBO4). Interlocking directorates were also implemented where senior members of the Brand Owner and Affiliate B were invited to sit on the Board of Director's for the other firms. The Chairman of Affiliate A was also invited to sit on the Board of the Brand Owner.

Inter-organisation control and coordination processes were therefore adapted to reflect a more decentralised approach with greater levels of reciprocity displayed between the firms. However, informants also recognised that this decentralised approach to control could potentially 'open up anarchy and chaos' (IAffB1) and a mature relationship was necessary to make this workable. Comments by informants indicated that there had to be 'trust in the relationship' and that 'it is about having the integrity to know there is no hidden agenda' (IAffA3). This perception facilitated further changes in the decision-making processes.

Inter-Organisational Decision-Making Processes

It was suggested by informants from Affiliate A and B that at this stage, the Brand Owner 'stopped hitting us over the head with a baseball bat' (AffA2) with regards to decision making. One informant reported 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.' (IAffB1)

This approach is perceived to lead to the development of initiatives that are more 'global' in their orientation as it incorporates that 'the grass root experience from multiple markets' (IAffB1). This same informant suggested that this change of approach 'was very much due to the maturity and confidence of one key individual'. This senior Brand Owner member did not take a proprietary approach to the brand at this stage. Instead this individual began to adopt an approach that questioned 'what is best for the brand and what is best for the partners?' (IAffB3). Other informants suggested that the combined size and strength of both Affiliates A and B forced this reconsideration by the Brand Owner. One informant recalled, 'at that point really it was a case of you either listen or have a lot of grief. And they did start to listen' (IAffA3). Whatever the reason, the Brand Owner was reported to have,

> 'shown a great deal of trust and openness, maybe pragmatism to go about the strategy. But as a by-product of that openness, and involving different regions, they got tremendous buy-in, because nobody felt that it was handed out on high.' (IAffA3)

Feelings of resentment by the members of Affiliate A and B reportedly disappeared at this stage. It was felt that new initiatives, particularly within marketing became more relevant to all affiliated firms. 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' (IAffB1). As such, decision-making processes also became more reflective of the decentralised approach envisaged in the formation stage. One Brand Owner informant summed up the situation accordingly:

> 'We like to feel that we are a strong control company, we like to ***feel*** that and the reason that I stress this is because in truth it is actually the opposite.' (IBO1)

Inter-organisational communication processes

Changes to decision-making also required changes to be made in inter-organisational communication processes. While there was still evidence of formal communication vehicles at this stage of the affiliation, these became superseded to some extent by more informal communication practices to manage the inter-organisational relationships. For instance, the Global Brand Council was reported to have 'literally petered out' (IAffB1), 'fell apart' (IAffA1) and become an 'anachronism' (IAffA2). Informants suggested the reason for this is 'because we get things sorted out by a phone call' and through 'face-to-face' meetings' for 'any stuff that needs nudging forward' (IAffA2). Informants from all three firms reported this to be the preferred approach. It was suggested that 'our relationships are such that we have this ongoing dialogue anyway' (IAffA2).

Communication channels were reported to have devolved down through different organisational levels, but remained rather limited at the unit level. At this stage, an inter-organisational communication norm or unwritten code of practice also appears to have developed. It was reported that 'people would almost exclusively deal with their counterparts on the same organisational level as a courtesy' (IAffA1). Another informant elaborated and identified that if there were issues to be resolved they preferred to 'deal with it person to person, rather than rely on a hierarchical approach' (IAffA2). For example, if there was an issue or query concerning new policies or initiatives, it was deemed poor practice to go a counterpart's senior manager instead of the counterpart. As one informant commented:

> 'It would be injudicious of me, to call [X,] if I had an issue because it would be [Y,] my counterpart, exposed. And I would never dream of doing that'. (IAffA2)

This practice was further reported to be a 'relationship status thing' (IAffA2) as the relationships between the counterpart members were considered to have developed to such an extent to demand this practice. Furthermore, it was perceived that these relationships could be endangered by not dealing directly with affiliated counterparts. As this informal communication was reported to support the devolved decision-making process, informants were keen not to do anything to disturb these relationships.

Not all formal communication vehicles had been disbanded by this stage and there was still a reliance on some to reinforce the informal organisational practices. For example, there were a number of other formal meetings that took place across the affiliated organisations on a regular basis, especially within sales and marketing. As previously identified, the annual general conference began to be utilised by the affiliated partners as a means of building their interpersonal relationships through networking. The situation was summed up as follows:

> 'You can do business face to face and you need that personal contact to reinforce relationships. And the better I

> have got to know these guys face to face, I found that the smoother moving business forward by phone becomes.' (IAffA2)

All informants recognised the benefits of these newer inter-organisational communication processes. One suggested that as a result of these processes,

> 'we have a healthy debate about how things are done and a very good exchange of information.' (IBO4)

However maintaining this level of communication required a good deal of time and commitment by individuals across all three affiliated firms. When these changes in inter-organisational design processes were implemented, 'a watershed was reached' (IAffB1) in the affiliation. According to one informant, this was the point 'we were seriously able to stop the engagement and get married, really get married' (IAffA3). Other informants suggested that this was when the affiliation reached a stage of maturity. Reaching this stage had taken between seven and eight years.

The data also revealed that this stage of maturity was defined by when individual firms and their members began to work proactively beyond the terms of the initial contractual agreements. As one informant identified, 'you no longer think about us and them', rather you 'think about the most cost-effective and customer friendly way of distributing our product' (IAffA3). Two examples provided by informants of such activities were considered to be proactively selling each other's products in their own territories and sharing financial data across individual firms. These activities were considered to be proof of individual members working towards the good of the brand, rather than concentrating predominately on proprietal issues. This focus, in turn, required members of the individual organisations to develop a 'mindset of us', as opposed to the mindset of 'us and them' prevalent in the previous stage. One informant further suggested that this required members to move beyond 'accepting the differences' between the different firms, to 'valuing the differences' (IBO4) and the strengths it brought to the brand.

However, informants were clear that they could not lose sight of their own firm's interests. There was still a need to make 'sure that on a mercenary business level we are getting every bit of return on investment we can' (IAffA2). Nonetheless, at this stage informants became aware of the dangers of focusing on their own organisations in the short term at the expense of the brand in the long term. A careful balance was perceived to be required and achieving this balance was reported to 'boil down to personal trust' and to be,

> 'about having the integrity to know there is no hidden agenda. OK the fact that we all operate under the same brand tag doesn't mean to say we are necessarily working towards the same goals, we are each looking after our own companies' interests. And are those interests aligned? There has to be a level of trust there.' (IAffA2)

This informant reported that ensuring that level of trust is there 'hinges on nurturing your relationship and leveraging the relationship' (IAffA2) between different organisational members. Another reported:

> 'Trust is only built because you get to know the people and you understand their reaction so you know how to go about building the relationship'. (IBO4)

At this stage there were still issues and 'territorial wars' (IBO1) that developed between the different firms, but the trust and the relationships developed between the different organisational members ensured that communication channels were kept open and issues resolved. This situation was summarised accordingly:

> 'My counterpart there and my counterpart in (the Brand Owner) have a good, it goes beyond good, a very good working relationship. So we are not only aware of the issues, [that cause conflict] we are now working towards managing them well.' (IAffA2)

It was suggested that organisational members had learned to 'listen with the intent to understand' (IBO4) these issues from each organisation's perspective, rather than listen with the 'intent to reply' (IBO4) why it was better to do things in one particular way. Face-to-face communication was reported to be essential. At this stage the affiliation was perceived to be a 'coordinating effort' (IBO4) based on lateral inter-organisational processes rather than one based upon hierarchic control and adherence to regulations.

The findings presented above identified that inter-organisational affiliations evolve through a number of stages and three clear stages were depicted in the case study; affiliation formation, affiliation development and affiliation maturity. As they evolve through these stages, inter-organisational designs are adapted as reflected through the inter-firm processes for control and coordination, decision-making and communication. Adaptations are driven by the interaction that occurs between the affiliated organisations and their members and serve to enhance the degree of flexibility achieved. As such, these designs also become more reflective of change models. Table 5.6 summarises the changes in organisational processes in the case study.

5.4.3 Summary of Research Findings

This chapter presented the findings from the three different phases of the research. The first phase verified the use of multiple international market entry modes in international hotel chains and thus the creation of diverse affiliations. The second phase revealed that control remains a key issue in the management of international hotel chains and as a result, there is a reliance on traditional models of design where control can be managed through hierarchical authority. While both owned, leased and managed (OLM) and franchised elements of hotel portfolios employ traditional designs, in franchised portfolios, some processes are more decentralised. Despite this, there are limited coordination mechanisms employed to support this decentralisation. Phase three of the study identified further differences in the design between direct and direct investment franchised, and corporate and master franchised portfolios. In the latter, organisation designs evolve throughout the life of the inter-firm agreement as depicted through the changing nature of inter-organisational processes employed. These processes therefore are the dominant dimensions of these inter-organisational designs. Three evolutionary stages of inter-organisational design were identified in this study as formation, development and maturity. When the stage of maturity is reached, flexibility across the portfolios is enhanced and these designs become more reflective of change models. This chapter has therefore served to identify 'how' international hotel chains as diverse affiliations are designed and managed through the identification of both organisational and inter-organisational structures and processes employed. The implications of these findings are discussed in the following chapter in relation to the extant literature and the research propositions identified through the literature review.

Table 5.6 Evolution of Inter-Organisational Processes

Process	Stage One: Affiliation Formation	Stage Two: Affiliation Development	Stage Three: Affiliation Maturity
Control	• Negotiated as devolved to individual affiliates, including diagnostic systems for output control • Formal mechanisms such as development targets included and monitored centrally	• Control becomes hierarchical as dictated by power in the contract • Emphasis is on output control through diagnostic systems including financial contribution to the system and quality indicators • Affiliates use diagnostic mechanisms to monitor output of brand owner • Control mechanisms gradually altered to allow for local interpretation in line with global standards in an effort to resolve conflict	• Control becomes devolved once more to affiliated firms • Output control still used, but diagnostic systems monitored by affiliates themselves or third party organisations • Affiliated firms have freedom to adapt initiatives to suit local market conditions • Trust reported as essential for this to work • Behavioural control achieved through the development of shared norms
Coordination	• Negotiated to include formal vehicles for lateral communication and decision making across affiliates	• Limited coordination with individual affiliates working towards own goals and not shared goals of the affiliation • Emphasis on areas of difference	• Coordination processes increased to include shared conferences, interlocking directorates, greater socialisation and more informal communication • Strong networking between individual members of affiliated organisation • Affiliation norms/culture develops • Members proactively seek areas of commonality to improve integration • Evidence of all working towards the goals of affiliation

Table 5.6 continued...

Decision Making	• Negotiated for involvement by all affiliated firms through formal vehicles	• Reverts to centralised decision-making process with very little input from affiliated firms • Conflict ensues and there is a gradual move towards greater input by affiliated firms	• Input once more by affiliated firms • Some formal vehicles disbanded and replaced by more informal mechanisms
Communication	• Frequent and face-to-face communication is deemed essential, but is limited to senior organisational members involved in negotiating contractual agreement	• Becomes less frequent and more formal • Predominantly at senior organisation levels • Communication, especially face-to-face communication, is gradually stepped up in the face of conflict between affiliated organisation members	• Frequent, informal and through different organisational layers • Personal and voice communication deemed essential to reinforce relationships developed between counterparts in different affiliated firms • Members of affiliated firms willing to share confidential information outside of contractual requirements • At unit level communication remains limited to formal networking opportunities

CHAPTER SIX

6. DISCUSSION

6.1 Introduction

This chapter discusses the findings in relation to the extant literature and the objectives of this study. The discussion is structured around two broad and inter-related themes that are drawn from the findings from all three phases of the research. The first theme considers 'how' diverse affiliations are designed and managed. It begins by identifying the design differences within diverse affiliations, their relationship to the market entry methods used, and the implications of these within the different elements of a firm's portfolio. It then examines these designs in relation to hybrid models. The second theme focuses more specifically on 'how' inter-organisational agreements are designed. The evolution of these designs is examined to identify relevant inter-organisational processes, the key ingredients of success, and relational ties in different evolutionary stages. The chapter concludes by comparing the key findings from this study with the research propositions developed through the literature review.

6.2 Designs in International Diverse Affiliations

This study identifies that international hotel chains that use multiple market entry methods employ different organisation designs within their portfolios. Three different designs have been identified for owned, leased and managed (OLM), direct and direct investment franchise, and for corporate and master franchise portfolios. International chains such as Firm C, who utilise all these types of affiliation, incorporate all three types of design within their portfolios. The following discussion compares these different designs and the implications of adopting them.

6.2.1 Understanding Design Differences in Diverse Affiliations

Traditional models of design are used in OLM portfolios by the case study firms, despite the different operating characteristics displayed in Table 5.2. Previous studies have identified the impact of firm-specific characteristics on organisation structures adopted by both domestic and international firms in different industries (Pugh, 1960; Daft and Steers, 1986; Clark, 1987; Calori et al, 1994; Ezzamel and Watson, 1993; Egelhoff, 1999). However, all of these previous studies investigated specific structural differences using a quantitative research approach. In comparison, this study adopts a qualitative approach and the findings reported draw on broad design models incorporating both structure and organisation processes. Using this approach, this study builds on previous work by identifying the reasons why different design models are used. It also builds on Clark's (1987) UK study that identified a hotel chain could have different types of relationships between the corporate structure and unit level hotels. This research identifies these different types of relationships exist in an international context and it provides a fuller explanation of the diverse processes for control and coordination in the different relationships and the reasons for their adoption.

The traditional designs identified for OLM elements of the portfolio rely on what Burns (1963) identifies as mechanistic formal structures that depict high levels of centralisation, formalisation and hierarchical reporting, features also identified by Pugh and Hickson (1990), Tata et al (1999) and Curado (2006). Organisational processes are shaped by the formal structures and the control systems in place. In this study, organisational processes used for output control (as defined by Das, 1993) rely on diagnostic control mechanisms (as defined by Kimura and Mourdoukoutas, 2000) in the form of budgets and quality control inspections. These findings provide support for Birnberg's (1998) argument that adherence to both procedures and outcomes are key elements of control in mechanistic organisation structures. In addition, these diagnostic mechanisms are supported by what Kimura and Mourdoukoutas (2000) define as boundary control mechanisms. For example, in this study corporate guidelines and reporting procedures serve to limit autonomy at the unit level and act to reinforce corporate behavioural standards.

Behavioural control is also achieved through informal coordination processes. However, the degree to which these coordination processes are employed appears to be related to the extent of a firm's internationalisation. It is the firms that are the most international in this study that make use of more coordination mechanisms such as tasks groups, project teams, corporate universities and electronic chat rooms. These processes encourage frequent, informal and multi-directional communication amongst organisation members. As such, both coordination and communication processes serve to act as what Kimura and Mourdoukoutas (2000) define as interactive control mechanisms. Organisation processes are therefore used to support the mechanistic structures employed and enhance control. These findings therefore provide support for the argument that integrated control systems are needed, particularly within international organisations (Flamholtz, 1996; Birnberg, 1998; Kimura and Mourdoukoutas, 2000).

This study reveals that organisation designs in diverse affiliations are subject to change. However, even when firms adapt their structures and processes, there is still a reliance on traditional design models in OLM portfolios. In both types of adaptation identified in this study, organisation structures are changed in line with changes in organisational growth strategies, the only strategy investigated in this study. Organisation designs remain relatively static but then are punctuated by periodic change. Previous studies on hotel chains also identified that structure changed in line with a change in strategy (Schaffer, 1984; West and Olsen, 1988; Dev and Olsen, 1989; Dev and Brown, 1990). This study builds on these efforts however, by providing richer detail of these changes. In earlier stages of internationalisation, change is represented through the development of new divisions and hierarchical layers and positions. When target markets are global customers, these divisions are created more quickly in order to ensure sufficient degrees of centralised control over individual hotel units. In later stages of internationalisation, design changes serve to consolidate the organisation structure to achieve scale economies, but without relinquishing control. Both adaptation patterns are arguably indicative of a contingency approach where structure follows strategy. This study therefore provides further support for the studies of hotel chains identified above but in an international context and for previous studies in other industry sectors (Chandler, 1962; Lawrence and Lorsch, 1969; Galbraith, 1977).

In this study, organisation designs in direct and direct investment franchising also adopt a contingency approach to change. As with the OLM portfolios, designs continue to represent what Egelhoff (1999) determines are traditional models even after changes have been implemented. However, there are a number of differences in organisational processes within these elements of the portfolio. These differences are driven by the degree of control afforded to the franchisor. As franchisees retain control over their finances and daily hotel operations, franchisors cannot readily employ the same output control mechanisms as in OLM portfolios. Contractor and Kundu (1998a, 1998b) also found weak control over daily management and quality in international hotel franchises. However, this study reveals that it is administrative controls (as defined by Hoffman and Preble, 1991) that serve as the main control mechanisms, despite a number of researchers questioning their effectiveness in international franchise systems (Hoffman and Preble, 1991; Fladmoe-Lindquist, 1996; Elango and Fried, 1997). Furthermore, a number of factors are identified that contribute to this reliance on administrative controls in international hotel chains.

In this first instance, economic controls do not appear to be as effective as suggested by previous studies (Bradach, 1995; Kauffman and Dant, 1996; Bercovitz, 2002; Skalins and Mayer, 2002). The cost associated with brand switching for franchisees is no longer deemed prohibitive. Secondly, greater levels of competition amongst franchisors also facilitate brand switching by franchisees. These economic and competitive forces create greater pressure on franchisors to protect the brand image through the control processes implemented. In this way they ensure they can continue to grow the brand through future sales to new franchisees. Using administrative controls as the key diagnostic tools to monitor adherence to brand standards therefore becomes more important. As such, these findings provide empirical support to the arguments of Eroglu (1992), McGuffie (1996) and Fladmoe-Lindquist (2000) on the importance of quality control in relation to brand standards in international franchise systems. However, the particular environmental forces driving these changes may be industry specific and not as applicable to other service sectors.

This study also reveals that protecting brand standards impacts positively on franchisor willingness to use contractual controls (as defined by Hoffman and Preble, 1991) to remove underperforming hotels from the system. Quinn's (1997) study of international retail networks also reveals that the effectiveness of contractual controls is positively related to the franchisor's willingness to use them. However, Connell (1997) and Quinn (1997) also found that contractual controls are used only in extreme situations and this finding is supported to some extent in this study. There is evidence of franchisors giving franchisees time to make improvements before contracts are enforced. While Hoffman and Preble (2004) found contractual controls more difficult to use in international franchise systems, informants in this study did not identify this as a particular issue. However, it must be pointed out that informants were not asked directly about this potential difficulty.

Behavioural controls are also restricted in direct and direct investment franchised divisions in this study. This finding is inconsistent with that of Dahlstrom and Nygaard (1999) who found evidence of high formalisation to control opportunistic behaviour in their study of Norwegian oil refinery franchise systems. However, these contradictory findings may be explained through industry-specific differences, and the fact that in this study, formalisation is judged relative to that used within OLM divisions. What formalisation there is in franchised and direct investment franchised divisions, is predominantly limited to technical brand standards rather than softer elements of customer service. While Contractor and Kundu (1998a, 1998b) found there was non-existent control over physical quality in franchise systems, this study suggests that formalisation is being used to overcome this limitation. This finding may also be applicable across other service sectors where physical quality is important to upholding brand image.

Due to the decentralised nature of operational decision-making, non-coercive sources of power and management by persuasion are the key sources of behavioural control identified in this study; a finding consistent with previous research undertaken by Bradach (1995), Contractor and Kundu (1998b) and Quinn (1997). However, decision-making in franchised systems can be viewed from both operational and strategic perspectives. When it comes to more strategic decisions regarding the brand, the evidence from this study suggests there is very limited input by franchisees and what input there is, is representational. Informal practices, such as an invitation by the corporate level to trial new initiatives are normally made only to those franchisees considered to have a high achievement rate or who play by the rules. This practice could be perceived as a way to incentivise franchisees and thereby increase behavioural control over them.

Coordination and communication processes used within the franchised divisions are also limited compared to OLM estates. Much of the communication between the franchisor and the franchisee is through formal channels and by way of formal reporting. More informal communication is evident only when there is a need to persuade franchisees to adopt new initiatives. Communication is 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). However, this study suggests that management perceptions also impact on the willingness to engage in communication between the corporate level and franchised hotels and between franchised and OLM elements of the portfolio. This lack of informal coordination and communication appears to be inconsistent with the need to manage by persuasion. Furthermore Dant and Nasr (1998) identified that communication positively impacts on control in franchise systems. These findings suggest that informal coordination and communication processes could be used more effectively to support mechanistic structures and enhance degrees of control attained in these franchised divisions, as they are in OLM portfolios.

The third and final design identified in this study is within corporate and master franchised divisions that employed change models of design (Egelhoff, 1999). In these inter-organisational designs, processes take on more importance than formal structures as the design evolves. Greater emphasis is placed on lateral integration or coordination processes as opposed to vertical control mechanisms, a finding that supports Curado's (2006) conceptual argument. These designs are characterised by decentralisation with much authority and power devolved to the affiliated organisations, characteristics of change models identified by Child and McGrath (2001) through their review of design studies. In this study, these designs enable the firms to better meet the needs of their different customer markets as they evolve. Affiliated firms are able to take local initiative to achieve agreed upon goals rather than have initiatives imposed from above. This study therefore adds to the literature by providing empirical evidence of these characteristics within change models. Furthermore, it identifies that communication within these designs is frequent, informal, multi-directional and inter-organisational. This finding is consistent with that of Martinez and Jarillo (1991) who found the need for sufficient coordination mechanisms to facilitate local responsiveness in MNCs. As such, the organisational and inter-organisational processes for control and coordination employed within these firms are mutually supportive, a finding that supports the conclusions drawn by Gittel (2000) within the airline industry. This study also reveals the dynamic nature of organisation designs within change models. However, change is continuous in nature, rather than punctuated as in traditional models. As such, this study provides empirical evidence to support Egelhoff's (1999) argument, that there are no predefined notions of equilibrium in change models of design.

The preceding discussion reveals that **organisation designs are dynamic in diverse affiliations, however there are key differences between the designs employed in relation to:**

- **the design models adopted,**
- **the organisation structures used,**
- **the organisational or inter-organisational processes employed and**
- **the nature of change within the designs.**

Table 6.1 sums up these differences between OLM, direct and direct investment franchises, and corporate and master franchised portfolios.

Table 6.1 identifies that diversely affiliated firms employ designs ranging from traditional to change models. It also reveals that organisations designs do not relate directly to the market entry method employed, but rather to categories of affiliation. These findings demonstrate that **design differences are related to the degree and type of interdependence created through the international market entry method chosen.** When the designs identified in this study are considered in relation to the type of interdependence created, they can be viewed

Table 6.1 Key Differentiators in the Design of Diverse Affiliations

Portfolio Element	Design Model	Organisation Structure	Organisational and Inter-Organisational Processes Employed	Nature of Change
OLM (owned, leased and managed)	Traditional	Mechanistic	• Decision-making is centralised • Extensive output and behavioural control mechanisms, heavy reliance on diagnostic systems • More varied coordination processes used within firms with greater levels of internationalisation • Communication is frequent, formal and informal, and multi-directional • Processes generally support mechanistic structures, but mechanistic structures can limit flexibility achieved	• Pace of change is punctuated • Change is contingent on international growth strategy, size of portfolio and number of brands • Emphasis is on structure first, then on underpinning processes
Direct and Direct Investment Franchise	Traditional	Mechanistic	• Decision making is centralised for strategic decisions concerning the 'brand', but decentralised for operational decisions • Focus of control is output control, heavy reliance on diagnostic systems (administrative control) that relate to technical aspects of quality • Legal controls also used to control output • Coordination is given less attention than formal control procedures • Communication is dominated by formal reporting structures • Relatively less informal communication than in OLM portfolios	• Pace of change is punctuated • Change is contingent on international growth strategy, size of portfolio and number of brands • Emphasis is on structure first, then underpinning processes
Corporate and Master Franchise	Change	Process (inter-organisational) more relevant dimension than structure	• Decision making is decentralised • Output control mechanisms implemented but behavioural control mechanisms emerge • Some reliance on diagnostic systems but these devolved to master or corporate franchisee level except for development targets • Greater reliance on informal coordination processes • Communication is frequent, formal and informal, and evolves down organisational levels as inter-firm agreement evolves • Coordination and control processes are mutually supportive	• Change is fluid and continual in nature • Change is driven by interaction between firms • Emphasis is on inter-organisational processes

along a continuum from traditional to change models as depicted in Figure 6.1.

The correlation between interdependence and organisation design is well supported through previous empirical studies (Thompson, 1967; Martinez and Jarillo, 1991; Gulati, 1995; Buono, 1997; Gulati and Singh, 1998; Harzing, 1999; Dekker, 2004). While these studies have focussed on the relationship between degrees of interdependence and control and coordination in different types of organisational and inter-organisational agreements, they can be used to examine the findings from this study.

Using Thompson's (1967) classification, three types of interdependence are depicted in this study. The OLM elements of the portfolios are arguably reflective of pooled interdependence as each hotel unit operates in its own right and makes a contribution to the brand or firm. In addition, failure in one hotel and poor quality or customer feedback may threaten the reputation of other hotel units in the brand. Given the autonomy granted to franchisees through the contract, the designs in direct and direct investment franchise portfolios are more decentralised than those in OLM portfolios. The franchisor creates and distributes the product concept and trademark. The franchisee then delivers the product to the customer. Each organisation makes a successive contribution to the development and delivery of the brand and they are therefore sequentially interdependent. In corporate and master franchise agreements, portfolio development and management of different functional responsibilities is divided between the firms involved. The nature of the interaction includes more shared resources between firms and is therefore reflective of reciprocal interdependence. The literature review reveals which control and coordination procedures are deemed appropriate for different types of interdependence. Table 6.2 compares the findings from this study with those identified through the literature, drawing on both the empirical studies identified above and also on conceptual studies reviewed.

Table 6.2 identifies distinct differences in the control and coordination processes employed in this study and those identified in the literature. In OLM portfolios, the

Figure 6.1 Organisation Design in International Diverse Affiliations

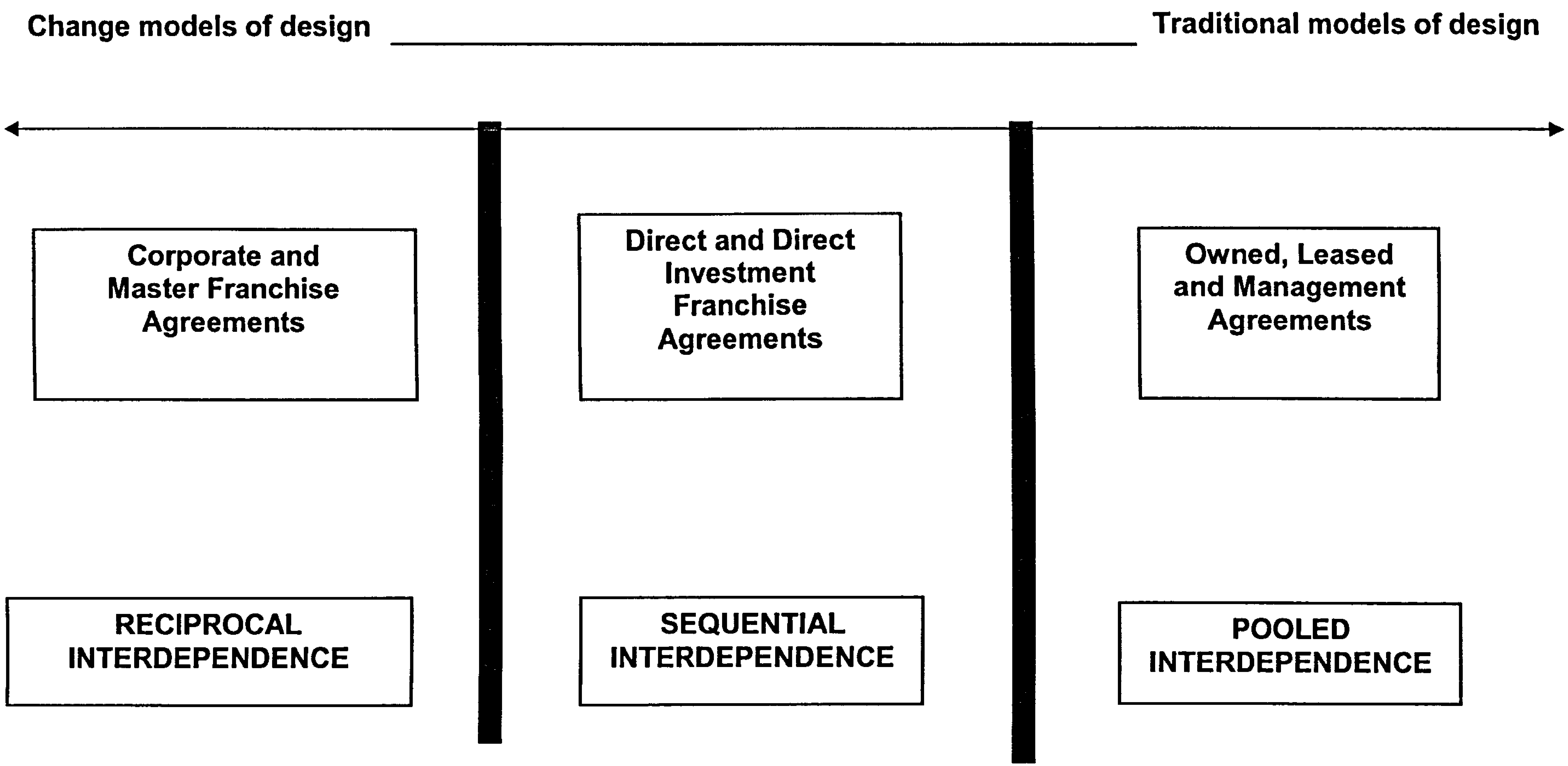


Table 6.2 Organisation Design and Interdependence

Type/Degree of Interdependence	Definition	Definition Applied To	Control/Coordination Processes Identified in the Literature*	Control /Coordination Processes Used by Firms In This study
Pooled Lowest	Each organisation or unit makes a discrete contribution to the output of the whole organisation, but these are not directly connected. Interdependence is pooled as each organisation is supported in some way by the firm and may be threatened by the failure of any of its members.	OLM hotels: Each hotel operates in its own right and makes a contribution to the brand/firm. Each unit is supported through the corporate level of the brand/firm functionally (e.g. human resources, marketing, sales and distribution). Failure in one hotel and poor quality or customer feedback may threaten the reputation of other branded hotel units.	Able to rely on more formal processes such as: • Clearly defined rules • Standardisation of skills, knowledge and norms • Standard operating procedures • Direct supervision • Monitoring adherence to the processes and rules • Low levels of vertical communication deemed sufficient	Processes identified include: • Clearly defined rules • Training manuals to standardise skills, knowledge and norms according to brand standards • Standard operating procedures • Direct supervision • Monitoring adherence to the processes, rules and standards • Communication frequent and multi-directional • A range of coordination mechanisms employed, greater use of more informal mechanisms identified in firms that are more international
Sequential Medium	Each organisation makes a successive contribution to the development of a product or service.	Direct or Direct Investment Franchising: Product concept and trademark are developed and distributed by franchisor. It is then delivered to the customer by the franchisee. Each organisation makes a successive contribution to the development and delivery of the brand.	Requires the formal control processes identified above plus: • More formalised planning • Scheduling of production activities • Scheduled meetings • Standardised output • Formal and informal communication that facilitates feedback to different organisation units from higher levels	Processes identified include: • Training manuals to standardise skills, knowledge and norms according to brand standards • Monitoring adherence to the processes, rules and standards • Reliance on lower levels of formal and vertical communication

Table 6.2 continued...

Sequential continued				• Limited informal communication when persuading franchisees to adopt new products or marketing initiatives • Limited coordination mechanisms compared to OLM portfolios
Reciprocal Highest	Different organisations contribute and interact in a number of ways to contribute to the output.	Master and corporate franchise agreements: Both franchisor and franchisee are responsible for own portfolio and its development and management. Franchisees can undertake operational, financial, human resource and some sales and marketing initiatives. Franchisor might have some responsibility in these functional areas as well as for distributing the brand. The nature of the interaction includes more shared resources.	Requires processes identified above plus: • Coordinating mechanisms of cooperation and mutual adjustment • Horizontal (lateral) communication • When horizontal integration is required, more informal processes for communication and corporate socialisation become important • Formal control processes must not undermine informal coordination processes	Processes identified include: • Some training offered in relation to hr initiatives • Monitoring adherence to brand values rather than brand standards • Scheduling of marketing activities • Coordination mechanisms of cooperation and mutual adjustment reflected in decision making processes • Much reliance on lateral communication • Numerous formal and informal coordination processes identified, including informal communication and socialisation

*This table draws on the empirical studies of Martinez and Jarillo (1991), Gulati (1995), Gulati and Singh (1998) and Dekker (2004) and the conceptual studies of Gupta and Govindarajan (1991), Grandori (1997a) and Barki and Pinsonneault (2005).

firms within this study employ more coordination processes than previous empirical studies have identified or argued are necessary. These differences may be a result of the different industry sectors investigated. For example, Martinez and Jarillo (1991) conducted their investigation within manufacturing firms, suggesting there may be a need for more coordination processes within international service firms. In addition, their study investigated firms where subsidiary ownership ranged from 50% to 100%, whereas in this study, the ownership dynamics are different in OLM portfolios. Furthermore, this study reveals that extent of internationalisation may also impact on the number of coordination processes employed, a factor not investigated by Martinez and Jarillo (1991). This study demonstrates that these coordination processes encourage higher levels of informal communication between organisational members across different hierarchical levels and geographic regions. They therefore act as useful and complementary processes for decision-making and encourage sharing of best practice within these firms. As such, they also serve to enhance behavioural control. The research undertaken by Bartlett and Ghoshal (1987, 1989) and Golden and Powell (1999) reveals that these communication practices also serve to enhance flexibility across organisations. However, this study identifies that in reality there is limited autonomy granted to unit level managers in OLM portfolios. The focus on centralised output control mechanisms serves to limit any flexibility driven at the local level. Where products or services are adapted for local markets, these decisions are undertaken centrally at senior organisational levels. Chang and Taylor (1999) also found a correlation between the degree of ownership and central control exerted in their study of Korean manufacturing subsidiaries.

Table 6.2 highlights that within franchise and direct investment franchising, firms within this study adopt less coordination and communication processes than advised within the literature for this type of interdependency. Control is most readily depicted in this study through monitoring contributions to revenue and adherence to technical brand standards by franchisees. However, franchise systems were not a specific focus of these previous studies, suggesting that they may be unique organisational forms as Castrogiovanni and Justis (1998) argue. In this study, the franchisor introduces coordination processes only when they are deemed necessary to achieve buy-in or disseminate corporate perspectives. Additional coordination and informal communication processes could serve to enhance the degree of control afforded as within OLM portfolios. In addition, they could potentially enhance flexibility in direct and direct investment franchise systems by encouraging greater sharing of best practice. These findings point towards what Cardinal et al (2004) have identified as a control imbalance. In this study, there appears to be too much emphasis on formal control procedures in these divisions at the expense of informal coordination processes. As identified above, this emphasis appears to be driven by the need to protect brand image and therefore is arguably applicable across a wider sector of service industries.

In corporate and master franchised agreements, Table 6.2 reveals that the coordination and control processes employed by the firms in this study are consistent with those advised within the literature for this type of interdependency. This study therefore provides support for Grandori's (1997a) and Barki and Pinsonneault's (2005) conceptual research framework on the type of mechanisms employed to integrate reciprocally interdependent firms. However, the findings from this study differ from those of Gulati and Singh (1998) who found that alliances with reciprocal interdependence were more likely to use hierarchical forms of control. Gulati and Singh (1998) used secondary data and a quantitative approach to identify formal governance structures as defined by the types of contractual arrangement formed. The formal governance structures in this study, as defined by the master franchise contractual agreement, would also depict a hierarchical structure. However, by adopting a qualitative approach, this study reveals the reliance on lateral coordination processes within these inter-firm agreements despite the formal governance structure employed. Furthermore, this study adds to the literature by identifying that the number and type of coordination processes utilised increases over the length of the inter-firm agreements. These coordination processes also appear to be positively correlated with the extent of internationalisation. This study identifies that they serve to stimulate the levels of behavioural control in these inter-firm agreements. Previous empirical studies across a range of industrial contexts also identify the importance of behavioural control within inter-firm agreements (Das and Teng, 1998; Gulati and Singh, 1998; Dekker, 2004; Kauser and Shaw, 2004). Furthermore, the findings from this research reveal these coordination processes serve to stimulate greater flexibility across these elements of the portfolio, suggesting that flexibility is not achieved at the expense of control.

This discussion serves to highlight a number of anomalies in coordination practices between the literature and the findings within this study. The latter suggest that coordination processes can impact positively on degrees of control and flexibility achieved. However, this study also reveals that mechanistic structures and centralised output control mechanisms that provide the framework for organisational processes can serve to limit the flexibility actually achieved. This argument suggests that **coordination processes must be supported by appropriate control procedures and organisation structures in order to achieve flexibility.** This finding is consistent with that of Gittel (2000) and Gittel and Weiss (2004) who identified the need for control and coordination processes to be mutually supportive in the airline industry. They also provide support for Cardinal et al's (2004) findings of the benefits of balanced control systems.

6.2.2 Hybrid Designs

The argument presented thus far has identified the distinct differences within designs in diversely affiliated service firms. However, the literature suggests that hybrid forms of design might be the most suitable for diversely affiliated organisations to adopt. Table 6.3 compares the key characteristics of hybrid organisation designs identified in the literature review to the characteristics of the differentiated designs identified in this study.

Table 6.3 reveals that only two characteristics of hybrid and differentiated designs are similar. Both contain a mixture of mechanistic and organic structures and within both, diverse structures are normal. Other characteristics of hybrid designs are only reflected partially in differentiated designs, and when they are, these are depicted predominantly in the designs of corporate and master franchise portfolios and thus change models of design. For example, these particular designs have multiple corporate centres with each contributing different types of expertise about their markets, thereby forming what Bahrami (1992) identifies as steeples of expertise. Cosmopolitan mindsets also identified by Bahrami (1992)

Table 6.3 A Comparison of Hybrid and Differentiated Models of Design

Characteristic of Hybrid Models Identified in the Literature*	Characteristics of Differentiated Models of Design Identified in this Study
• **Contain a mixture of mechanistic and organic structures**	• **Contain a mixture of mechanistic and organic structures**
• Traditional models at macro (corporate or firm) level • Organic models at micro (divisional or functional) level of organisations	• Model employed varies according to the type of interdependence rather than at macro or micro level
• Calculated blends of different governance structures	• Blend of different governance structures according to different type of interdependence
• Contain bedrock (core) structures that change infrequently and these are overlapped by lateral processes	• Bedrock or core systems change infrequently in OLM and franchised elements but not necessarily overlapped by lateral processes • Lateral processes in corporate and master franchise portfolios, but not underpinned by bedrock structure as change is more continuous
• Multiple centres that serve to support the organisation	• Multiple centres only in corporate and master franchised elements of the portfolio • Single centres in OLM and direct and direct investment franchise elements of portfolio
• Steeples of expertise throughout organisation	• Steeples of expertise in corporate and master franchised elements of the portfolio • Expertise in other elements of portfolio perceived to lie at the corporate level
• Interdependent units	• Interdependency within different designs across portfolio
• Multiple alliances • Predominantly horizontal integration with some vertical integration	• Multiple alliances but horizontal integration more prominent in corporate and master franchise agreements • Vertical integration more prominent in direct and direct investment franchised and OLM portfolios
• **Diverse structures normal**	• **Diverse structures normal**
• Cosmopolitan mindset (organisational members can reconcile global/local views)	• Cosmopolitan mindset more apparent in corporate and master franchise agreements, but only when reach stage of maturity
• Emphasis on flexibility, but not at the expense of efficiency	• Flexibility more apparent in corporate and master franchise agreements at later stages of evolution • In direct and direct investment franchised and OLM elements efficiency may be achieved at the expense of flexibility
• Control and flexibility encapsulated across the organisation	• Control and flexibility simultaneously achieved in corporate and master franchise agreements, • In direct and direct investment franchised and OLM elements control achieved at the expense of flexibility

*Characteristics identified from the work of Bahrami (1992), Schermerhorn et al (1994), Day (1999), Egelhoff (1999) and Ashcraft (2001).

emerge among members of the different firms as the inter-firm agreements evolve towards maturity. This trait is displayed by the members of the different firms willingness to reconcile both global and local perspectives when undertaking decisions. In addition, this evolution gives rise to the simultaneous achievement of both control and flexibility. In this study, there is evidence of the achievement of all types of flexibility as identified by Schilling and Steensma (2001), but not at the expense of control. However, these characteristics are not evident in all three designs identified. There appear to be distinct barriers erected between the different elements of the portfolio that hinder the adoption of hybrid designs and the realisation of their purported benefits. The shaded areas between the different designs in Figure 6.1 depict these barriers.

This study reveals that the foundation for these barriers is the different designs adopted and the distinct control, coordination and communication processes employed for, and restricted to, each different design. In addition to the process differences identified above, other disparate processes also endorse the barriers between the different designs. For example, there is a greater willingness by senior managers to get involved at the unit level within OLM portfolios. There is also more frequent and informal communication within OLM portfolio members at different organisational levels. OLM hotel managers are financially rewarded for good performance and sometimes rewarded with additional networking opportunities. In contrast, franchisees are punished for poor performance. This carrot and stick approach serves to enhance perceptual barriers between these divisions. Other perceptual biases also exist amongst organisational members within the different designs. OLM members perceive franchisees as the 'poor cousins' who offer inferior quality and are not considered to be trustworthy. Members of corporate and master franchise organisations consider individual franchisees to be of relatively little significance in the overall operation of brands. Within direct and direct investment franchise systems, members of the corporate organisation representing the franchisor display limited consideration of the potential worth of individual franchisees who are considered to be 'on the other side of the wall' when it comes to communication. These perceptual biases serve to reinforce barriers between the different designs and hinder the interaction between them. This study suggests therefore that rather than communities of practice (Lave and Wenger, 1991; Kimble and Hildreth, 2005) **communities of design are created and maintained through design differences and perceptual barriers in diverse affiliations.**

Communities of practice were first introduced by Lave and Wenger (1991) within the context of learning through apprenticeship models. However, their definition and application has since been adapted for commercial organisations. Hildreth and Kimble (2000) report that communities of practice are informal groups of professionals who are bound together by common problems and common pursuit of solutions. Ardichvili, Page and Wenting (2003:65) add that these informal groups share areas of interest and are united in action for the good of the whole firm. Their value to international organisations and inter-organisational agreements lies in their ability to facilitate the integration of new employees, the ability to respond to customer needs, the creation and sharing of knowledge, and thus the reduction of time spent reinventing the wheel (Wenger and Snyder, 2000; Juriado and Gustafsson, 2007; Pastoors, 2007). Communities of practice are considered to be particularly effective for disseminating tacit knowledge between members (Ardichvili et al, 2003; Dewhurst and Navarro, 2004; Kimble and Hildreth, 2005) however, their success is reported to depend on members' willingness to participate within the community and to share knowledge (Kimble and Hildreth, 2005). Trust between members has been identified as a fundamental criterion for success (Ardichvili et al, 2003; Dewhurst and Navarro, 2004) as it allows members to develop shared understanding, a sense of common identity and relationships of mutuality (Mittendorf et al, 2006). Pemberton, Mavin and Stalker (2007) highlight the role of members' perceptions in developing these relationships. Within the diverse affiliations investigated in this study, perceptual barriers have been identified between the different designs and their members. These barriers inhibit the development of shared understanding, a sense of common identity and relationships of mutuality. As a result, communities of design are created rather than communities of practice and these appear to have a negative impact on knowledge development and sharing across diverse affiliations.

Communities of design also serve to inhibit the development of 'plural' processes identified by Bradach (1995) as an essential ingredient for the simultaneous achievement of control and flexibility. Table 6.4 compares the findings from this study with the plural processes identified by Bradach (1995). As multi-unit franchisees were not a subject of this study, the modelling process has been omitted from this analysis.

Table 6.4 A Comparison of Plural Processes

Plural Process*	Definition	Findings from this Study
Ratcheting process	Comparison of performance measures serves to stimulate each division to improve performance	Comparisons are not made across the different elements of the portfolio
Socialisation	Movement of organisation members between franchised and corporate-owned divisions leads to improved control	Evidence of movement of organisation members within corporate and master franchise agreements but predominantly at later stages of evolution
Mutual learning process	Testing of new ideas from franchisees by corporate office for financial viability	Evidence of adoption of ideas or innovations from corporate or master franchisees only, degree of testing not identified

* As identified by Bradach (1995).

Table 6.4 clearly indicates key differences in the findings of this study with those of Bradach (1995). While a number of control processes used within OLM and franchised divisions are consistent with those identified in Bradach's (1995) study, the lack of comparison between performances of the different divisions prohibits the development of a 'ratcheting' process to improve organisational performance and hence control. However, Bradach (1995) investigated domestic firms and ratcheting has questionable relevance in an international setting where diverse market conditions could make performance comparisons meaningless.

There are also differences depicted in this study for socialisation. Bradach's (1995) plural process of 'socialisation' can be likened to Goh's (2001) human integration across different divisions or firms. This plural process is reported to increase the levels of what Ouchi (1979) identifies as behavioural control. The more movement of people across organisations, the greater the potential for dissemination, particularly of tacit knowledge through personal contact (Kim and Hwang, 1992;

Kogut and Zander, 1993; Driscoll and Paliwoda, 1997). The sharing of tacit knowledge was identified through the market entry literature to increase control afforded within individual organisations and in this study there is evidence of socialisation within OLM designs for this purpose. However, the literature also highlighted the potential risk of this practice in inter-firm agreements, where dissemination and opportunistic behaviour can undermine a firm's competitive advantage, particularly in horizontal alliances (Terpstra and Simonin, 1993; Clarke-Hill et al, 2003; Klint and Sjoberg, 2003; Vetschera, 2000). This study however, provides empirical evidence of socialisation in master and corporate franchise divisions. As such it offers support for Todeva and Knoke's (2005) argument that risks of dissemination could depend on the inter-organisational processes employed. However this study also suggests that it could be dependent on the evolutionary stage of an inter-firm agreement. There is evidence of greater levels of socialisation in this study at the maturity stage. Furthermore, this socialisation takes place across organisational boundaries and was also actively encouraged across geographical boundaries due to the perceived benefits of this type of behavioural control. Cliquet (2000) and Cliquet and Croizean (2002) also found more support for Bradach's plural processes in mature store networks in their study. However, they defined maturity according to network size and market saturation. The findings from this study also differ from those of Chang and Taylor (1999) who identify the limitations of behavioural control mechanisms in international manufacturing firms. Socialisation as a behavioural control mechanism may therefore be more relevant to international service firms and particular types of retail networks. This study adds to the literature however, as it also reveals that the socialisation that does take place in diverse affiliations is restricted to the different communities of design. This finding provides further support for the argument presented above that organisational design processes contribute to the development of distinct design communities.

Flexibility in Bradach's (1995) plural system was derived from 'mutual learning' whereby new ideas from corporate employees and franchisees were tested at corporate level for financial viability. In this study, there is evidence of this process but only within. corporate and master franchise portfolios. There were no organisational processes identified in this study to record or test the new product ideas from direct and direct investment franchisees. In fact, informants reported a distinct lack of interest in franchisee innovations or best practice. This study therefore supports Fladmoe-Lindquist's (2000) argument that collective learning is often a under utilised feature of a franchise system.

There may be a number of factors that contribute to the discrepancy between this study and Bradach's. The differences in the industry sector investigated may be one factor, as Cliquet (2000) and Cliquet and Croizean (2002) identified through their study of plural organisations within three industries. The use of multiple brands and the size of the firms involved may also be relevant factors that impact on the development of plural processes. While the size of firms investigated in this study and the number of geographical markets served may make mutual learning a more difficult process, a number of studies do identify that organisational learning can be achieved in multinational firms (Bartlett and Ghoshal, 1987; Doz and Prahalad, 1991; Kim and Mauborgne, 1993). When the discrepancies in the findings from this study are considered in conjunction with those related to hybrid organisational designs, the barriers erected between the different elements of the portfolio appear to inhibit the development of plural processes. While Hastings (1996) employs the term organisational gridlock to refer to built in boundaries between different hierarchical levels, departments, functions and geographical units, this study suggests that this term can also incorporate boundaries between different elements of portfolios. It is argued therefore that **communities of design can inhibit the development of plural processes in diversely affiliated organisations.**

Table 6.4 does suggest that Bradach's (1995) findings may have more applicability to master and corporate franchising in international service firms where change models of design are employed. The traditional boundaries that exist between the different affiliated organisations are broken down in the evolution of these inter-firm agreements. As a result, Bradach's (1998) plural processes can emerge through these designs and serve to enhance levels of control and flexibility achieved. The application of Bradach's plural process model therefore serves to support the argument presented above that corporate and master franchise portfolios exhibit the most characteristics of hybrid designs. As such, change models of design arguably offer more benefits than the other design models employed as purported by researchers within the process school (Hedlund, 1984; Doz, 1986; Bartlett and Ghoshal, 1987, 1989; White and Poynter, 1990). As these models are depicted within inter-firm agreements within this study, the following section therefore considers the second theme for discussion, the management of inter-organisational designs.

6.3 The Management of Inter-organisational Designs

Change models are identified in this study in the inter-organisational designs within corporate and master franchise portfolios. These inter-firm designs evolved within this study, a finding well supported through the empirical studies of Kanter (1994), Buono (1997), Batonda and Perry (2003) and Poulymenakou and Prasopoulou (2004). Distinct developmental stages have also been identified within master franchise agreements (Connell, 1997). Table 6.5 compares the findings from this study with those of Kanter's (1994) seminal study on 37 international alliance agreements and Connell's (1997) study of master franchise agreements in international hotel chains. While only two studies are used for illustration purposes, the following discussion draws more widely on previous research.

Table 6.5 highlights differences in the number of stages identified and the labels applied to these in the different studies. However, it also reveals a number of similarities in the findings. For instance, Kanter's stages of 'courtship' and 'engagement' equate to the 'affiliation formation' stage identified in this study. The starting point in both is the initial discussion with potential partners and the signing of the inter-firm agreement signifies the end point. Similarly, Connell's (1997) 'alignment' process ends when the contractual agreement is signed. Comparable stages have also been identified in international networks (Batonda and Perry, 2003) and technology alliances (Poulymenakou and Prasopoulou, 2004).

Table 6.5 A Comparison of Evolutionary Stages in Inter-Organisational Agreements

Kanter's (1994) Study of 37 companies in many types of international alliances	Connell 's (1997) case study of master franchises in international hotel industry	Stages Identified in this Case Study and the Relevant Inter-Organisational Design Processes
1. Courtship: i) Two firm's meet, are attracted and discover compatibility **2.Getting Engaged:** i) Plans drawn up and the deal is closed	**1. Alignment Process:** i) Contractual obligation to adopt full franchisor structure and system; adoption also dictated by nature of customer markets	**1. Affiliation Formation:** i) Motive for formation determined by each affiliate ii) Partner selection criteria established according to motive iii) Identification of potential partners iv) Selection criteria used to inform negotiation process v) Relationship defined to reflect mutual value/contribution of firms vi) Relationship definition used to determine prescribed inter-organisational design vii) Contractual agreement signed
3. Setting Up Housekeeping: i) Firms discover differences in how they want the business to operate **4. Learning to Collaborate** i) firm's develop mechanisms for bridging organisational and interpersonal differences to achieve strategic, tactical, operational, interpersonal, cultural integration	**2. Selection Process:** i) Selecting systems and techniques that make sense to the host operating environment and the master franchisee company and culture	**2. Affiliation Development:** i) Difficulties encountered when differences arise in strategic, tactical, operational, interpersonal, cultural, technological and territorial differences ii) Problems exacerbated when power in contract is used to overcome inter-organisational differences iii) Inter-organisational design reflects desire for centralised control and decision making to manage differences iv) Performance is measured incrementally; individual members not willing to play by rules v) Intensive and personal inter-firm communication processes required to build inter-personal relationships; listening must be with the goal of understanding rather than replying vi) Inter-organisational processes for decision making adapted to better reflect the affiliation definition vii) Communication channels open up in lower organisational levels

Table 6.5 continued...

		2. Affiliation Development (continued): viii) More flexibility to match local market demands as inter-organisational processes become less centralised and standardised
5. Changes Within: i) Firms start to learn from each other and borrow ideas	**3. Attunement:** i) Rejection of attempts to impose agenda which franchisee is fundamentally opposed to	**3. Affiliation Maturity:** i) More informal inter-organisational coordination processes implemented ii) This encourages communication throughout different organisational layers and further inter-personal relationships to develop iii) Inter-personal and inter-organisational relationships encourage development of trust iv) Affiliation culture emerges which reflects the informal organisation and 'the way things are done' through shared beliefs v) Inter-organisational agreement moves beyond scope of original contract

These previous studies have identified the broad activities that take place at different stages; however, this study identifies seven sequential but inter-related processes in the formation stage (points 1i through 1vii in Table 6.5). The determination of a motive for the formation of an inter-firm agreement is the starting point within this study. Kanter (1994) argues that this is a process of self-analysis and is a vital activity at this stage. This study also identifies its importance as a foundation for determining partner selection criteria and how these are then used within the negotiation process. A key outcome of the negotiation process is the definition of the inter-firm affiliation or relationship (1v in Table 6.5). What this study reveals however is that this definition does not reflect the technical nature of the contractual arrangement, but rather the softer nature of the inter-firm relationship that is being formed. As previously identified, the agreements in this study are corporate and master franchise agreements, but they are defined internally and externally as a strategic alliance or partnership. This definition, in turn, outlines or prescribes (Iberra, 1992) the broad parameters of the inter-firm design considered acceptable to the affiliated partners. This is deemed to be an important stage in the negotiation process as it reflects the mutual contribution of the firms involved in the agreement. Buono (1997) also identifies mutuality of inter-firm needs as important in the formation of manufacturing networks. Reaching the step of relationship definition however is dependent on effective communication taking place between individual members so that goals of the individual organisations can be strategically aligned. What underpins the effectiveness of the communication at this stage is the ability of individual members of the different organisations to form relationships with each other. Informants within this study specifically identify chemistry between individuals as a selection criterion. Kanter's (1994) study also found personal chemistry relevant at this stage and Batonda and Perry (2003) identified social aspects to be important in the early stages of networks. These relationships, in turn, form the basis of the perceptions of compatibility and the willingness to define the relationship in a way that reflects the mutuality of the agreement. This suggests that **relationship definition is the starting point for inter-organisational designs.**

In the affiliation development stage, the firms in this study went through what could be described as teething problems when trying to implement the agreement (point

2i in Table 6.5). While neither Batonda and Perry (2003) or Poulymenakou and Prasopoulou, (2004) make reference to inter-organisational problems at this stage, Table 6.5 highlights the similarities of the findings of this study with Kanter's (1994) 'setting up housekeeping' stage. In both studies, problems occur implementing the inter-firm agreement due to organisational differences. Kanter (1994) identifies strategic, tactical, operational, interpersonal and cultural differences to overcome in the inter-firm agreements and these are all supported through this study. However, this study also identifies that technological and territorial differences can create problems. Furthermore it reveals that these differences become increasingly apparent as boundaries between the different organisations start to erode. It also adds to these previous studies by identifying that inappropriate inter-organisational processes used to overcome the differences can actually exacerbate the differences (see points 2ii through 2iv in Table 6.5). For example, it was the Brand Owner's attempt to centralise decision-making and control procedures that served to emphasise the differences between the case study firms. A focus on incremental measures of performance also served to create 'collaborative inertia' (Huxham, 1996) that prevented the affiliations moving forward in a constructive manner and some members even deliberately avoiding playing by the rules. While Connell's (1997) study does not focus specifically on problems as a result of organisational differences, it does identify that franchisees become more selective in what systems and procedures they choose, suggesting that there may be differences to overcome.

In this study, affiliated firms and their members gradually work through these problems, learn to compromise and establish more effective inter-organisational processes (points 2v through 2viii in Table 6.5). While there are similarities in this study and Kanter's (1994) 'learning to collaborate' stage, this study builds on previous research and provides detail on the adaptation of inter-organisational processes during this stage. Both Batonda and Perry (2003) and Poulymenakou and Prasopoulou (2004) suggest there are adaptations to make in later stages of inter-firm agreements, but provide no detail as to how or why this takes place. This study sheds further light on these problems and identifies they can be overcome initially through a change in communication processes (point 2v). Buono (1997) also highlights the importance of inter-firm communication at the second stage of network agreements. This requires greater commitment from senior management, including their own time and energy, to manage the communication processes and to resolve inter-organisational conflicts. Previous empirical studies have also identified both senior management commitment and effective communication as important ingredients of alliance agreements (Kanter, 1994; Elmuti and Kathawala, 2001; Finn and McCarney, 2002; Parise and Casher, 2003; Kauser and Shaw, 2004). This study however, identifies two-way communication is essential so that senior members of all organisations can develop a better understanding of the perspectives of different organisations and their members. As such, this study provides support for Arino and de la Torre's (1998) finding on the importance of feedback loops to alliance evolution.

Communication also served to enhance the development of individual relationships at this stage, a criterion identified as important in alliances in previous empirical studies (Buono, 1997; Sharma, 1998; Kauser and Shaw; 2004; Taylor, 2005). Kanter (1994) and Batonda and Perry (2003) also highlight the importance of the development of inter-personal relationships during developmental stages and it is because of these relationships that decisions were taken to adapt other inter-organisational processes in this study. Adaptations were made to decision-making processes to better reflect the mutual value of each affiliate. Work systems were aligned to achieve organisational goals, but not standardised across the different organisations. In this way conflict over expected roles and rewards and the perceived inequalities in the procedures for control was able to be resolved in a constructive manner with outcomes acceptable to all parties. These three criteria, aligned work systems, expectations of roles and rewards, and constructive conflict resolution have all been identified as ingredients of successful alliances through previous empirical studies in different industrial settings (Finn and McCarney, 2002; Kauser and Shaw, 2004).

The final stage of 'affiliation maturity' is characterised by the development of an inter-firm culture and the movement beyond the bounds of the original agreement (points 3i-3v in Table 6.5). This stage sees the implementation of more coordination processes to facilitate greater exchange between firms. These processes become more devolved throughout different inter-organisational layers and encourage the sharing of information to support decision-making. These characteristics are also depicted in Kanter's (1994) fifth stage of 'changes within' where firms borrow ideas and learn more from each other. Connell (1997) notes that in the final stage of 'attunement', franchisees reach a point where they reject any attempt by the franchisor to impose an agenda that the master franchisee is fundamentally opposed to. However, Connell (1997) concludes that franchisor and master franchisee relationships at this stage are based on cooperation, negotiation and mutual understanding, findings that are not that dissimilar from this study. In fact, both studies identify an allowance for greater degrees of flexibility to adapt to local market demands in this final stage. By drawing on the alliance and network literature however, further insight into the stages of master franchise evolution is gained, as suggested by Fladmoe-Lindquist (1995).

Effective communication remains vital at this stage of the affiliation, a finding supported by Kanter's (1994) research. Communication also has an impact on the perceived effectiveness of the decisions that are undertaken. However, this communication and the sharing of information to make effective decisions remain reliant on the relationships built between the different organisational members. Informants in this study point out that inter-firm agreements would not reach this stage let alone move beyond the scope of the original agreements, if trust had not been established through the development of personal relationships. Harris et al, (2000) and Perks and Halliday (2003) also found a relationship between trust and social structures, in particular that of interpersonal relationships. Furthermore, the desire of individual members to maintain these relationships influences norms of behaviour within the affiliated firms and shapes the 'way things are done'. As such these norms are indicative of what Dyer et al (2004) suggest are self-enforcing safeguards. As these processes get embedded within the affiliation, an inter-organisational culture gradually emerges that serves to facilitate control across the inter-firm agreements. While formal control mechanisms were not abandoned completely in this study, they were adapted. As such this study provides support for the argument that trust is complementary to formal control mechanisms (Das and Teng, 1998). However, it also supports Dekker's (2004) argument that trust can have a moderating effect on the relationship between coordination and control. For example, in this study, organisational members were willing to share confidential data, despite perceiving this to create risks to the control of their own firm.

This discussion has so far served to highlight the similarity in the evolutionary stages identified in the different studies. However it also reveals that different numbers of stages are identified in different studies of inter-firm agreements. Stages were identified in this study through the perceptions of the individual members of the inter-firm agreements and were a result of the interactions that took place between individual members and their organisations. However, these stages appear to be related to when distinctive changes were made to inter-organisational processes and the affiliation was considered to move forward positively. For example, stage two began with the implementation of the agreement, a change that moved the affiliation forward. In contrast, the inter-organisational processes implemented in the early part of this second stage hindered the interaction between members and proved counter productive in advancing the affiliation. As a result, respondents did not consider the next stage of the affiliation to occur until another major step forward was made. In the case study, this stage was perceived to be when the inter-organisational processes implemented better reflected the original relationship definition prescribed in the first stage. However, in other inter-firm agreements, members might perceive specific stages differently. These findings suggest that the distinct stages in any particular inter-firm agreement are defined by its members and the interactions that take place between them. Given that alliance agreements are considered to be socially constructed phenomenon (Osborn and Hagedoorn, 1997) this finding is perhaps not surprising. However is important to draw from this discussion that **interaction between organisational members impacts on the evolution of inter-organisational processes in inter-firm agreements.** This finding provides further support for the importance of individual relationships within alliances as identified by Buono (1997), Arino and de la Torre (1998), Arino et al (2001) and Kauser and Shaw (2004).

The preceding discussion has served to identify the key ingredients that underpin the continued evolution of inter-firm agreements. When these are considered in relation to the literature, it is possible to establish the importance of the key ingredients of success and inter-organisational processes at different evolutionary stages, thereby increasing the understanding of alliance management. Table 6.6 builds on the studies reviewed to compile Table 3.5 and uses the findings from this study to demonstrate the importance of success criteria and inter-organisational processes by evolutionary stage.

A number of findings are highlighted in Table 6.6. In the first instance, it provides empirical support for all the success ingredients identified through the literature review. It also identifies a further ingredient of success in inter-firm agreements, that of affiliation or relationship definition. The preceding discussion highlighted that this definition refers to the nature of the relationship between the different organisations and not necessarily the technical nature of the contract. In this study, the relationship definition reflected the mutuality of the agreement and whether this was acceptable to the different organisations. It also helped to establish perceptions of cultural compatibility and strategic alignment, also identified in Table 6.6 as most relevant in the formation stage. Furthermore, the relationship definition helped to establish a degree of trust between individual members as a prerequisite to formalising the agreement. Havila, Johanson and Thilenius (2004) also found from their study of buyer-seller relationships that trust comes before commitment in inter-firm agreements. These ingredients all reflect inter-firm coordination processes and identify the significance of these processes at the formation stage.

In the development stage however, it is inter-organisational processes for control that become the most critical. Foss et al (2000) also note the greater importance of control in early stages of alliances. These inter-organisational control processes also appear to be inter-related. For example, the problems encountered over defined and planned boundaries for resource sharing led to those related to clear and realistic expectations of roles and rewards that encouraged the implementation of inappropriate performance measures. In addition, it was the control procedures implemented and centralised decision making that served to exacerbate the problems in this study.

Table 6.6 The Relevance of Inter-Organisational Ingredients of Success and Design Dimensions by Stage of Affiliation

Ingredient of Success*	Relevant Inter-Organisation Design Dimension	Stage of Agreement Where Relevant
Organisation Structure	Inter-organisational structure	Design predominantly reflected through inter-organisational processes and these evolve through different stages. However, structure as defined by the authority in the contract is critical in the **development stage** if used to control the affiliation.
Appropriate Control Procedures/ Governance	Inter-organisational control	Most important in the **development stage**. Management by 'contractual' power is ineffective, as this approach does not reflect the mutuality in the agreement. Also important in the maturity phase, but are altered when trust and inter-organisational culture emerge.
Defined & planned boundaries for resource sharing	Inter-organisational control	Most important in the **development stage** when the agreement is implemented. Not as important once affiliation has reached the maturity stage when individual members are happy to share confidential data, and provide extra support.
Clear and realistic expectations of roles and rewards	Inter-organisation control	Critical in the **development stage** when focus on rewards can lead to a centralised approach to decision making. This created confusion and conflict over expected roles with regard to input into decision making.
Appropriate Performance Measurement	Inter-organisation control	Particularly important in the **development stage** where an incremental approach to measuring performance threatens the affiliation and emphasises organisational differences. Focus on rewards leads to an incremental approach to performance measurement.
Constructive Conflict Resolution	Inter-organisation control	Most critical in the **development stage**. Related to communication and the ability to listen with the 'intent to understand, not with the intent to reply'.
Development of Trust	Inter-organisational control/coordination	Important at the **formation stage** and a requirement for contract signature. Is nurtured through the individual ties between affiliated organisational members. Becomes effective in control and coordination efforts at the **maturity stage**.
Senior management commitment	Inter-organisational coordination	Most important in the **development stage** when problems arise. Problems overcome through the commitment of senior management and their ability to nurture individual relationships with members of affiliated organisations.
Strategic Alignment	Inter-organisational coordination	Most important in the **formation and maturity stages**. In the formation stage alignment of strategic goals required to get through negotiation and sign contracts. In the maturity stage is essential to ensure goals reflect that the agreement has moved beyond its original scope.
Aligned Work Systems	Inter-organisational coordination	Critical in the **development stage** where conflict results from differences in work systems.

Table 6.6 continued...

Ingredient of Success*	Relevant Inter-Organisation Design Dimension	Stage of Agreement Where Relevant
Compatible Cultures	Inter-organisational coordination	Perceived cultural compatibility is important in the **formation stage**. Shared inter-organisational culture emerges in the **maturity stage**.
Management of individual/social relationships	Inter-organisational coordination	Critical in **all stages** as it underpins perceptions of compatibility in the formation stage, helps to overcome difficulties in the development stage and becomes important in the formation of an inter-organisational culture in the maturity stage.
Adaptability	Inter-organisational coordination	Important in the **development stage** in order to overcome problems incurred.
Effective Decision Making	Inter-organisational decision making	Most important in the **development stage** where power in the contract could lead to inappropriate decisions for all affiliated members. At maturity stage, decision making is deemed effective when decisions undertaken are those for the good of the brand, rather than for the good of individual affiliates.
Effective Communication	Inter-organisational communication	Critical in **all stages**. Personal communication is essential to establish compatibility in formation stage, overcome difficulties in the development stage and nurture inter-personal relationships in maturity stage. Communication intensity increases throughout evolution.
Relationship Definition**	Inter-organisational coordination	More important in the **formation stage**. The definition reflects the mutual value of each organisation in the affiliation and should be used to shape the inter-organisational design processes that are implemented.

*Success ingredients have been identified through the studies reviewed to compile Table 3.5.
** This particular success ingredient has been identified through this study.

By the maturity stage, inter-organisational coordination processes once again become the most relevant. In particular, communication, trust, adaptability and culture are identified in this study. Strategic alignment may also become important here as the agreement starts to move beyond its original state. This study therefore identifies which **particular success criteria are important in different evolutionary stages** and that these can be used to inform the design of appropriate inter-organisational processes. It also identifies that some success ingredients are relevant at more than one stage and that there are some ingredients that are therefore more important to the continued evolution of inter-firm agreements. These ingredients become more apparent when the relevant success criteria are mapped onto the evolution of inter-organisational processes as in Table 6.7.

Table 6.7 emphasises the relevance of two of the success ingredients throughout the whole of the inter-firm evolution; effective communication processes and the management of individual relationships. The preceding discussion reveals that these two criteria are closely inter-linked. Effective communication is reliant on the management of relationships between the individuals involved in the communication process. Effective communication between individuals has been shown in this study to aid in the development of effective relationships. When viewed from this perspective the relational nature of inter-firm agreements is highlighted. Previous empirical studies have identified the importance of relational elements to inter-firm agreements in both manufacturing and service industries (Kanter, 1994; Buono, 1997; Saxton, 1997; Arino and de la Torre, 1998; Sharma, 1998; Perks and Halliday, 2003; Havila et al, 2004; Ivens, 2004; Kauser and Shaw, 2004; Sengir et al, 2004). The findings presented in Chapter Five support the notion that these relationships evolve throughout the life of inter-firm agreements. The relational nature of inter-firm agreements and their evolution can be better understood through the application of Sharma's (1998) dimensions of relational governance and the four types of interactions identified in the literature review; interaction frequency, interaction surface area, interaction variety and interaction medium.

Table 6.7 Inter-Organisational Processes and Success Ingredients by Affiliation Stage

Affiliation Stage	Inter-Organisational Processes	Relevant Ingredient of Success
Affiliation Formation	Motive for formation determined by each affiliate Partner selection criteria established according to motive Identification of potential partners Selection criteria used to inform negotiation process and evaluate potential Relationship defined to reflect mutual value/contribution of firms Relationship definition used to determine broad and prescribed inter-firm design Contracts signed	**Effective communication** **Management of individual/ social relationships** Perception of compatible cultures Strategic alignment of goals Development of trust Relationship (affiliation) definition
Affiliation Development	Inter-organisation design implemented; potentially problematic if power in the contract is used to inform design Performance measures implemented; potentially problematic if performance is measured incrementally. Design faults can lead to individual members not willing to play by rules of the agreement Inter-organisational communication processes adapted accordingly Senior management commitment to increase resources for this purpose required Inter-firm processes for decision-making adapted and informed through new inter-organisational communication channels Inter-organisational processes become less standardised and centralised More flexibility to match local market demands as a result	Defined and planned boundaries for resource sharing Clear and realistic expectations of roles and rewards Appropriate control procedures Appropriate performance measures **Effective communication** Senior Management Commitment **Management of individual/ social relationships** Constructive conflict resolution Effective decision-making procedures Adaptability (of inter-organisational processes) Aligned work systems

Table 6.7 continued...

Affiliation Stage	Inter-Organisational Processes	Relevant Ingredient of Success
Affiliation Maturity	More informal inter-firm coordination processes implemented Inter-organisational communication processes increased through lower organisational levels Inter-personal and inter-organisational relationships encourage development of trust Affiliation culture develops which reflects the informal organisation and 'the way things are done' through shared beliefs Inter-firm agreement moves beyond scope of original contract enhancing strategic flexibility	**Effective communication** Effective decision making **Management of individual/social relationships** Development of trust Compatible culture (development of a shared culture) Strategic alignment of goals

At the affiliation formation stage a few key individuals within the senior management team begin to develop ties between them. These ties become strengthened through the processes of negotiating, defining the relationship and signing the contractual agreements. Interaction frequency is limited to pre-arranged meetings, presentations and visits to each other's organisations. The surface area and variety are also limited to a few key corporate members of each organisation, although this increases somewhat to include legal representatives before contracts are signed. The interaction medium at this stage is predominantly face-to-face. Despite this limited interaction, the foundation for the development of the inter-organisational relationship is created. At this stage the relationship between the organisations is characterised by a 'perception of similarity', in goals, cultures and values of the different firms.

However, these ties between the members of the different organisations are put to a test in the development stage. Organisational members implementing the agreement hit something of a relational roadblock that is characterised by a 'perception of difference'. This study reveals that the use of contractual power can impact negatively on the development of relational ties, a finding also identified by Brown et al's (1994) empirical study of marketing alliances in the hotel industry. Ivens (2004) also identified the importance of restraint of power to relationship management in market research firms. However, this study reveals that the relationship can progress through effective inter-organisational processes, so that by the end of this stage interaction frequency has increased to include more formalised decision-making bodies and forums. The surface area and variety are also increased as interactions move down organisational levels incorporating more and more members of the different organisations. Further interaction media are employed, but face-to-face communication continues to play a vital role. These findings are supported by the work of Kauser and Shaw (2004) who identify the importance of extent of information shared between firms to alliance performance. This study adds to their findings however, by identifying that the nurturing of relational ties facilitates the change in the perceptions of the relationship from one of a 'perception of difference' to that of 'acceptance of difference'.

These relationships continue to develop through the final stage of maturity. Communication frequency remains vital at this stage however and is encouraged through the implementation of further coordination processes. This in turn, helps to increase the surface area and variety of interactions. Face-to-face communication remains an important media but is supplemented with greater amounts of voice, electronic and written communication. Sengir et al (2004) also identify the importance of communication to continued relationship development in research alliances. Once again, this further nurturing of relationships through the inter-organisational processes employed facilitates the removal of the remaining boundaries or barriers between the different organisations. The perception of the relationship at this stage can be described as one of 'valuing the differences'. This study therefore contributes to the understanding of alliances through the identification of the evolution of relational ties in inter-firm agreements. Figure 6.2 depicts this evolutionary process.

The study identifies that development of relational ties between different organisations results from the increased interactions between organisational members. It also reveals that management perceptions of the interactions are important to the evolution as depicted in Figure 6.2. Four key stages of relational evolution in inter-firm agreements have been identified in this study as:

- perceptions of similarity
- perceptions of differences
- acceptance of differences
- valuing the differences

Figure 6.2 The Evolution of Inter-Organisational Relational Ties

STAGE ONE: AFFILIATION FORMATION

Interaction frequency, surface area and variety limited
Interaction medium limited; predominantly face-to-face communication
Relational ties are formed

↓

RELATIONSHIP CHARACTERISED BY PERCEPTIONS OF SIMILARITY

STAGE TWO: RELATIONSHIP DEVELOPMENT

Interaction hits roadblock & relational ties are tested

↓

RELATIONSHIP CHARACTERISED BY PERCEPTION OF DIFFERENCES

Interaction frequency, surface area and variety are all increased
Interaction medium increased but face-to-face communication still plays vital role
Relational ties are strengthened

↓

RELATIONSHIP CHARACTERISED BY ACCEPTANCE OF DIFFERENCES

STAGE THREE: RELATIONSHIP MATURITY

Interaction frequency, surface area and variety increased further
Interaction medium increased but face-to-face communication remains important
Relational ties are increased and strengthened

↓

RELATIONSHIP CHARACTERISED BY VALUING THE DIFFERENCES

This study therefore identifies that **relational ties evolve through stages based on perceptions of similarities and differences.** This finding provides support for Arino et al's (2001) applied argument that in alliance relationships, experience with each firm's behaviour and interpretation of behaviour is a function of number, frequency and gravity of interactions between organisational members. Kanter (1994:97) also concludes from her investigation that alliances 'cannot be controlled by formal systems but require a dense web of interpersonal connections.' Osborn and Hagedoorn (1997) argue that emergent patterns of relationships are more salient than adopting the traditional views of organisation design. However, Arino and de la Torre (1998) found that procedural issues were important from the start in alliances. This study builds on these previous works and demonstrates that inter-organisational processes and relational ties are intertwined, as Green and Hui (1996) found from their research.

As Table 6.6 highlights, inter-organisational processes for coordination have greater relevance in the early stages of affiliation formation. Through the coordination processes identified above, perceptions of similarity are developed in the members involved in the negotiation process. Control procedures take on greater significance in the affiliation development stage and if used inappropriately, relational roadblocks occur. When inter-organisational processes for control and decision-making are reflective of the underpinning ingredients for success identified in Table 6.6, differences are still apparent, but there is an acceptance of these by organisational members. Inter-organisational processes for coordination and communication become more significant once again in the maturity stage of inter-firm agreements. These processes encourage greater communication between individual members at different organisational levels, increasing the number and strength of relational ties and a better understanding of the differences between the organisations. Understanding these differences is a prerequisite to perceiving the value of these organisational differences. The relational ties developed serve to enhance the level of control in inter-organisational agreements through the development of norms of reciprocity and perceptions of interconnectedness among alliance participants, a finding identified by Rindfleisch and Moorman (2003) in their study of new product alliances. This control is not achieved at the expense of flexibility however. This study demonstrates that as relational ties develop so too does the degree of flexibility achieved. Flexibility increases in relation to the perception of differences and the extent to which they are valued. This argument suggests therefore that **relational ties can be used to inform the development of inter-organisational design processes.** Given that these deigns evolve to become change models, this study also identifies that **relationship management matters in the development of change models of inter-organisational design.** The following section considers these findings in relation to the research propositions identified through the literature review.

6.4 Re-examining the Research Propositions in light of the Findings

Eight research propositions derived from the literature were used to frame this investigation and these are considered below in relation to the findings from this study.

The first proposition suggests that ownership modes yield the strongest degree of control through authority but limit the strategic and product flexibility afforded international service firms. In this study, the highest degrees of centralised control were identified in owned, leased and managed (OLM) elements of portfolios. Although these divisions depict three distinct market entry choices, ownership of the brand and the responsibility for the daily management of individual units remains with the corporate centre. As such, this study suggests that ownership does yield the strongest degree of control through authority. In addition, this study also revealed that flexibility is limited in these elements of the portfolio. While the coordination processes used in these designs could potentially increase the degree of flexibility achieved, centralised control procedures and mechanistic structures frequently prohibit the achievement of any meaningful flexibility. Any product flexibility identified in this study was rather limited and whatever adaptations were allowed were usually determined at the corporate level.

The second proposition suggests that contractual agreements yield the most strategic, product and volume flexibility, but can limit the degree and type of control afforded. This study suggests that control and flexibility are dependent on the type of contractual agreement used. While designs for management contracts exhibited many of the same characteristics as owned and leased elements of the portfolio on the surface, there were some differences identified in these contractual arrangements. This research did highlight that hotel owners do have a greater say in the management of the individual hotel properties, thereby shifting some degree of control towards the hotel owners. In addition, the contractual agreements with hotel owners also impacted upon the degree of flexibility afforded hotel management firms within this study. However, given the distinct nature of management contracts within international hotel chains, this finding may have limited applicability outside this service sector. Within the different franchise contractual agreements investigated in this study, different degrees of both control and flexibility have been identified as previously discussed. This study therefore suggests that degrees of control and flexibility afforded through contractual agreements are dependent on the particular type of agreement and the designs adopted to manage them.

As such this research does support proposition three which identifies that degrees of control and flexibility afforded through hybrid arrangements vary according to the particular type of agreement formed. This study also identifies that it is the degree of interdependence created through market entry methods chosen that influences the designs adopted and hence the degrees of control and flexibility achieved.

Proposition four suggests that in diversely affiliated portfolios, the creation of distinct organisational processes for different organisational forms can serve to enhance the levels of both control and flexibility achieved across portfolios through the development of plural processes. This proposition is supported by the research findings but only within change models of design. In these designs the development of relational ties can serve to break down organisational and perceptual barriers so that these processes emerge. As a result, these designs enhance the levels of control and flexibility achieved. However, this study did not find support for all the plural processes identified in previous studies. In other divisions and across entire portfolios, distinct communities of design built through perceptual and design barriers can prevent the emergence of plural processes and their purported benefits.

The fifth proposition suggests that organisation and inter-organisational designs comprise both formal structural dimensions and those of formal and informal processes. This study supports this proposition and identifies that organisational structure and processes are important and can serve to compliment or hinder each other. In inter-organisational arrangements however, processes emerge as the dominant dimension of design.

Proposition six proposes that the starting point for organisational design is organisation culture and this influences formal structures and the organisational processes adopted. This research suggests that the starting point for organisational design is the degree of interdependence created through the market entry method adopted.

Proposition seven suggests that the starting point for inter-organisational design is the contract and that inter-organisational structures, processes and culture are emergent. This study reveals that if the contractual agreement is used as the starting point for inter-organisational design, problems may ensue. Furthermore, it identifies a more appropriate starting point as the relationship definition if this recognises the mutuality in the inter-firm agreement. Inter-organisational processes, rather than structure then emerge from this starting point and also influence the relational ties that develop. Inter-firm cultures emerge when a stage of maturity is reached. Effective inter-organisational coordination processes assist in breaking down both design and perceptual barriers between firms so that this stage of maturity is reached.

Finally, proposition eight proposes that in diversely affiliated organisations, hybrid designs may be most appropriate to facilitate the simultaneous achievement of control and flexibility. This study identifies that change models can serve the same purpose. However, in diverse affiliations communities of design may exist that are separated by perceptual and design barriers. These can inhibit both control and flexibility achieved. Understanding how these barriers can be broken down through the management of relationships and organisational design processes is therefore important in the management of change models of design and inter-organisational designs.

6.5 Chapter Summary

This study has demonstrated that diversely affiliated service firms adopt differentiated designs. These designs and the nature of change within them are influenced by the degree and type of interdependence created by the market entry method chosen. However, the research reveals that this approach leads to the development of distinct communities of design where perceptual barriers between the communities inhibit organisational potential by hindering knowledge sharing and the development of plural processes purported to enhance degrees of both control and flexibility in diverse affiliations.

The models of design within these communities range from the traditional to change models. In traditional models, coordination processes can serve to enhance control and flexibility; however, mechanistic structures and centralised diagnostic output control tools inhibit the latter. In inter-firm agreements, designs evolve towards change models when the barriers are broken down between organisations as relational ties develop. When this occurs, degrees of both flexibility and control are enhanced.

The following chapter draws conclusions from this study in relation to these findings. A number of recommendations are made as a result, and the limitations of this study are also identified.

CHAPTER SEVEN

7. CONCLUSION

7.1 Introduction

The purpose of this chapter is to draw conclusions from the study in relation to the aims and objectives. This chapter begins by demonstrating how the aim and objectives have been met. It then identifies the original contributions of this study and discusses how these serve to fill the gaps in the literature identified in Chapter One. As a result, a number of recommendations are made for the design and management of the different organisational forms investigated and for further research. The limitations of this study are also identified and the chapter concludes by reflecting on the research journey undertaken to complete this thesis.

7.2 Achieving Research Aim and Objectives

This research sought to identify 'how' international diverse affiliations are designed and managed within and across organisational boundaries through a study of international hotel chains. To achieve this aim, the research also sought:

1. To analyse the formal organisation structures of a sample of international hotel chains, within and across organisational boundaries, in relation to the market entry methods employed.

2. To evaluate management practices within the sample through the exploration of processes for control, decision-making and communication within and across organisational boundaries.

3. To contribute to the knowledge of organisation design in international hotel chains, inter-organisational alliances and international diverse affiliations.

4. To make recommendations on organisational design for diverse affiliations in order to maximise their potential.

This study identifies that international hotel chains that employ multiple market entry methods comprise differentiated designs across their portfolios that reflect the type of interdependence created through the market entry method selected. These designs have been identified through the analysis of both formal structures and organisation and inter-organisational processes. This study makes a number of contributions to the knowledge of the design and management of international hotel chains, inter-organisational alliances, diverse affiliations and international service firms and these are discussed in the following section. As a result, recommendations are made on the management of these different organisational forms and the design of diverse affiliations.

7.3 Research Contributions

Four gaps were identified in the literature related to the design and management of international service firms, inter-organisational alliances, international diverse affiliations and international hotel chains that employ multiple market entry methods. This section discusses how this study helps to close these knowledge gaps, starting with international hotel chains. It then identifies the contribution made to researching organisation design.

7.3.1 Contributions to Theory

i) International Hotel Chains

This study has made a number of contributions to the understanding of the design and management of international hotel chains. In the first instance, it has provided empirical evidence of the use of multiple market entry modes. It has also identified 'how' international hotel chains adopt differentiated designs that vary in the formal structures employed as well as the processes adopted for control, decision-making, and communication. The designs employed range from traditional designs with mechanistic structures and hierarchical processes, to change models of design with organic structures and more lateral inter-organisational processes. These designs reflect the type and degree of interdependence created between different links in the chain by the market entry modes selected, rather than the market entry method per se. As such, distinct designs were identified for owned, leased and managed (OLM), direct and direct investment franchised, and corporate and master franchised hotel portfolios. This study therefore adds to the work of Clark (1987) by providing a richer explanation of the organisational and inter-organisational processes employed within the different types of relationships within international hotel chains, particularly those for coordination and control. It reveals that there is a correlation between the extent of internationalisation and the coordination processes required for an effective control system. The study also identifies the potential for a control imbalance in direct and direct investment franchised portfolios where the desire for centralised control may in fact, serve to limit the extent to which it is achieved.

The nature of change in differentiated hotel designs is also identified through this study. Empirical evidence is provided of the use of a contingency approach (Chandler, 1962) in traditional designs, but a more continuous evolution towards change models within corporate and master franchise agreements. This research supports Connell's (1997) argument of attunement in international master franchise agreements. However, it offers further insight into how adaptation occurs through the application of alliance concepts, providing empirical support for Fladmoe-Lindquist's argument (1995).

This study also builds on the work of Bradach (1995), Cliquet (2000) and Cliquet and Croizean (2002) to fill the gap in the literature on international hotel chains that employ multiple market entry methods. It has tested the validity of the plural processes identified through their research, but in an international context and within firms that are affiliated in at least three ways with their portfolio. It has demonstrated that the development of plural processes can be inhibited through differentiated designs, and in particular, where communities of design are established. These communities are discussed in further detail below.

ii) Inter-Organisational Alliances

This research also contributes the alliance literature, where a distinct gap has been identified in the 'the practice of alliance management' (Speckman et al, 1988: 747). Despite the unprecedented growth of inter-firm agreements, their failure rate remains high and this is frequently attributed to the complexity of their design and a lack of understanding of 'how' they should be managed. Through the literature review a comprehensive list of the key ingredients of alliance success was compiled, drawing on studies from a wide range of industry sectors (see Table 3.4). The relevance of all these ingredients has been verified empirically through this study. In addition, one additional success ingredient, that of relationship definition, has been identified. This criterion has been acknowledged as the appropriate starting point for inter-firm design, rather than the actual contractual agreement identified in previous studies.

This study also builds on previous research that has identified the evolutionary nature of alliances. In the first instance, it makes an original contribution by determining the relevance of specific success criteria to different evolutionary stages. It illustrates how these criteria can be used to inform the design of appropriate inter-organisational processes and provides further insight on the distinct inter-organisational processes at different evolutionary stages. The study adds to the literature on alliance management through the identification of the evolutionary stages of relational ties. Furthermore, it builds on the findings of Parise and Casher (2003) through the identification of the specific success criteria that act as relational levers to support the development of relational ties. As these ties develop, management perceptions of the affiliation also evolve and four distinct perceptual stages that reflect the nature of the different stages have also been identified.

While the literature review identified that alliances can be considered from an organisational design and a relational perspective (Graen and Hui, 1996), there have been limited efforts to date to combine these two viewpoints. This research furthers our understanding of alliances by drawing these two perspectives together. Firstly, it reveals that coordination and control processes at different evolutionary stages can serve to enhance or hinder relational ties. It also demonstrates how using relational perspectives in conjunction with the development of inter-organisational processes can aid in the management of alliance agreements as they evolve. A framework for managing alliances has also been developed and is depicted in Figure 7.1.

Figure 7.1 Combining Relational and Inter-Organisational (I-O) Process Perspectives

RELATIONAL		INTER-ORGANISATIONAL (I-O) PROCESS
	AFFILIATON FORMATION	
Perceptions of Similarities of: • Organisation goals • Organisational cultures • Individual personalities • Reciprocity/mutual value	⟷	• Use partner selection criteria to inform negotiation process • Use inter-organisational communication to assess similarity/compatibility • Use affiliation definition to confirm reciprocity and inform I-O design
	AFFILATION DEVELOPMENT	
Perceptions of Differences of: • Organisation goals • Operational & technical systems • Organisational culture • Individual personalities	⟵ RELATIONAL ROADBLOCK	• I-O management by contract • Centralised I-O control processes • Incremental performance measurement
Acceptance of Differences: • Willingness to adapt	⟷	• Develop further I-O communication processes, especially informal ones • Develop I-O conflict resolution processes with input from all affiliated firms
	AFFILIATION MATURITY	
Valuing Differences: • Development of shared norms • Development of inter-organisational culture	⟷	• Develop informal I-O communication processes through further organisational levels • Add additional I-O coordination processes • Devolve I-O decision making processes, but control through coordination processes

The two-way arrows shown in Figure 7.1 illustrate how drawing these two perspectives together can aid in the evolution of alliances. The figure also identifies how relational roadblocks can occur when inter-organisational processes are designed or altered without due consideration of relational perspectives (as depicted by the one-way arrow). The framework clearly depicts the inter-organisational and relational perspectives that contribute to, or inhibit alliance evolution. This research therefore serves to fill the gap in the literature on 'how' inter-organisational alliances should be designed and managed.

iii) Diverse Affiliations

Diverse affiliations have been defined as those firms that employ multiple international market entry modes and thus operate within and across organisational boundaries. Drawing together previous theoretical perspectives on plural organisational forms and diversified MNCs, this study yields a number of insights not previously identified in the literature. Prior studies have indicated there is no preferred model of design for diversified MNCs (Drucker, 1998) and the findings from this research support that contention. However, this study builds on this knowledge by identifying that the type and degree of interdependence can influence the designs adopted across diversely affiliated portfolios. This study therefore builds on the work of researchers who have identified the relationship between interdependence and coordination processes (Martin and Jarillo, 1991; Gupta and Govindarajan, 1991) by revealing that interdependence has a more profound impact on design and can lead to the development of communities of design within diversely affiliated portfolios. These communities exist within and across organisational boundaries that comprise diverse affiliations and are created through the differentiated designs adopted and reinforced by perceptual barriers. This research highlights that the communities can prevent the development of a shared understanding, a sense of common identity and relationships of mutuality across diversely affiliated portfolios. As a result, knowledge development and sharing across diverse affiliations may be limited and organisational potential reduced.

Previous studies (Bradach, 1995; Cliquet, 2000) have also identified that the implementation of distinct organisational processes across different types of affiliations can lead to the development of plural processes that serve to enhance the degrees of control and flexibility achieved. Again, this study builds on this knowledge and identifies that perceptual and design barriers between the distinct design communities can inhibit the development of plural processes. As such, these barriers can serve to inhibit organisation potential. Understanding how to break down these barriers or prevent them being erected in the first place is an important design consideration. While other researchers have identified the role of communication in achieving effective coordination within and across international firms (for instance Martinez and Jarillo, 1991; Kauser and Shaw, 2004), this study builds on that knowledge by identifying how these organisational and inter-organisational processes can serve as bridges between design communities. These bridges enhance the integration achieved across entire portfolios. In addition, they can improve the degrees of organisational flexibility achieved. However, whether flexibility is achieved or not is dependent upon formal organisational control procedures and organisation structures. Mechanistic structures and centralised diagnostic control processes can limit the impact of coordination processes and flexibility achieved. This can hold true within and across communities of design. The implication of this finding is that adding coordination processes without considering the impact of formal control procedures could prove to be both expensive and futile. Furthermore, in inter-firm agreements, if coordination processes are considered in conjunction with relational ties, an opportunity is created to enhance both control and flexibility. In addition, a stronger shared identity can be developed. The framework depicted in Figure 7.1 therefore also has relevance to diverse affiliations that encompass a wide range of market entry modes and can be used to further our understanding of 'how' they are designed and managed.

iv) International Service Firms

The final gap identified was in the market entry literature in relation to the internationalisation of services, particular in 'post entry' decisions and 'how' they are designed and managed. This study helps to fill this gap as it provides empirical evidence of the importance of relationship management in the organisational forms created through franchising and management contracts. While this study draws solely on international hotel chains, this finding arguably has relevance to different service industry sectors, particularly in franchise agreements[14]. In addition, it might also serve to inform post entry decisions in mergers and acquisitions, to overcome the potential incompatibilities identified in Table 2.4. Figure 7.1 may also prove beneficial to managers employing these international market entry modes.

This study makes a further contribution to pre market entry decisions as well. While previous studies have highlighted the importance of the availability of potential franchisees in modal choice decisions (as indicated in Table 2.1), this study suggests that there is a need to consider availability from a relational perspective in addition to an economic or talent viewpoint, particularly in corporate and master franchising where perceived compatibility has been identified as an important selection criterion.

7.3.2 Contributions to Researching Organisational Design

A further contribution is made to the research literature. Many of the studies on organisational design have adopted a deductive and qualitative approach (Patten and Appelbaum, 2003). In these studies, environmental and contextual factors have been investigated in relation to strategy, structure and organisation performance. However, the approach undertaken for this study has endeavoured to look at organisational design predominantly from the perspective of those who create and work within it. This is not a unique approach and nor has it been possible to completely remove environmental and contextual variables from this research. However, this study does demonstrate the value of inductive and qualitative studies to understand the internal influences that impact on organisation design and the implications of these. Had this approach not been adopted, the communities of design employed in diverse affiliations would not have been identified, as they do not appear on any organisation chart for the firms in this sample. This study therefore provides empirical evidence that researching

[14] The particular nature of management contracts in international hotel chains may limit the relevance of this finding to other service industry sectors as discussed in Chapter Six.

organisations from the perspectives of organisational members can increase our understanding of their design and management, particularly in the study of complex or compound organisations.

7.4 Recommendations

On the basis of these contributions, a number of recommendations are made for the management of the different organisational forms investigated in this study and for further research.

7.4.1 Recommendations for Management

i) Managers of international hotel chains are advised to consider the control systems employed within different elements of their portfolio to ensure that control mechanisms do not serve to inhibit any coordination processes employed. For chains that have a high degree of internationalisation, managers should review whether they have implemented sufficient coordination processes to ensure effective integration of the different parts of the chain. For chains that employ multiple market entry methods, managers are advised to also consider the recommendation for diversely affiliated organisations below.

ii) Managers of inter-organisational alliances are advised to recognise the importance of the relational nature of these agreements when forming and operationalising them. Furthermore, they should consider the relevance of the relationship definitions in shaping inter-organisational designs. The framework identified in Figure 7.1 should prove useful in informing inter-organisational processes adopted throughout the evolution of these agreements. The relevance of particular success criteria at the different evolutionary stages should also be born in mind to improve the longevity, and therefore potentially the success, of inter-firm agreements.

iii) Managers of diverse affiliations should identify whether the use of differentiated designs has given rise to communities of design within their portfolios and whether barriers have been erected between them. If they have, managers should consider whether bridges need to be developed between the communities to enhance organisational potential. However, if further coordination processes are to be introduced, these should be done with due consideration to existing control mechanisms within firm boundaries and to the relational ties across firm boundaries. It is also advisable to consider whether 'carrot' and 'stick' approaches are being used across the different design communities and the impact these might have on reinforcing perceptual barriers.

iv) In the internationalisation process of service firms, managers are encouraged to apply the framework depicted in Figure 7.1 to different types of inter-firm agreements in post entry decisions about design and management. As this study suggests, it is likely to have relevance to organisational forms created through a variety of different international market entry modes and in other service industry sectors.

7.4.2 Recommendations for Further Research

On the basis of the findings from this study, a number of recommendations are made for further research as follows.

i) Research that tests that relational/process framework developed through this study would prove beneficial in testing its validity and increasing its generalisability. A qualitative approach is advised in the first instance to assess both relational perceptions and how they influence inter-organisational process design. A longitudinal study that draws on the perspectives of multiple informants would offer the most insight into current perceptions, how they are developed through interactions between members of the different partner firms, and how these perceptions influence design changes as the inter-firm agreement evolves.

ii) An alternative approach to test the relational/process framework could entail a multiple case study of firms that have been involved in inter-firm agreements for a predefined extended period. To increase the generalisability of the findings, multiple case studies drawn from different service industry sectors are recommended. The case studies could also involve different types of inter-organisational agreements. For instance a range of alliance, network and franchise arrangements could be investigated.

iii) Further research is also recommended to identify and prioritise partner selection criteria across a larger and more diverse sample of firms. This research should investigate more specifically how the criteria are used to inform the negotiation process and inform the relationship definition. This research would prove useful to further develop of our understanding of international franchising as well as other inter-organisational arrangements.

iv) Further research is also advised on the 'relational roadblocks' identified in this study. A greater understanding of relational quality could be developed through the identification of the specific antecedents to these roadblocks and particular conflict resolution processes used to overcome them. A qualitative approach to this research is recommended, at least in the first instance.

v) It would also be beneficial to explore the relationship between organisation culture and design in further detail both within and across organisational boundaries. The literature identifies the relevance of organisation culture to design but it has not been possible to explore this in sufficient detail in this study. Further research on the impact of organisation culture to the development of relational ties and relational roadblocks is recommended.

vi) Flexibility in this study was identified through the informants and their ability to take local initiative. However, further research is also recommended to investigate the three types of flexibility identified through the literature, strategic, product and volume. Through a more specific articulation of these constructs, future research could identify more specifically the degree and type of flexibility through the different evolutionary design stages.

vii) Additional research into the existence of communities of design is also recommended, as it would serve to validate the findings from this study. It would also be beneficial to identify more specifically the factors that contribute to the development of these. While this study identifies perceptual bias and design differences, further research into the factors that underpin these broad categories would help to increase our understanding of them.

viii) Further research into the development of plural organisational processes across international service firms is also recommended. This study has only partially supported the findings from previous research that has been undertaken in domestic contexts. The applicability of plural processes in international diverse affiliations thus warrants further attention.

7.5 Research Limitations

There are a number of research limitations within this study and these should be taken into account when considering the findings.

i) In hindsight, the scope of this research was extremely broad. However, as an exploratory study it sought to identify key issues in the design and management of diverse affiliations. While the overall aim has been achieved, further research efforts can focus more narrowly on the issues identified above.

ii) A further limitation of this study is that it is set solely within the context of international hotel chains. Despite providing a suitable context for the study of diverse affiliations, the single context may further limit the generalisability of the findings. However, it may also be perceived as strength as industry specific variables were removed from the study. The literature review identified that a number of researchers consider industry-specific and firm-specific contexts to be an influential design factor. However, this research focused more specifically on understanding design and management through those working within the companies and this could be argued to be a further limitation of this research. In addition, organisation designs were only considered in relation to international market entry strategy. Nonetheless, an approach that considered all the environmental and contextual factors and used a wider interpretation of strategy would have made this study too large for a single researcher to undertake. Furthermore, by adopting the approach taken, it sought to shed a different perspective on organisation design than that provided by previous empirical research.

iii) The generalisability of this study may also be limited as the inter-organisational agreements investigated in the sample related to different types of franchise arrangements. The typical case study selected through purposeful sampling did have a further type of alliance agreement, however the researcher was unable to gather sufficient data on this agreement to include it in this study.

iv) Availability of secondary data sources on a number of companies meant that a full picture of diverse affiliation within the industry could not be developed in phase one. While the majority of corporate global room stock could be incorporated into this study, had there been more financial resources available to purchase access to additional commercial databases, a more complete picture may have been developed. Furthermore, the time it took to compile the data using secondary sources meant that the profiles of firms were constantly changing and had to be continually updated.

v) As Chapter Four identifies, the case study strategy adopted in phase two and three of this study, has a number of limitations. However careful attention was given to the design of this research study in order to reduce the limitations of researcher bias, lack of rigour, reliability and validity. The researcher did struggle with the difficulty of determining the appropriate unit of analysis. This difficulty was overcome however, by tackling the case study research in the two distinct phases with two different units of analysis. Drawing the findings together from the two phases meant that a fuller picture of the design and management of diverse affiliations was gained through this approach. The limitation of generalisability is more difficult to overcome. While a multiple case study served to enhance the robustness of the findings in phase two, time and resource limitations meant that this approach could not be replicated in phase three. However, using an embedded case in phase three meant that there were two units of analysis within the single case making the findings somewhat more generalisable. Nonetheless, it still must be recognised that as the owner of the brand was the same in both affiliations under study, there is a greater likelihood that the inter-firm designs identified would be similar.

vi) Given the evolutionary nature of inter-firm agreements, a longitudinal study that enabled the researcher to document the specific factors that influenced the evolutionary process as they occurred would have been beneficial. While key informants were involved in the agreements since their formation, they were required to draw on their memories of the evolutionary process and this approach does have some limitations in terms of accuracy of recall. However, attempts were made to overcome this limitation by using multiple informants to verify different recollections.

vii) Upon reflection, this research also suffered from a limited conceptual development of the construct of flexibility. Had a clearer distinction been made prior to the primary research on the differences between strategic, product and volume flexibility and how each of these could be assessed, the research may have yielded a greater understanding of how this was increased throughout the evolution of the inter-organisational agreement.

viii) The final limitation of this study is the lack of consideration of organisation and inter-organisational processes for conflict resolution. Despite the fact that the literature and the pilot study highlighted the importance of this process, key informants in the subsequent phases of the study were reluctant to provide sufficient detail about conflict resolution. Had further data been gathered on the inter-organisational processes for conflict resolution the study would have yielded further insight into the relational nature of these arrangements.

7.6 Reflections on the Research Journey

A number of lessons have been learned about research through the journey undertaken. Interestingly, three parallels can be drawn between these lessons and the research design and findings.

The first parallel is drawn between undertaking inductive and qualitative research and the need to balance the demands for control and flexibility in international organisations. The researcher was faced with conflicting pressures to ensure that the data collected related to the aim and objectives, as well as to be flexible to follow emergent lines of enquiry. However, the temptation to gather as much primary and secondary data as possible, 'just in case' proved too great. As a result, the researcher was faced with a wealth of data that was time consuming to analyse. In research, as with international organisations, achieving the balance between control and flexibility is reliant on effective design.

The second parallel is drawn between the nature of inter-disciplinary research and the communities of design identified through this study. In both instances, there can be distinct barriers erected between the different communities that can inhibit effective practice. Breaking down the disciplinary barriers was important to achieving the aim and objectives of this study. This proved to be a challenging task until a systematic approach was adopted. Conceptual and empirical studies and their key findings were recorded chronologically and according to key themes to break down the disciplinary barriers and identify overlapping theoretical perspectives. Ironically, the research also identifies the potential benefits of breaking down the barriers between the different communities of design.

The final parallel is drawn between the supervisory process in doctoral research and the relational nature of inter-organisational arrangements. In both instances, effective communication processes and the management of individual relationships is critical to achieving desired goals. For part-time researchers, this is particularly important, as it is easy to go for long periods in isolation and without any communication.

7.7 Conclusion

The overall aim of this research was to identify 'how' international diverse affiliations are designed and managed within and across organisational boundaries through a study of international hotel chains. This study has achieved that aim and in doing so has served to close gaps in the literature on 'post entry decisions' in the internationalisation of service firms, and 'how' international service firms, inter-organisational alliances, diverse affiliations and international hotel chains are designed and managed.

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Appendix A: Pilot Study Transcript

(Firm Names have been changed to maintain anonymity)

INT: Can you start by explaining your role within the company?

IA: Okay, are we on?

INT: We're on, we're rolling

IA: This company was created out of a desire to develop as opposed to operate. The strengths of the people who actually created it, were developers, they were entrepreneurs. They were architects, um, they were accountants, they were dealers in that sense. So they would enjoy buying and selling as opposed to actually trading or operating. Um, and the opportunity to actually franchise was an opportunity as opposed to a strategic beginning with a blank piece of paper. So when they actually looked at what they should do, they were influenced by one hotelier who was more of an entrepreneur. So they actually started by talking by thinking about converting one of their own houses into an hotel. So they weren't even thinking franchising. When the entrepreneurs met the hotelier, that sort of led on to the hotelier saying well Firm B are going to produce this new budget product called Brand X. Because of the strengths of the small founding team, they went along with it. And if you like, it was opportunistic, it was the right place at the right time. Firm B have come up with this concept of Brand X and they were building their own model in Strathclyde, their own one hotel for you to sort of buy the sweet shop as they have done back in the early 90's with Brand Y at Warrington. And from that they signed the development contract for 1,500 bedrooms. So the interesting thing was, it wasn't just a single franchising and anything like that, Firm A were given a development right to 1,500 bedrooms. So they went into that as developers and franchisees secondly. So and I wonder actually if that is not the tale of most things, I think that franchising is perhaps say less mature than it is in the States therefore most people could have arrived at it by default from other things, you know how do I move forward, I have this little bit of money, I have inherited this, I've got my redundancy payment, um I'm fed up with working for so and so as opposed to a mature franchise, you know I am going to sit down and write a strategy about franchising. And I think that is something that you might find is a characteristic difference between North America and Europe. And perhaps England and Britain leading Europe and perhaps you know it's the way it is going say west to east. So, they carried on and built these properties, not always in the best place. And I am mentioning that not as a criticism, because remember they are developers and they saw opportunity, they saw a deal to be done, they saw an entry cost whereas in hindsight and obviously I wasn't there then they may have been better off paying more, putting the hurdle up and getting a better site. But overall they got it right four out of five times.

INT: These are Brand X

IA: Yeah, these are Brand X. Instead of which me as a hotelier, or marketer or a brands man would have said oh don't do like Wellingborough. Wellingborough would be a good example. Its not in Wellingborough, its on the main Kettering roundabout, Peterborough, Nottingham fountain road. And I would have pulled the plug on it because there was no urban centre close by. But it's been a phenomenal success. And there are other properties where I have turned up and said why on earth would you build here and I was right. But I am mentioning that not as a criticism of them but as a question about the franchise community. And I just leave it as a question for your dissertation. But the question I ask it, should Firm B, as the franchisor, as the parent, you know actually said as the hoteliers, should they have actually helped in those early days of Firm A and say do you really think you want to build there. Or they said is this the case of another application, pass it through.

INT: They had the 100% decision of where it was located?

IA: Firm A did. You know you actually formally applied, but what I am saying, I have never seen a situation where the franchisor went back and said, is that really what you want and therefore you know there is some issues here about the franchisor and the franchisee, and not ethics, I don't know whether it is an ethical issue, but its actually about good communications, being a good franchisor and I leave that as a question as that is something that should be more factored into the franchisor's relationship with the franchisee. And I mention that just sort of as a historical point walking through the history of Firm A. So, there was another interesting twist in this. You know I want you to draw out of this the franchise principles of this as opposed to the Firm B principles of this. But as Firm A were moving towards the 1,500, and I think it was when they got to the 1.000 rooms.

INT: 1,000 rooms from the 1,500 agreed for development?

IA: Yes, they went back to Firm B who by this time had obviously signed other small development or one off franchises. And but there were some agreements for three or four, or six or seven or eight and single. So two and a half years later they go back when they have reached 1,000 rooms and they say oh we are doing well can we have another development contract. And at that point, weather it is topical or not, the story goes, yes, but they were not going to give you the prime sites as you had a clear view in the early days. So some of the better sites in Britain were not then available to us. If we take a second tranche. Therefore question, does the franchisor keep them for himself? Or you know, does he actually want to make a balanced portfolio of franchisees and not give everything to one? What are the commercial experiences behind the franchisor, where does he want to grow, where does he want to balance crucially on? So, that in a sense, became a bit of a negative to Firm A because they thought they should have some form of, not special treatment, but some higher regard, be regarded in a higher way on the basis that they had put their head on the block on A new brand. It wasn't as if they were 1800 Firm B's core brand, and they were just building on those. They had developed and have always been the leader, they are the largest franchisee today of Brand X. Therefore should they have been given some thought, some courtesy, at that point as they had developed the brand. And as that was a sort of no, they thought well here we are, we have got a good track record, we are in the budget market, we are a dedicated budget hotel company, that's one of the things we actually get over when we are presenting franchise opportunities as a franchisor. You know, is that Firm A is nothing but a budget hotel company, it does not do anything else. And so, they got on a plane and went to the US, went to Firm M, and said look, we have looked at the BDOC hotel survey, and there is a 19% prompted awareness of Brand Z in the UK, but there are no Brand Z's in the UK. Now Firm M had earlier, as I understand, sold the Brand Z franchise to the UK but nothing materialised out of it. This was in the 80's as it were. So it went back to them. So we said this is our track record, you know we have done these, and so we know what we are doing in that segment. There are no Brand Zs, there are no Brand Qs but there is an awareness, from holidays, from watching films, from people on holiday in Florida or whatever and so Firm M sold them a 20-year agreement for Brand Z in the UK, Brand Q for the UK and as a supplement to that, one month later, 8 further European countries, but that one is in a separate territory agreement. So, you know, we do own the territory for that and do you want me to stop there?

INT: Can we just recap there for a moment?

IA: Did you see the Caterer two weeks ago?

INT: No, I am afraid I haven't.

IA: There was a two-page spread on me in the Caterer.

A; Oh, was there really? I am sorry to have missed it.

IA: Yes, there was. I'll send you a copy of it. There is actually a 2-page profile of Firm A.

INT: To recap then, you are now a hotel group with master franchisees in the UK and about to grow outside of Europe? How would you describe the structure of Firm A?

B. Okay, right. We will keep Brand Q will certainly be for Europe although we have talked about taking Brand Z to Europe as well that is because we have a particular opportunity. Yes, they will be separate companies for Europe and the UK. I think you have to do that given the different employment laws, property laws, company laws, in different countries. I think you have to establish something locally, you know in a local marketplace. But, there is a slight peculiarity to that, because obviously Firm A is leading on development so the first three Brand Q's that we are doing in Germany are all Firm A project. They are not franchises, they are not independent hotels converting to, so they are basically switching the Brand X build programme and the talent that we have to do that, you know the development team, the site finding team, the asset managers from Brand X into the Brand Q primarily. So I think we have to actually come back and say, before you get into that structure, having got these franchises, what would we then set out as a strategy? So the first strategy that I was involved in writing, was with Firm B. But Brand Q we would primarily continue to build our, we would create the brand awareness, if you like the platform, for that. And from that we would then sell individual franchises. So I have just today come from a meeting for putting together the sales collateral. So here we are, 18 months after buying it, or a year after leaving the US, I haven't proactively identified 500 hotels to sell a franchise to. What we have been doing is getting on with putting the building blocks together to do that. So we have actually been building our own. We have been putting the brand standards together with great exactitude and technical details. We haven't taken en block from America and say that fits here. We have vigorously interrogated the market on how Brand Q and a Brand Z fits in UK and Europe. But today we have actually signed off on our first sunbursts for the Brand Z and had to agree on quality assurance measures to actually get our sunburst. And we had a frank discussion this morning with our leading franchisee on what they should be compared to what they are in the States. They are good, compared to the States, but on the other hand, from a quality or product issue, to be given 5 sunbursts on a great bedroom product, quality, and well-serviced, clean and everything else but there is no swimming pool, and no second restaurant, then what is the balance? But these things have all been bedded down, we have written the brand standards.

INT: So you had the latitude to adapt them to the UK environment.

IA: Oh, absolutely. And I have the right to sign off waivers. I sign the waivers whether they are a period waiver or a permanent waiver. But for instance, who at the same time would have launched two budget brands and manage a brand as a franchisee. Here we are I have to firewall three brands. And you take Glasgow airport, where I am actually building at the same time a Brand Z next to a Brand Q. If you think of the airport market, where you may arrive at 10 o'clock or you may arrive at 6 and you are there either before or after a flight, why should you pay, why should you pay a price differentiator of £10 from Brand Q to Brand Z? So, it is very clear that I have to go through curb appeal and greenery through to exit, I have to define the price points. And at the same time they were building them. So I have now got 74 price points between a Brand Q and a Brand Z in order for you to feel comfortable that you could put an extra £10 into a Brand Q than a Brand Z even though you are there for 71/2 hours or whatever. They include for a Brand Q bathroom an under floor heated bathroom, pipe closing and a shaving mirror and a demist mirror. I am just opening a Brand Q in six weeks in Greenham, I am opening in Wembley and therefore I have got to be pragmatic and say that is happening and so the development team are already in and they have priced that one therefore the key person is the assistant manager who sits on both the franchise board and the development team and he is the guy who conveys the brand standards and says Firm A now wants that and you will have to find £800 per room. Same as for the Brand Q homework room which are business rooms which have about 6 extra things that are not in the original spec as we were learning as we are going. It is a journey and we have got to be pragmatic on what we've got and say well okay, one day we will put that in but we have just got to move on this journey. So when you go from nothing to a brand and a brand to a franchise it is quite difficult to do but it is quite exciting. So we haven't been selling franchises, we have been getting our act together as a franchisor and whether that is unusual or not I wouldn't have thought so and I would have thought McDonalds has its own live Oxford Street sites, they've got key sites so would Brand Q and we just swapped the Brand X build programme to Brand Q. So when I presented to the first potential franchisee in Bayswater, with this is the deal, I could look him in the eye and say we have got three Brand Qs in Britain, Firm A owned. So I wasn't talking into a vacuum, would you like to be the first Brand Q.

INT: So are you using these as pilot sites?

IA: Well, not just pilot sites. They are but they are like an engine on a test bed. You know you have it on the test bed, and you are stripping it out and you know you test it and tweak it again. I have set up a franchise committee of all the managers attend every time so what happens there is now you have written the brand standards, no one can just change it. The gatekeeper to the brand standards is the quality assurance manager. So if you as the operations director and you as the asset manager or development guy, say, now we are running it we need x or we need y or we need to change something, then it goes to him and he holds it and every three months we review the manual. In other words we don't keep knee jerking every five minutes. So we actually revamp the manual. So when I am sitting with the franchisees, there is an integrity in what we are saying and I do not go back every five minutes and say oh by the way, its now swipe cards on doors or whatever. What we try to do is manage with integrity, the process of franchising and do it ourselves and testbed it, before we even sell it. Today, I actually had the first meeting where I met with the marketing department to put the franchise sales material together so I can be proactive and what I have done there is gone and taken best in class across the Firm M company in Canada and have taken best in class practice. I have gone through all their materials and said I want a bit of this and a bit of that and a bit of Firm M and a bit of us and got the actual process from application to opening.

INT: And they were happy to stop and share things.

IA: Yes they were. It is very interesting as I don't know if Firm M were happy about me going and talking to Canada and they didn't want me to discuss the details of our own franchise territory, franchise agreement with Firm M. But I was interested to look at, you know we have a 4% royalty fee and a 2% marketing fee, now obviously they gave me more comfort to look at knocking a % royalty fee off the royalty fee for 2 years if it means getting someone in. And then phoning Firm M and saying would you share the burden of 50% because actually of the 4%, I give 1.5% to Firm M, that's there revenue. Of the 2% marketing, I give .5% to Firm M for global marketing, and 1.5% has to be spent in the territory.

INT: So, as a new venture they would be willing to help out?

IA: Yes, but I would not see, I would see franchising costing Firm A for at least two years before we break even.

INT: Sorry, can I just recap. You still have the Brand X franchise?

IA: Yes

A; And you own and operate them yourself?

IA: Yes

INT: You are a multiple franchisee of Firm B?

IA: Yes.

INT: But for the Firm M deal, whether Brand Q's or Brand Z, at the moment you are developing the franchise as you did with Brand X and at the moment you have some up and running. But then you will use independent franchises to further develop the brand?

IA: Very much so.

INT: So you will be moving to more of a master franchisee company, but keeping some properties and operating them yourself?

IA: Because we have started with a blank piece of paper, there are certain things that happen. For instance, because we are a development company first, that's where we were first, and the development team and the build team, are still bigger than operations and sales and marketing. But what has changed, and this has been a big mindset issue, and we have just about got there is what would happen is, even at the time before I actually got my feet under the table. Even as we signed the Firm M agreement, development carried on finding sites, the board approved them and they had a brief chat about to make this work we really ought to have a Brand Q there. Or to make this work, we have to have a Brand Z there. That has now stopped altogether. So what happens now is, the development team, find a site, and they immediately email me with a document, giving me what its going to cost, how much they are paying for it, where its located. We have a model for how it works, what we call, steady state, you know revpar and they say that they need 70% occupancy or £64 to make it pay back on 11% to the overall construction of an 84 bedroom here. This document is in two parts. First of all the operations director says yes or no, I can operate this. This is what was not happening in the past when they were doing a site and then wondering why it wasn't reaching their GOPs that they wanted to actually make a yield on it because it was a good deal. It wasn't a question of was it a good deal and would the marketplace sustain it. Now, he says yes I can or no I can't. That's fair enough. We can get an 11% yield on that in a steady state. The second part is me and I can veto it. I can say I don't want either a Brand Z or a Brand Q's on that site, I am not interested. If I veto it, it won't go ahead.

INT: This is new sites?

IA: New sites. Now the director of development, if he wants to, can say Firm A is wrong, therefore I am going to sell it to Hilton to make a profit. He has the right to do that, there is a profit centre to do that, but he cannot make it a Brand Z or a Brand Qs. I have got the right to veto on that.

INT: On the brand?

IA: On the brand. So within Firm A I am not going to labour under something that will not turn. So we've actually changed the mindset of the company. Then of course, they were building, before I got there, alright they have got the franchise agreement, but they hadn't gone through it, to meet the exactitudes of the brand manual. For instance they did not know about Work Firm Ms or Homework Centres, they just carried on building the cookie cutter that we have been doing. They said that a Brand Q was a Brand X with a cooked breakfast or a café/bar menu all day. But they didn't think of other things, they didn't go into it. Now we have got into that and everyone in the company is aware that things have got to be done. So actually it has been a very interesting exercise to make sure that for the UK we now understand what a UK Brand Q and a UK Brand Z is. I can now go out to franchisees having templated it in Firm A because we haven't gone and taken the American equivalent and plopped it down. It just wouldn't have worked. We have gone and said what does the marketplace want, is it fit for purpose? We don't want to deny the customers who have understood Travel Inn and Travel Lodge. We don't want to deny the customer and just because you have historically done it, there is no reason why you have to pay on check in, why not pay on check out. What does the customer want? We can have direct dial phones. You don't have to go down the corridor to pick up an ironing board. All things that deny the customer but at no cost. So these things we've addressed as differentiators. We've positioned. Brand Q as an upscale economy and Brand Z as a midscale economy. We want to be number three to Travel Inn and Travelodge and we want to grow Brand Z in the upper scale against Brand X. There is no budget hotel in Britain that is franchised as a brand. Everything is company built and mainly by brewers. We have an opportunity to grow, we will never actually have 200 sites because they will always have the land bank whether an acre at Little Chef or an acre at Beefeater to do Travelodge or Travel Inn. But we will grow through franchising, small pub groups, brewers, development companies, restaurant chains. We only need half an acre.

INT: So you will take on multiple franchisees as well then?

IA: Back to the strategy. With Brand Q we are building in key locations and we're looking for individual franchisees. With Brand Z, we started with a blank piece of paper and we've put a Brand Z in the middle of London, a Brand Z in the middle of Birmingham, a Brand Z in Glasgow so we've got the backbone of England. What we've done is a great deal with Brand N to convert to the Brand O, so you we've got the motorway system and we've got the backbone, therefore we've taken a strategic decision, which we may recant on if it doesn't work, to actually look for multiples of 5. Because we have said a Brand Z must be 52 rooms or more and a Brand Q 72, because it is 52 you can either do a 250-room deal with us or a 5 x 52 room deal. What I actually don't want in three years time to have 50 Brand Zs with 48 franchises so I am trying to go to the strategic heart of it. If you brought me a Brand Z at Heathrow, that's a different matter. I am not stupid enough to turn away a gateway or strategic site but because we've got the Brand O deal which we will have another 7 by November in another tranche of conversions, I can afford the slight luxury at the moment, to take a rather high ideal.

INT: Who is going to be operating the ones you have developed with Brand O? Will Firm A be operating those?

IA: Very good question. Lets go back one step to that which will partially answer your previous question. Having got to where we are as a development led company, we have now decided to split the company into two, bricks and brand. So plc will still be plc, but within that we will have two separate companies. One will be Firm A Development, another will be Firm A Management.

INT: And Operating arm?

IA: Operating arm. In that will be the franchise company.

INT: Is this for all the brands?

IA: All the brands. And within that we will develop a management company. We will run a company that manages our own hotels. It's a bit like Host Marriott. So there is management of the franchised hotels within Firm A. You have got to realise that Firm A can 100% own and build a hotel. But in the same process that I have just described that I can turn it down and they have to build it to the standards, they also have to fill in a franchise application form. Just because they are a master franchisor doesn't mean to say they don't have to sign. The document of 64 pages and everything that is in there for liquidated damages, the guarantees, that I would expect you as a franchisee externally to do, within Firm A every hotel has a franchise agreement. I have for the ones we have got open, a franchise agreement. That's a requirement of our master franchise with Firm M but moreover than that if the parent wants to sell a hotel.

INT: The parent being Firm A.

IA: Yes. They have got to sell it with whatever is left of the Firm A franchise. So they could sell it to someone who could still run it as a Brand Q or Brand Z franchise, still paying me a franchise fee. Or if they do not want to, they have to pay me as the franchise company, the exit fees that are in the fee structure. So within Firm A management there is a franchise agreement for each hotel and there is a management fee in each of that. And then singularly, what happens is that the operations director and I will then try to get an agreement for management as well. So I may go and sell a franchise agreement and then I will ask them if they want a management contract and we will sell them a management contact as well. Similarly, I had a call a couple of weeks ago, for a management contract for a new hotel at Heathrow. So, I defer to the operations director and then I go along and try to sell the guy to the franchise. So one of us leads the other depending on what the enquiry is. So we do have within this, we want to actually take the management of our own properties and use the scope we've got to actually offer a management contract.

INT: And will you allow for conversions.

IA: Oh very much so.

INT: I would prefer a conversion as I will get revenue streams quicker than a new build. But on new build we will also offer you a cookie cutter. We will actually say here is a 52-bedroom hotel if you want to build it. Now, what we've got to do on that is balance the costs. So I will say to you, I will let you have the cookie cutter design for $15,000 and you can pay me back £1,000 per month out of cash flow over the first 15 months of operation. And then you do not have to get into any fuss at all. If you've got a pot, if you've got 3 million, or you want to get 30, or 40% debt equity that you want to raise with your bank even more than that, which is what they don't do in Canada, because franchising arms of some banks in this country, especially Royal Bank of Scotland and Nat West, because they have a dedicated franchise arm I am seriously considering putting the head of Royal Bank of Scotland's franchising on my board but also working with him to have a mechanism whereby I am sitting with you and you said, I would love to do a Brand Z on Chipping Norton Golf Club, and we said 52 bedrooms, 32,000/room we would need 3.8 million, we need a 70/30 debt equity, we've got 1.2 million, we need 1.6 or whatever it is, then I will introduce you to X from the Royal Bank for finance. So introduce you to the management, I introduce you to the finance and I introduce you to the plans to build the cookie cutter. So we are on that journey. We spent the most part of the first 18 months just making sure we have got it in house.

INT: So a you have been developing and introducing different brands under different sort of arrangements, what sort of changes have happened at corporate level, within Firm A. You have obviously broken down into more divisions, you are going to have the operating division, which is the areas I am looking at in my research, so you've got a management company, you've got a franchise division, a franchise division within that looking after the three brands you have at the moment, but will that then go into the UK, Germany.

IA: Yes, Germany will come straight out of plc. Whether it is European or whether it is country by country will actually be driven more by the opportunities. We already have a development partner sitting with us in Germany.

INT: And they would be like the property arm here?

IA: Yes. So there is always,,, the early days of development were always joint ventures. So there may be HSBC, there may be an individual investor, there may be a senior debtor. So what they did when they got to this point was actually collapse all the joint ventures, and refinanced it. But all the joint ventures wanted to put their money back in. So all the money went back into the company. So there is a number of joint ventures who realised their assets and reinvested the second time around. So, that is how it works in terms of how it is going to grow.

INT: So structure will follow strategy?

IA: Structure, strategy is determined, followed by opportunity, in other words if Spain suddenly materialised then Spain would go before Germany. Because there are wonderful opportunities and we have strength in personnel because of one of our founding fathers being German, one of our major shareholders. Firm A is made up of a lot of wealthy individuals, high network individuals and one of those is actually Austrian and he is therefore, well it is in his interest to lead the market there. You could say that the dynamics are first, followed by the strategy, followed by opportunity, followed by structure. I wouldn't say we were normal, we may be normal but if the golden thread of franchising is one of an entrepreneurial nature, however may be borne as a franchisor is interesting. I would say that I enjoy working with Firm M because they are pure franchisor. Now, there is danger in what I am going to say here because it is obvious that I enjoy working with Firm M more because they are pure franchisor rather more than with Firm B who have a franchising company and one could term them as a 19th century autocratic British. If you took the genes of a company like that and than you said well you are also a franchisor having spent five or six years of my life being a chairman of Firm X marketing back in 89-93, and now coming into Firm A in the first instance as a franchisee to Firm B, what I want to say here is about Firm A being sensitive. By being a good franchisee, makes you a better franchisor because you know the insensitivities, you know the strength of communications, you know the desire to build the relationship, you know the long-term commitment you have to make. There is a hotel franchise company in this country today, who is not Firm B, where in the last three months I have had four of their franchisees come and say they could join us in July. So what sort of long-term commitment is their own either side?

INT: How do you envisage that working for Firm A? How will you for instance, ensure control on the one side as the master franchisor and commitment?

IA: The first thing is the multiples of five. At this point you've got Brand O and your own build programme you can be very selective and look for commitment. One of the companies I spoke to recently about franchise opportunities wants to actually mirror the time left on the Firm M agreement of 18 and ½ years. They want the longevity. They don't come and say what is the least number of years we can have a franchise agreement. Warning lights must go off on that on the basis of are we building this together. Are we a community? I've sat in a franchise workshop recently and listened to this whole thing of this is not a partnership. Franchising is not a partnership. You are the franchisor, they are the franchisee and they should do what you want them to. I utterly disagree with that, I think is a fault in the foundation that will give you trouble later on. Of course, it's a partnership. Of course you should know better because you are the parent and you are teaching, you are leading by example. You are putting pound for pound of money in and you are leading it. You should have the knowledge in terms of the marketing programmes, in listening to the customer, in product evaluation, in product trial and so on. Of course it's a partnership but of course you have got to actually win and carry the day within the community. Whether that is peculiar to an issue well like you have got to have 4 million even to come into this where you might need only 20,000 to go into something else. That is a very interesting question for you to address. Does the nature of the relationship change depending on the level of the investment or does it or should it stay the same. There are only two or three lawyers who actually specialise in franchising. Every two or three months they have free one-day seminars on franchising to which they invite people like myself. I cannot agree with their statements that franchising is not a partnership because I have been a franchisee and now a franchisor. If I can't win my people rather than actually dictate, by logic, professionalism and talent and resource. I have been at a meeting today with Brand O, whether we are being naïve as a new franchisor by allowing them to have a certain say. I don't think so because they are building the brand for me. I give them more than I get from them both people and resources. Our brand quality assurance manager, is most likely there key person and is on my payroll. But of course, I am investing for the long term. Therefore the more he goes in and gets the quality right on the product, the more I am creating a cornerstone for that brand. That is why I don't have a problem 18 months down the line still building my own product, still testing it, still saying to the builders you have got to spend more.

INT: Do you consider there to be a difference between individual and multiple franchise agreements?

IA: The biggest investment is in a quality assurance programme.

INT: Is that in a separate division?

IA: Yes, working for me.

INT: If you turn that off a second, I will show you something.

IA: They get their sunbursts through quality evaluation, which is the inspection of quality. What we have done, we have put in quality evaluation four times a year, we have made our franchisees, which in this case is Brand O, sign up and pay for four mystery guests.

INT: So they cover the costs?

IA: Yes. We have got the 30-minute guest comment card which is a shuffle of well its only ten questions but which means that you triple the industry average so they have to have a hundred guest comment cards a month.

INT: Is that at checkout?

IA: Yes, just while they're creating their bill. So you've got quality evaluation, mystery guest, the guest comment and then the complaints you receive. So what we've done, we've taken those four evaluations, and remember in America you only need one, but we've done four. We've then done indices on a consolidated basis. And then we have created a league table and from that league table we've said, first directories, that's this September, up to now we haven't had any Sunbursts, so we've got a five Sunburst in Sheffield, the rest are four and these are three.

INT: On those basis or on attributes as well?

IA: They're all quality, it's all quality, it's nothing to do with whether there's a pool or a free restaurant because that's not what we've got, that's not what the brand is.

INT: So it will be a minimum score to get the five Sunbursts, not just a comparative score?

IA: That's right, yes. So this is the most important thing we do, it's quality. If you put that in place now back to the template, back to the engine on the block, it's product, it's this, it's signage, it means getting it right now. We will lose money on franchising for at least two years, but I think in five years' time the cornerstone will have been built on and there will not be faults – no one will be trying to throw 300 out of the system, like Firm B did when they bought Brand L, you know, we must throw 300 out. If you look at let's say quality, to me, it's too broad a range of properties within one brand – we're trying to actually get brand essence and get the core values of the brand in quite a tight way, and I suppose that is no different from a McDonald's burger, from the way you position the gherkin. I suppose without even thinking about McDonald's I'm trying to do the same principle.

INT: So how much of that would be fed back into Firm M Head Office? Would they do any monitoring?

IA: I pulled up on my e-mail two quality instructions yesterday, they both passed the instruction and what we have a gatekeeper in Firm M, and we send him everything, he then brokers it out to everyone, whether it is quality assurance there, we have our own quality assurance here so guest complaints come to us, not to America. They don't even involve us. In owning the territory we set everything up ourselves, including the CRS. That is part of the territory ownership, that you have to create a voice CRS.

INT: So you still pay a royalty fee, but they run the reservation systems different don't they?

IA: Basically when you convert to a Brand Z or Brand Q you go onto the Powerup system. They accepted our software for the UK. As you as the general manager open up your inventory, that is then held in Phoenix Arizona, that is the pool. You then have live-time www.brandy.com so if you at home you can pull one of those rooms down. If you're in a GDS, if you're in Boise Idaho in a travel agent...or if you want voice you can pick up on voice in the States or voice at the corporate, which is where we live. So we own the territory rights, that was part of the pre-requisite of buying the territory. When they sold it to us, you have to provide a voice reservation system.

INT: That was up to you, to determine what to use?

IA: As long as it qualified - well in fact what we did was do it in Brand O to start with because we have to provide them with a conversion schedule with the reservation service, but we closed that down and moved it into RCI which is a Firm M company because they've got a stake in bringing in our business and cross selling the brand. However that's on contract to them – I can give them notice just because I've put it into Firm M, I haven't given my birthright away, I still have to provide it. I could have set it up in the office for people down the end of the room.

INT: Will you cross sell your brands here?

IA: The answer is, we will offer a Brand Z as an alternative to a Brand Z – if that isn't taken we will offer a Brand Q. We can't do that with Holiday Inn, that is a total no-no. So within Firm M brands, yes, we're looking the moment at the ways in which we can cross-sell at a point of sale as well in the properties if it is appropriate and doesn't clash with anything.

INT: Does it tend to do that?

IA: No. It is something we are looking at. The 0800 numbers are obviously totally dedicated to each brand, and we own them as well. When we go to Europe we have to do the same in Germany, in fact we will bolt it onto the UK one. We might have to have another pop for Germany. That's part of our right, to find the territory, you have to have a CRS as well.

INT: So when it comes to expansion and when you are up and running, will you have your own franchisee meetings here so that you have opportunities for lateral communication?

IA: We are already doing that in as much as there is only one in terms of Brand Z – we have a monthly forum within that.

INT: Will they operate across the brand or will they be brand specific?

IA: No, they are brand specific, there's a Brand Z one and a Brand Q one. In the same way that we go to a Brand X one. But we have shaped that as the largest franchisee, we chair it and everything, and then what we have done recently is to turn it, we have marketing in the morning, joint lunch, and then operations in the afternoon. But we proposed that to Firm B and Brand X.

INT: Brand X UK. How does that feed into the Brand X brand worldwide?

IA: Well they have 400 in America, and their Brand X. I have personal views on that which are personal and are not company views.

INT: There's a lot of franchisees that are up in arms as well because of Firm B and Brand X but that's in the States, and that's superfluous to this investigation.

IA: I just think there are certain things there, it's an attitude towards franchising. You may argue that, well if I were running 1800 hotels I would have to make a more autocratic way of managing the working partners.

INT: So you think size is an issue?

IA: It might be an issue for that, for this size they are partners and you could argue that our target of 40 Brand Q and 100 Brand Z will always be that and it may be that attitudes have to change about size. I just feel at the moment, I'm not stupid to say if you put me in charge of Brand X worldwide tomorrow, I wouldn't say well that's it, I'm doing it. I would like to think that we are creating a template, which, for the life of Europe anyway, could actually be sustained.

INT: And do you think that conversion will be easier in Europe or are you going to develop more of the portfolio.

IA: I don't know. The next thing we've got to do is to find out what the universe is for this, whether it's conversion, new-build, developers, pub groups or whatever, you know who am I talking to? Is it 700, 800, 7000? That's the next stage for us, to find out who is disenfranchised, who is disillusioned, who is scared because they are independent and need to come into the fold of a brand, who needs international distribution. Undoubtedly the people who last week bought this hotel in Bayswater, realised that they needed an international brand to deliver the ADR in London. They clearly weren't getting it, so they desperately need an American brand, they needed an American brand on their hotel in London.

INT: It has to be an American brand?

IA: Oh I think so without a shadow of a doubt, I only think of international brands as American brands. You name me an international brand that didn't emanate from the States.

INT: There are some coming.

IA: It's interesting that we were preparing a paper for a pitch in Germany last week, and I went and took some of the Arthur Andersen with my German stuff, and to my pleasant surprise I did not realise until I was preparing this presentation that the biggest inbound market for Germany is America. I knew that was so for the UK but I would have thought it would have been France or Switzerland or even the UK for Germany. But actually the biggest inbound market both leisure and business, is the US. So here am I presenting a US brand to the Germans thinking "Will I do it?" and then I've got stuff to sustain that, so even Accor, even a French brand can't complete with that.

INT: But they do have Accor in Germany.

IA: This is the reason that we don't have a brand in France, we don't have the rights to France, for either Brand Z or Brand Q, we didn't want to.

INT: Are there any going into France?

IA: I think you'd be mad. If you tried to go and compete with Camponile and Accor in France on a budget brand you must be stupid. I don't think it would work in the same way I don't think that Travel Inn could go and start competing in America. There are enough mature brands there.

INT: Travel Lodge did, didn't they?

IA: But the budget market is mature in the States now anyway, 20% of the mix, and it's only 4% here.

INT: Do you by any chance have an organisation chart I could have a look at?

IA: I am just thinking whether what I've got is the way we're going. Just let me see if I've got it somewhere. I've got a model of this bricks and brand.

At this stage, the informant is gone for about five minutes looking for an organisation chart.

INT: You were talking about Firm B earlier, and you were talking about autocratic, how would you describe them as being? With your comments about information and about how they are structured, how they have gone from brand to regional to geographical, would you describe them as a hierarchical organisation?

IA: Well everyone is a bit.

INT: I mean as a franchisee do you have someone within the UK you can report to?

IA: Me?

INT: As the Brand X franchisee.

IA: As a franchisee, no, the relationship is between the CEO of Firm A and the CEO of Brand X by Holiday Inn. Each brand has a brand CEO, a guy called XXXX.

INT: So the CEO of Firm A would report to them.

IA: It's a mature relationship, but we don't report, no.

INT: Would they have access to your figures?

IA: Yes in the same way as we as franchisors have access. We could go and demand or go and do an audit on Brand O just like that.

IA: I'm trying to find the new chart that we're working on, and I don't think I've got it.

INT: And with Firm M you said that you have a gatekeeper in the States?

IA: Yes, that is a practical way in which we can, let's say I have a problem with the Internet site, they haven't loaded some of the pictures, or the rates are wrong in the inventory, then we would go to this one guy who represents the chain.

INT: How would you describe your communication with them?

IA: It's growing all the time and I think that actually the issue that they want a gatekeeper is more that them wanting to know what's going on, but they would say that it's more out of them actually helping us to mature and grow into the Firm M ways, but obviously more and more people in my team are making relationships, so my sales people have been over, talked to their sales people, my Head of Marketing has been over to talk to them about an international marketing programme, the quality assurance guy has been as well.

INT: That's your initiative?

IA: Yeah, there has been a need to do that, so although the gatekeeper is still getting, he may be cc'ed something, I could see that relationship changing over the years.

INT: As you get more experienced and get the project up and running?

IA: Yes.

INT: Were you free to, to go and talk to him?

IA: Yes.

INT: And do you have frequent communication with Firm B as well?

IA: Yes, they have a well-documented system where they have an owners' forum which you are elected onto, so all the owners are members of a owner's forum which they contribute to, and then you can actually be elected as one of the four representatives of Britain on the European the EMEA, Europe and Eastern Africa, and then XXXX comes to that meeting and reports to the owners. The owners represent the franchise community.

INT: So they have a decision-making voice?

IA: Yes, we say to those four guys, the issues we want you to raise are these.

INT: Does it work the same in Firm M as well?

IA: Yes it does at Brand Z and Brand Q level. There is an owner's board, there's a board for Brand Q and Brand Z both made up of owners.

INT: They're elected as well?

IA: They're elected in Brand Z, and they are a board of one from each territory, and we are allowed our own board members I think once we reach I think 20 Brand Qs within Britain we would automatically have our representation on the board of Brand Q.

INT: So do the owners elect their own representative?

IA: No it would be me. I would be that board member. We actually had that conversation in Canada with the Brand Z and Brand Q people because they had 64 hotels and they are on both boards, the Brand Z people separately from the Brand Q people. So the Brand Z guy, because of the growing division of the growing territories, he's got a mature territory, we now both influence Brand Z because Brand Z has 1900 hotels and now 100 hotels outside the US. It has an international meeting for the first time. It is going to be in New York in October. The Brand Q issue, where there are 600 hotels, 10% outside the States, they will have a governing board at which we with our contract have a this right. So Brand Z have got to discuss how we represent ourselves to Brand Z, Brand Q have already in their constitution a set number of directors of which there is what is called Regent 13 or whatever in the world. But it's already structured there to grow into. Whereas with Brand Z you are elected. At the next Brand Z conference I could put myself up for election, so it doesn't work in the same way as Brand Q. Constitutionally they are different in terms of elected owner-representation.

INT: So if I were an individual franchisee for Brand Z let's say, my regular meetings where you were on the board would enable me to voice my concerns, my gripes, whatever I have, and then you would take it forward to the board.

IA: Yes, but it's not by region. So if I went to the Brand Z conference in Canada and I thought, well, okay, I'll put up for this, and I got elected, I would be representing the Brand Z community so it could be a bit daft if they elected me because 1800 or 1900 hotels are over there. So I don't want a guy in Arizona saying 'what are we doing about the hairdryer mandate for the bathrooms' or something, so it would be daft. The guy in Canada is actually on it, and he's in North America, so it would be absolutely foolish for me to do that. Because of that we are going to have an international meeting because there are four in China, 12 in Israel, but these guys don't want to sit on where there's 1800, so let's have an international forum. The Brand Q one constitutionally allows for a representative of a region of the world based on size.

INT: And what about in Firm B, is there such a process in Firm B?

IA: No, it's just this owners' forum in which the senior people from Firm B come along and report to them in the sense they own them. But then the owners representing us go back. I could be elected to the owners' meeting, but at Brand Z and Brand Q you are actually elected to the board.

INT: Is the Firm B one they have in October, this kind of GM meeting they run concurrently. Are we talking about the same forum?

IA: For us in Brand X, we have a monthly marketing meeting which we all put in a certain amount of money, Firm B match it and there is a marketing plan written for the UK. That's tactical underneath what they should be doing with the brand. There's now an operation meeting just to get back the details of the operation. There is then an owners' meeting once a fortnight, and two of those Holiday Inn and Brand X owners are on the European owners' forum. So if the chairman of Holiday Inn is going to resign, one of us would be nominated onto the European Owners to replace him. But then when it gets there is obviously an element of other countries, and they make up the owners' meeting which then meets with Firm B regularly. Then the owner for either the brand or the country reports back to us on what's been decided.

Appendix B: Research Instrument Phase Two

Name:
Contact:
Position:
Date:

Setting the Context

a) Tell me about background and role within company

- length of time
- previous positions/experience
- current responsibilities
- how current role fits within organisation

b) Tell me more about the actual company itself and its portfolio

- number of brands
- number of hotels
- breakdown of hotels across brands
- types of affiliations used
- proportion of affiliations used
- change in corporate make up over past years
- particular affiliations for particular brands
- particular affiliations for particular geographic areas

c) Planning for growth

- market entry preference
- planned procedure for growth (or opportunistic)
- who responsible:
    - different for different affiliations
    - different for different countries/geographical regions

Organisation Structure

a) Tell me about how organised

- type of organisation structure currently utilised
    - e.g. by brand/geographical area
    - reasons for particular structure
- number of levels within hotel division from corporate to unit.
- number of people employed within hotel division
- rough percentage at different levels
- activities/functions at corporate level
- Is an organisation chart available?

b) Describe the nature of the organisation structure

- centralised vs. decentralised
- bureaucratic vs. organic
- formal vs. informal
- hierarchical vs. lateral organisation
- easy or complex to deal with

c) **Changes in organisation structure**
- reasons for change
- frequency of change
- easy difficult to implement
- Impact of change

d) **Describe organisation culture**
- how influenced by structure
- how influences structure
- similar cultures within affiliated firms
- change when structure changes

How it works in practice

a) **Decision-Making**
- consultation in strategic/operating decisions
- vehicles/process for gaining agreement, implementing brand initiatives, new products or services
- how differ across different types of affiliations
- any implications of difference
- examples of how works in practice
- how much input from unit level
  - dependent on type of decision
  - examples

b) **Communication Practices**
- describe nature of communication within organisation as a whole
  - formal vs. informal
  - direction
  - purpose
  - first name basis
  - media used to maintain contact
  - examples of above
- other forums for communication/networking (meetings, conventions, etc)
- how differ for different types of affiliates and/or brands
- type and degree of contact across different brands
  - any implications of difference
- type and degree of contact across different types of affiliation
  - any implications of difference.

c) **Co-ordination and Control**
- key performance measures used for unit level
  - Regional
  - Brand
- MIS systems in place
- how do these differ across different types of affiliation
  - Any possible implications of difference
- Maintenance of brand standards
  - how monitor?
  - difference between types of affiliation
  - any implications of difference

Anything of relevance I have missed?

Appendix C: Project Summary

Oxford Brookes University
The School of Hotel & Restaurant Management

International Hotel Groups: Organisation Designs for the 21st Century

What the research is about...............

Increasing levels of competition within the hospitality industry have led many hotel groups to pursue aggressive international growth strategies. Often this growth has been achieved through the simultaneous use of a range of different market entry methods: acquisition, management contracts, franchising, strategic alliances, joint ventures and partnerships with varying degrees of equity participation. While there are clear benefits to firms through the utilisation of multiple market entry methods to achieve growth, there are also challenges that arise in determining the best way to structure these complex organisations. Most research has tended to explore the reasons *why* firms choose to adopt certain modes of market entry. Comparatively little research has been undertaken into *how* these firms are organised to achieve organizational goals. As one of the key issues identified for international hospitality firms is how to organise, integrate and manage their activities, this research is investigating the structure of international hotel groups utilising 'diverse affiliations'.

Why the research is important..........................

The links between structure, strategy and organisational effectiveness are well established. However, traditionally organisation structures used within the industry have been predominantly characterised by formality with defined levels of hierarchy and reporting procedures. While these designs were able to cope with relatively stable environmental conditions, they are no longer deemed sufficient to enable the flexibility, responsiveness and speed of action necessary to operate in today's dynamic global marketplace. New organisational designs with more organic and flexible structures are prescribed.

As hospitality firms expand internationally, they are faced with dual pressures to achieve both local responsiveness and global integration. They also have the challenge of operating multiple affiliations where different levels of co-ordination and control are afforded senior managers. Recent research into the fast food sector of the industry suggests that a firm can achieve synergistic benefits by utilising different structures and organisational processes for the different organisational forms it employs. As industry experts predict continued growth through multiple affiliations, research into how best to organise these compound organisations to achieve organisational goals is essential.

How the research will be conducted.............

The first stage of the research will analyse the formal corporate structure of a sample of international hotel groups using utilising multiple affiliations in relation to the portfolio of hotels and the different affiliations employed. This stage of the research is currently underway.

In the second stage of the research a more detailed investigation of communication and decision making processes and practices of a sample of international hotel groups will take place. These practices will then be evaluated in relation to organisation structure and the different affiliations employed.

In order to progress with the research industry participation is needed. Your commitment would involve a series of interviews with different members of your organisation conducted by an experienced researcher. **All company information will be treated in strict confidence.**

As a participant in the research project you will benefit by........

- obtaining objective feedback about your company's approach to structure in relation to current best practice.
- receiving recommendations on the design of your organisation in order to maximise the potential of the different affiliations employed
- contributing to relevant, applied academic research that will raise the profile of the industry.
- contributing to up-to-date knowledge about the industry that will enrich the teaching received by both postgraduate and undergraduate students.

For further information please contact...................

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Appendix D: Case Summary Overview Sheet (Firm G)

Case Study Interview	
Company:	Firm G
Informant:	XXXX
Position:	Vice President Distribution Services
Location:	Headquarters
Date:	June 4th, 2001

This interview was held with XXXX, corporate level vice president for Firm G on the afternoon of the 4th of June, 2001. The interview was held in his office at corporate headquarters in the UK.

This meeting was requested when I met the informant at a conference. An email follow up and further intervention by a mutual acquaintance secured the interview. I am not sure how keen the informant was to actually undertake the interview or whether he actually read my project brief or any details about who I was. Subsequently the interview started off with the informant adopting a superior position and exercising his rights as the expert and being somewhat patronising. His initial body language supported this attitude and he was neither friendly nor welcoming. As a result, it was quite difficult to extract information out of him at the beginning. He provided answers but it took a lot of probing to get him to elaborate.

However, as the interview progressed I was able to demonstrate a certain level of knowledge about Firm G and the industry in general and fortunately turn the interview around. The tone of the interview changed somewhat and the informant was quite forthcoming and open in his answers. The interview started to go much more smoothly at this point and the informant was actually quite helpful towards the end.

One benefit to this interview is that the informant had worked with three other key players in the industry and was able to share views on these firms individually and in a comparative manner. While these comments cannot be used as primary data for other firms in this study, they can be used as points of investigation for other case study firms or for triangulation purposes.

There was a negative side to this interview as well, as that it was interrupted by both phone calls and by people entering the office. This did detract slightly from the flow of the interview. The tape was turned off during these instances but the interview would have progressed more smoothly without these interruptions.

Appendix E: Refined Research Instrument Phase Three

Name:
Contact:
Position:
Date:

Setting the Context

a) **Tell me about background and role with the company**

(establishing respondents' credibility to answer historical questions about the affiliation)

- length of time with firm
- current responsibilities
- role played in the development of the affiliation
- current role in terms of managing or involvement with the affiliation

b) **Overview of Relationship with Affiliate**

- description of the current nature of the affiliation.
- overview of historical development
- Original formation
- reasons for establishing the agreement
- how partner identified
- partner selection criteria
  - priority of criteria
- negotiation process:
  - how conducted
  - critical issues during
  - current agreement: technical nature
  - what included
- brand name, distribution, marketing, anything else in terms of support services reservations
- loyalty programme
- proprietal programmes
- procurement
- brand initiatives e.g. 100% guest satisfaction
- training
- other functional support?
  - Any change since the beginning of the affiliation

How it works in practice:

a) **Decision-Making**

- involvement in brand/strategic decision making at onset of agreement
  - consultation in brand/operating decisions
  - vehicles/process for gaining agreement, implementing brand initiatives
  - involvement of other affiliated firms
  - decisions over own portfolio

- Has the nature of decision making change through the course of the relationship
  - for brand/strategic decisions
  - more or less autonomous
  - more or less control over own portfolio development
  - factors driving that change
  - involvement of other affiliated firm

b) Communication practices: then and now

Formal communication

- key people involved in managing the affiliation:
    - corporate only
    - other organisational levels
    - number of people involved
- purpose at different levels
- defined in contractual agreement
- vehicles, media or channels for communication
- frequency of communication
- split between planning purposes and reporting purposes
- other forums for networking (meetings, conventions, etc)
- any with other affiliated firms
- any changes in communication practices since the affiliation began
    - nature of change
    - factors driving that change

Informal Communication

- o describe in early days of affiliation
    - how far down organisational levels
    - Examples at different levels
- o direction
- o frequency
- o media
- o first name basis
- o Any with other affiliated firm
    - purpose
- o Any change since beginning of affiliation
    - nature of change
    - factors driving that change

c) Co-ordination and Control

- performance measurement established at beginning of agreement
- procedures used (e.g. brand standards, growth targets)
- how implemented
- who responsible for managing?
- any controversy caused by approach?
- access by Brand Owner to MIS systems?
- Any change since beginning of affiliation

  nature of change

  factors driving change

d) Conflict Resolution

- any formal procedures written into the contract
- describe nature and type of procedures?
- nature of issues that created conflict?
- how manage
- Any change since the beginning of the affiliation
    - nature of change
    - factors driving change

e) Maintaining the Relationship
- your opinion on success of the affiliations
- key ingredients for successful maintenance
- overview of how affiliation has evolved
- critical issues

Organisation Structure
- at start of agreement
- any change
- how describe culture
- how compare with affiliates
- implications for decision making
- implications for communication
- implications for control and coordination
- any changed
- impact on operational and strategic decision making
- organisation charts available

Organisational processes within own firm

- how compare with those used across affiliation
    - decision making
    - communication
    - control
- same employed across different market entry models?
    - describe differences

Appendix F: Using Memos for Data Analysis in NVivo

Note: NVivo files reveal that this memo was created on the 7th March, 2005 and the last modification took place on 15th March, 2005.

At this first stage of the analysis the primary data is reviewed. Tree nodes have been created up according to the interview schedules. As coding was undertaken, however, some new free nodes that emerged from the data were also created. At this first stage interview transcripts from sample firms were coded and then reviewed. The original tree nodes were developed as follows:

informant background
organisation history
organisation culture
organisational growth
organisation structure
decision making
communication
coordination
control
organisation background

The transcripts were coded and thoroughly checked against the codes manually. This coding took place over a number of days, starting with the date this memo was created. At a subsequent date, the transcripts were checked again against the codes. In-Vivo coding is used at this stage when going through the transcripts again. Where I was unsure about which code to choose, multiple codes were applied. This process is timely and may create overlap, but is important while I firmly establish where the data best lays.

On the last modification date of this memo, additional notes to the interview and report on the interview were read through for coding. The following free nodes were created as they seemed to be potentially relevant for comparative purposes:

franchising
management agreement
owner-operated

After the first coding, a number of additional codes were added including joint ventures and plural forms. It became clear at this stage that when looking across the different case firms, it is quite complex at firms to determine how things are run. For example, Firm B with its large portfolio in different countries with different types of operations.

After reading and rereading the transcripts, it emerged that for some of the respondents, relationships between the different parties involved with the hotel groups seemed to be a key issue. Using NVivo's search tool, a search was run for the word 'relationship' in these initial transcripts. This yielded a record of 100 instances but after rereading through these findings to double check on the relevance of the word to relationships between the different organisational bodies, the findings were reduced to 27 relevant recorded instances in the transcripts representing 5 different case firms. A second search and review yielded 139 instances in 14 documents that was reduced 39 relevant instances.

A tree node has therefore been created with a number of children during subsequent coding. Children identified include

relationship content,
partner selection,
relationship formation,
relationship management and
relationship evolution.

Note: this memo has had to be modified to some extent in order not to reveal the identity of any participants or their organisations. It was also modified to provide more of an overview of the process undertaken.

Appendix G: Data Display by Case (Firm C)

Background : Firm C started trading in the 1960's as part of a larger, privately owned and diversified North American company. The hotel portfolio developed slowly through one brand within the home country until the 1980's. At that time Firm C began to develop this core brand internationally and added another brand to its home country portfolio. Since that time, expansion of Firm C can be described as rapid and global with properties in all seven continents.

Portfolio : Firm C has five brands in its current portfolio ranging from mid-market to luxury properties, all targeting business and leisure guests. C1 is the core brand with city centre and resort properties that range from the 3- to 5-star market. C2 is a midmarket brand that Firm C developed in house to suit the home market. It subsequently began to expand overseas in 2002. Brand C3, the luxury brand, was acquired from Firm F in the 1990s. It consists of both city centre and resort properties. Brands C4 and C5 are the latest additions as a result of an alliance with another hospitality firm. These two brands are operated under one banner through the alliance agreement. All five brands are distributed through the same CRS system and all share the same customer loyalty programme. The operating characteristics of these brands are displayed in Table 1.

Table 1: Portfolio of Firm C

BRAND	MARKET	HOTELS	ROOMS	LOCATION
C1	Upmarket properties but range from 3-5 star, original brand	424	99,246	Operates in 61 countries. Americas, EMEA and Asia/Pacific, latter has smallest representation.
C2	Midmarket properties	260	19,968	Predominantly Americas with most properties in North America, limited presence also in EMEA and Asia/Pacific. Operates in countries.
C3	Luxury properties	13	5029	Global spread with properties in 8 countries in the Americas, EMEA and Asia/Pacific.
C4/C5	Mid to upmarket and midmarket/value subrand	26	2970	North American market only.
Total		723	127,213	

As of year-end 2002.

Affiliation: The complexity of Firm C becomes apparent on examination of how it is affiliated with its portfolio of hotels. Different market entry strategies have been adopted for different brands.

C1 developed predominantly through single and multiple franchise agreements in the home country. International expansion has taken place through a mixture of ownership, management contracts and through master franchise agreements held with local firms in several geographical areas. The Firm recently purchased controlling interest of its largest franchisee organisation in the Asia/Pacific region.

C2 is a franchised brand both internationally and in the home market. Brand C3 is slightly more complex. Although Firm C acquired this Brand from Firm F, the latter still manages a small number of these properties under license. The remainder of the properties are operated under management agreement for third party owners, with Firm C having some equity in some units. Brand C4 and C5 hotels are franchised. While Firm C, has the operating rights to this brand through an alliance agreement, two other hospitality firms have the ownership and development rights for this brand outside of North America. The alliance has also created an investment partnership that will fund future development of all 5 brands. A summary of the different affiliations of the brand is presented in Table 2 below.

Table 2: Affiliation of Firm C's Portfolio

BRAND	MARKET	HOTELS	AFFILIATIONS
C1	Upmarket properties	424	Development through franchising in home country, ownership and master franchise agreements in international locations, some management contracts.
C2	Midmarket properties	260	Developed through franchising in home country and international locations.
C3	Luxury properties	13	Developed through management agreements, equity interest in some properties.
C4/C5	Mid to upmarket	26	Developed through franchising in home country and international locations.

As at year-end 2002

Growth Strategy: Further expansion is planned for all brands and the market entry strategy remains differentiated. Within C1, expansion is planned in gateway cities in the home country through management contracts. Within the home country, C1 will adopt what is reported to be a more strategic approach to franchising as it seeks to achieve greater brand consistency across the portfolio. Growth is planned through master franchise agreements with local partners in international locations. The Firm has recently signed a joint venture agreement to develop both C1 and C2 throughout one country in the Asia/Pacific.

C2 will continue to be developed in airport and secondary locations in the home country through franchising. International expansion is also planned through franchising, with conversion of small chains an option.

C3 will seek further development in select gateway and resort destinations through management agreements with equity investments in some locations. Licensing is also identified as a potential option.

C4 and C5 will be developed further through conversion franchising and both brands will continue to be managed under one division at corporate level.

Organisation Culture: According to a key informant, the organisation culture is very informal. The corporate level of Firm C is reported to be 'very accessible' and the use of first names throughout the Firm reflects this. 'Classless' was also a descriptor used in relation to the organisation culture. The origins of this culture are attributed to the founding father, but it was also stressed that they 'actively choose to remain and operate this way'. The culture is also described as one that is 'inclusive' and this is why the company is very open towards the partners used to develop different brands. According to the informant, this culture helps them to build and maintain relationships with different brand partners.

Organisation Structure: Firm C is reported to have changed its organisation structure within the last few years in line with a change in strategy. What was created is described as,

> 'halfway between a matrix and a shared services organisation, so that now the staff functions are also shared services'.

These shared services however, operate across all of the divisions of the larger conglomerate firm. Functional support at this level includes marketing and sales, accounting, human resources, IT, public relations, mergers & acquisitions, provisions and reservations. Marketing and sales and accounting are by far the largest functional areas.

Within this broader support, Firm C (at the level of the hotel division) is reported to have a 'brand management structure'. A President heads Firm C, with responsibility for each hotel brand residing with an Executive Vice President or Vice President. The organisation chart depicts IT, reservations, human resources and contract administration also at the highest level within this division. The situation structure varies however, according to the particular brand and the market entry strategies employed. For instance, the franchised brands are structured differently than managed brands. For each brand however, the operational and functional responsibility provided is divided geographically on the basis of 'three economic arenas'. The informant was keen to emphasise that not all brands were operated within their Firm. Using C1 as an example, it was reported that,

> 'the worldwide brand is not an 'entity', as there are different ownership permutations globally. They are separate to our divisions, but we are one brand.'

Different geographic arenas may also be structured differently within individually brands. According to the informant, this sometimes complicates issues. However, the situation structure was also reported to be complex within the 'entity' of Firm C. One informant reported,

> 'I think we have three or four organisational structures within the same organisation. But it's very confusing to run. Its very complicated and I have to say that this is one of the more complicated business directives, everything is run a little different, and every structure is a little different, the compensations are different, the nature is different, some are not for profit, some are for profit and it is very confusing.'

Firm C therefore displays a high degree of horizontal differentiation. The organisation chart depicts up to 5 organisational levels between the Brand President and the operational staff at unit level. However, the number of vertical layers does differ according to the brand and according to the type of affiliation. The 5 layers reported reflect those relating to franchising in the home country. Where there are inter-firm agreements, these are not depicted on the chart. Furthermore the number of hierarchical positions varies within functional departments as well. The spatial differentiation of Firm C is quite high as its 723 hotels are located in 60 countries around the world. However, there is still a relatively high concentration of properties within the home region. Overall, Firm C depicts a high level of complexity.

There is also a high level of formalisation reported for both franchised and managed properties and this is considered integral to maintain brand identity and integrity. Brand standards, operating manuals, job descriptions, and pro forma documents for reporting are used, but the extent to which they are used differs between the franchised portfolio and the units that are owned and managed under contract.

The informant suggested that Firm C is 'hierarchical to some extent' and that within some parts of the Firm there are relatively high levels of centralisation. The detailed and complex organisation chart depicts clear reporting lines at different hierarchical levels within the Firm. However, the use of franchise agreements within the home country and master franchise agreements internationally is suggested to create high levels of decentralisation.

The situation structure of Firm C, however, is also reported to change frequently. According to the informant,

> 'we constantly evaluate, re-evaluate, change to meet the needs and the strategy to which, which is designed to meet the needs of the customers. So 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.'

Organisational Processes

Coordination and Control: As with the situational structure, there are reported differences between the control procedures used for the franchised and the managed portfolio.

Financial Control: Within the managed portfolio, financial control procedures are much the same for the different brands. The budgeting process starts at the unit level and then moves up the hierarchical reporting lines within geographic regions for approval and then to corporate level in a consolidated format for final approval. Performance against budget is monitored through the company's MIS system and through standardised monthly operating reports. For the franchised portfolios, financial monitoring is limited to the revenue contribution, as opposed to the bottom line. According to the informant,

> 'we have access to a lot of data, not profit and loss, but the contribution to the system from the member hotels. We have information on their denied revenue, which they turned off the system, and therefore denied revenue, which they could have had if they had not closed. Occupancy, contribution to revenue, customer service scores, revenue per available room, all of those kind of standards, we watch those very carefully.'

The view from corporate level however, is that they are providing a service to the franchised community through this monitoring as,

> 'we have lots of stuff to help them, to see how what they are doing is impacting on their success or lack of success. This is part of what we provide as a service. This monitoring to help them to know.'

In addition, it is reported that the franchisees also use these statistical reports produced to measure how the corporate level is doing in terms of the value they get for their franchise fee,

> 'It seems as though the erm, the franchisees are happy with that too, because it's their way of measuring how we are doing, "How many rooms have you booked for us?" Or "How are the sales?" '

The franchised owners and managers are reported to use these statistical reports to compare their performance against the managed portfolios. The informant suggested,

> 'Yeah and believe me, they are comparing! And they are contacting us, and they are demanding, and that's the way it should be. They are paying us money, they have a right to that.'

However, franchisees do not have access to as many internal operating reports as the managed portfolio for these purposes.

Quality Control: Hotels in both the managed and franchised divisions are monitored against adherence to brand standards that incorporate both hard or technical elements as well as softer elements indicative of service quality. Brand standards are taken very seriously within Firm C. According to the informant,

> 'A brand is a promise. When somebody goes in to a [C1 or C2], we've made certain promises that we market and we can't have people who are abusive of that and don't prescribe to it, and we have methods of dealing with that if it happens. '

How it is dealt with however, is different between the managed and franchised divisions. For the managed portfolio within the home country,

> 'the managed hotels have a group that oversees them that has an executive Vice President, three regional VPs and it has some rooms people and an HR person who go out and help them, and work with them. And they have meetings three or four times a year, where they can give input and get what's new and all of that.'

The level of support provided to the franchised division is not as extensive. While there is still a hierarchical team reported to be responsible for maintaining brand standards in the franchised portfolio, the informant did clarify that the level of support offered to owned and managed properties was much higher.

Initial training is provided to franchised properties in relation to customer service and service guarantees. It also relates to other centrally coordinated functions such as the proprietal reservation system and associated programmes such as yield management. The training for the day-to-day operations of the hotel is left to the franchisee. However, there are reported to be requests for help sometimes and Firm C is prepared to help out where they can. One example given was a recruitment tool kit developed for the managed division and then made available to the franchised division.

Training provided to master franchisees will vary according to each agreement. However, it appears that Firm C would prefer to offer as much training in their systems as possible and then let them take responsibility for training throughout their own Firms. It was reported:

> 'You know you can give a man a fish or you can teach them how to fish. We prefer to teach them how to fish.'

There are some programmes for managed hotels that are mandatory, but not necessarily available to franchised properties. However, according to the informant, 'for the most part, we offer whatever we have we think works'.

Customer Satisfaction: A similar process is employed to monitor customer satisfaction levels across both franchised and managed divisions and within those properties run under master franchise agreements. These are conducted on a brand-by-brand basis, usually annually and controlled through the corporate office in the home country. According to the informant,

> 'we do have reports that come out on guest service levels, and comparative data between hotels, ...'we watch those very carefully. It's our scorecard of how we're doing, it's how we know who to help, who needs help, by analysing these kinds of reports.'

Firm C also monitors their performance in terms of the service they provide to the various owners and management companies that operate their brands. Informally, regional Vice Presidents work with the owners to ensure they are getting what they want. Firm C also conducts an annual survey of the owners and GM's to find out 'how we are doing and what they'd like to see differently.'

Coordination Processes: Firm C runs its own University for developing managers across its different brands. This University offers business and leadership courses around twenty times a year in different locations in the home country. Other informal coordination and control processes varied according to the brand. With Brand C1, it has an interlocking directorate with one of its key master franchisees. Conferences for owners and/or general managers tend to be held annually for different brands, normally in the home country region. Meetings are also held within the marketing and sales functions on a regular basis, but again the actual practice varies from brand to brand.

Decision Making: Decisions about implementing different programmes are reported to go through a different process depending on the type of programme and whether the hotel is a managed or franchised property, including the master franchisees. For instance, there is reported to be more leeway in HR initiatives than with marketing initiatives and the latter are more likely to be mandatory. With any programme however, Firm C is reported to believe it is very important to get buy in at the top level for both managed and franchised hotels for any new brand initiatives. According to the informant,

> '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 what the benefits will be and encouraging them.'

In both the managed and franchised divisions, a process is undertaken with any new initiative to get buy in down through the hierarchical layers, even if it is a mandatory marketing programme. Once buy-in is achieved, there is reported to be a good deal of support from the corporate office to implement the programme and provide the requisite training. It is not clear whether the level of training is the same for both the franchised and managed estate. It is recognised that particularly for HR initiatives, franchisees are under no obligation to sign up and this has resulted in HR programmes for different brands running in some regions but not others.

Not surprisingly, there is more autonomy at the unit level within franchised units than within the managed estate. The brand standards and standard operating procedures provide fairly extensive guidelines particularly within the midmarket brands run under management agreement. While there is still a hierarchical team reported to be responsible for maintaining brand standards in the franchised portfolio, according to the informant

> 'well we kind of have standards and you're going to have guidelines....but the day-to day operations, it's your baby.'

The level of autonomy for individual units operated under master franchise agreements, is dependent on the master franchisee. There is however, reported to be more autonomy within the luxury Brand C3.

Communication: There are a number of formal communication vehicles set up to manage communication. These however, are different for different brands and types of affiliations. There are also different practices reported for different geographical regions. For instance, the nature of the marketing association is reported to be run differently for different brands, and differently within single brands for the home country and international divisions.

Within Firm C, communication is described as frequent and informal, although there are reported to be different practices across the group, especially within the different types of affiliations. There are also different norms in different parts of the world. In the Asia/Pacific regions for instance, there is reportedly 'more formality in dealing with "Mr this" and "Ms That". However, these differences are believed to be related to the national or regional cultures of the different organisations and do not impact upon the nature of the communication between these affiliated organisations and the head office. This is reported to be frequent and informal and to make use of emails. It was suggested that the affiliated organisations are not afraid to contact them or to ask questions. 'There's a lot of informal communication in between meetings as well, that's how we've set it up' (IC). However, there is reported to be a downside of this in terms of how time consuming it is.

Generally communication is seen a vital mechanism to support decision making and to strengthen relationships across the different organisations involved in running the portfolio. It was identified that:

> 'one of the things about us, and part of our culture, and our way of operating is that communication is a very big part. And building relationships is a very big part of how we operate. Being inclusive and trying to include them in decisions that are made. Although at the bottom line we own the brand and we have to protect the brand, but they have a lot of input'.

Appendix H: Data Display by Market Entry Mode: Management Contracts

Background and Portfolio Characteristics: All firms within the sample utilised management contracts within their portfolios. While the majority of sample firms had employed this market entry method for some time, Firm E has only recently decided to expand through this market entry method. In contrast Firm F recently decided to focus solely on this market entry method. Within the firms with multi-branded portfolios (Firm B, Firm D and Firm G) management contracts were more prevalent in their upmarket brands. Firm C is an exception however, as it also employs franchising and master franchising for its most upmarket brand.

Growth Strategy: All sample firms were planning to continue to use this market entry method. The major reason given for this growth strategy was the level of risk involved compared to owning property and/or franchising. Risk was assessed in relation to the economic environment and to the level of profitability. However, informants also report an increasing trend towards the hotel management company undertaking an equity investment in the properties. Equity investments were undertaken in order to demonstrate commitment to hotel owner, retain a greater element of control/decision making and support the development of the property in countries with weaker economies.

Organisation Culture: As this market entry method was adopted by all case study firms there appears to be limited relationship between organisation culture and preference for management contracts. However, Firm E did not adopt this growth strategy in the past as it wanted to retain full control over its portfolio. This strategy appears consistent with the culture described by the informant.

Organisation Structure: There were no discernable differences reported in the organisation structure for brands/areas operated under management contract as those that were fully owner-operated and those run under leasehold agreements. Sample firms that utilised these multiple entry methods tended to house these elements of the portfolio together under one operating umbrella when it came to the structure. However there were differences reported between these elements and for franchised elements of the portfolios. Informants report smaller spans of control within these structures and more involvement of senior managers with the unit level. Senior managers were reported to be involved so that they could help the hotels drive more business and improve the bottom line. This bottom line was reported to be important not only for managing their own profitability but also in terms of managing the hotel as an 'asset' for the hotel owner. As a result, the structures adopted can be described as centralised, with hierarchical layers and formalised control procedures. These structures are deemed necessary to retain control over the brand as without ownership of the physical hotel property the brand was their key operating asset. Given the level of competition, the brand must be managed appropriately in order to be able to renew contracts with current owners and to sell the brand to new owners. One informant suggested:

'If you are a brand management company, what happens when a property supplier decides that your brand is not the strongest brand to put on the hotel anymore? Then what do you get? Where is your security? Are you just then effectively just like a Coke? You have absolutely no assets, your bottles do that for you, you are just a brand, which is fine if you are Coke. I am not sure that hotel brands have that much legs in them, once you don't have any hotels choosing to put them up.' (IB)

Organisation Processes

Organisational processes employed across the sample are reported to be influenced by the actual contractual agreement signed with the hotel owners. Two environmental forces are driving change in contractual agreements; the level of competition amongst hotel management companies and the increasing sophistication of the hotel owner. According to one informant:

'But it is so competitive these days that you are always going to be walking into the room immediately after a Sheraton or immediately before Hyatt or whatever. So you know those kinds of deals have tended to become a little more complicated. And the considerations of the variations of those in the way that they impact in any practical sense needs to be managed.' (IG)

As a result, the negotiation process is reported to be quite important. As one informant suggested:

'we submit our standard contract, it's heavier than your thesis, and they are generally very heavily negotiated.' (IF)

Key negotiation points reflect the length of the agreement, brand and operating standards, revenue guarantees, property upkeep, normally expressed as a percentage of revenue to be invested in the property, and conflict resolution procedures. Most informants identified a trend towards reduced contract length, although this was also a negotiation point. Negotiations were becoming trickier and according to one informant:

'Owner profile has changed, contracts have changed, surely, but owners have changed in the last 10 years. They are just much more knowledgeable than they used to be. And they are no longer prepared to just hand it over like in the old days......... we were a lot freer, to basically do what we wanted to do. It's no longer the case.' (IF)

The implications of this can be seen in the different organisational processes below.

Coordination and Control: As suggested above, from a financial control perspective senior management were very concerned with the bottom line in hotels run under management contract. The majority of financial control was based on the budgeting process. This process reflects a bottom-up approach requiring approval at successive hierarchical organisational levels. While there was reported to be some discretion about financial decisions at the unit level, most informants identified clear parameters to decision making.

However, within the financial function, informants identified a greater involvement of hotel owners in capital expenditure, approval of operating expenses and in approving the budget. This appears particularly to be the case when hotel owners are individuals or when institutional owners employ asset managers to keep an eye on the unit property as an investment.

Quality control procedures were also reported to be formalised and standardised. Quality is measured against brand standards and customer satisfaction levels through mystery inspections, annual surveys and customer feedback procedures using both hard and soft standards. Quality is also measured in terms of employee satisfaction for some firms. General Managers are often incentivised on their performance against a number of indicators including financial, quality, customer satisfaction measures, and for some firms, employee satisfaction. In terms of the physical quality of the property, here again the owner has a say, although upkeep and refurbishment is negotiated and stipulated in the contracts.

Communication Processes: Most informants report communication within these elements of the portfolio to be frequent, informal and multi-directional. However, there is some variation. For instance, communication in Firm F is far more reflective of these characteristics than Firm E. In the latter, there is a reliance on formal communication channels and these tend to cross hierarchical levels only for reporting and dissemination purposes. However, the culture of these two firms is very different, and this could have an impact on the communication processes employed.

Decision Making: In line with the formalised and hierarchical structure, much decision making within these portfolios remains highly centralised. Management interest in the unit level, the perceived need to control the brand and to effectively manage the asset, means in reality that there is limited discretion at the unit level.

However, there is reported to be much more involvement in the owner in operational decision making. As one informant suggested,

> 'The owner has always been the guy across the hallway, we get things like the owner now wanting to make decisions. (ID)

For example, owners are reported to want to get involved in the appointment of General Managers and operational decision-making. One informant suggested,

> 'We have leeway; we try and work it out. It is fairly hard to tell an owner who has just invested a £100,000,000 or £120,000,000 in that hotel, that I'm not interested in your opinion about the china on the table.' (IF)

Other informants also reported the need to manage the relationships with hotel owners and that there were frequently 'considerations about stroking the owners fur' (IG). Asset managers were also reported to have had an impact and one informant reflected on their role as follows:

> 'They don't have operational jurisdiction, they can't tell anyone to do anything, all they can do is tell the GM to come and meet with him and look at numbers, look at this or advise, or I had a bad lunch today, or whatever, but they don't have operational control per se, but they can make the GM's life miserable.' (IF)

As a result, more time is reported to be spent on managing the relationships with hotel owners, however it depends on the personality of the representative of the hotel owner as:

> 'sadly what often happens when the asset manager is an outside company the asset management group feel the need continuously to justify their own existence.' (IF)

This relationship management is reported to influence the negotiation process. One informant added, that 'choosing a developer/owner to work with becomes more important '. This same informant added that they,

> 'look at characteristics of developers: finance, reputation, background, experience, how solid they are, their culture and whether we think we have chemistry. Sometimes that is difficult in certain cultures where management styles are very different.' (IF)

Another informant cautioned that they 'still have to make a judgement call' to make and,

> 'the other thing just to throw further confusion is that where we fall out with an owner or we just can't find an owner with whom we want to work, we will just occasionally underwrite a hotel to get it done.' (IG)

Overall therefore there seems to be some loss of operational control and potentially flexibility due to the owner approval of budgets, etc. Strategic flexibility is also reduced due to equity commitment, but is still higher than with pure lease or ownership models according to the informants.

Appendix I: Profile Affiliate A

Background: Affiliate A began trading in 1970's under the direction and sole ownership of a key individual who remains the Chairman today and maintains 85% of the shares. Although the informants suggest that Affiliate A has some diverse interests, its core business is hotels.

Portfolio: Affiliate A has a limited portfolio of ten upmarket and full service properties representing 1926 hotel rooms, all located within prime locations in the home country. The size of the units varies from 54 rooms to 450 rooms. Due to the location of its hotels, key target markets are reported to be international business and leisure guests.

Affiliation: All ten properties are fully owned and operated. These properties are all co branded and operated under a corporate franchise agreement with Firm C, the Brand Owner. The agreement includes territorial rights for the current portfolio, but does not include development rights within the home country.

Growth Strategy: According to one informant, growth for Affiliate A has been 'organic' and 'controlled'. Company documentation supports this and reveals that Affiliate A is not driven by a development plan that demands we add scores of hotels to our portfolio each year, but is focused on identifying 'new projects where we can add real value and derive a real reward'.

Affiliate A currently has plans to expand its portfolio through management contracts and leasehold agreements. These market entry methods are perceived by informants to enable the Firm to retain higher degrees of control. Expansion is planned within the home country only in further prime city and airport locations. Two further properties are currently under development.

Organisation Culture: A wide variety of terms are employed to describe the culture within Affiliate A. According to one key informant, the firm is 'idiosyncratic', but the culture is still very 'tangible'. The same informant suggested there is a 'family-run amorphous style' that is 'fluid' and gives rise to 'free spirits'. This culture is attributed to the 'entrepreneurial' style of the founding father by all three informants. One suggested this culture is,

> 'most appropriate for breaking down those chimneys, if you like, bringing people together, trying to create an open and honest environment.'

This same informant added,

> 'it's an emotional company, erm, it's an open environment. If you have a good idea, no matter who you are, it will be listened to. And if people buy into it then it will be taken forward. It will take risks.'

The third informant added that as a result,

> 'we are happily schitzo we can take the best of [Affiliate B] and the best of [Brand Owner]! We are happily schitzos!'

Organisation Structure: The structure of Affiliate A is reported to have changed a number of years ago in response to the need to reinforce the company culture. According to one informant:

> 'The Chairman's model of culture, which in his head is about empowerment, about liberating people, about values, which in his head couldn't be sustained through a command and control structure.'

What is described by one informant as 'an interesting study in matrix structure' was therefore created. This descriptor is used because General Managers were removed from each property and junior or middle managers acting as Head's of Department now report directly to their 'discipline manager' at corporate level. According to another informant, the reason for this is,

> 'If, you have a rotten apple GM who is counter culture in terms of his or her values, that property you could write it off, because they have absolute power. And if they are visionary and leading edge fine. If they are organisational terrorists, with their own script, it gives them little chance of changing the culture.'

Another informant added,

> 'if you have a matrix structure, by definition, it isn't strictly just about that property. If you are HOD for Food and Beverage, you link in with the equivalent in all the other properties and the Head Office F&B managers. In that way, it's more permeable, it's more amorphous, whereas with a top end structure it's more like a chimneystack in every sense of the word. So that, as far as I am aware, was the driving force behind the change.'

According to another informant,

> 'rooms, sales, food and beverage, conference and banqueting, housekeeping, etc, all the functional areas are headed up by an HOD and they all have equal status, in theory.'

This structure is supported by 'a couple of hundred people' at head office who support the 1700 people employed within Affiliate A. The Chairman is supported by 4 further executive directors who are reported to have 'broad responsibilities' and these are not clearly defined by the job titles. At the next level are Directors for purchasing, operations, commercial development and finance. The company secretary also sits at this level. Marketing and sales sit within commercial development and this represents the largest functional area within the corporate office with responsibility divided on a geographical basis. The number of organisational levels between the Chairman and the operational staff does vary by function. Within operations however, there are only 5 organisational levels identified by the organisation chart between the Chairman and the Heads of Department at unit level.

Affiliate A is therefore not considered to be a complex organisation as there are limited degrees of horizontal, vertical and spatial differentiation. The findings regarding centralisation however, are somewhat mixed. While all the informants frequently used the term 'empowerment' to describe the organisation, much decision-making still remains at the corporate level as suggested by the reporting structure. The relative size of this organisational level would seem to support this type of decision-making. In addition, informants report on decisions undertaken unilaterally by the Chairman. However, there is also a relatively low degree of formalisation that is more consistent with an empowered organisation.

Informants recognise however, that it is the size of the organisation that enables this type of structure. One informant questioned,

> 'How do you keep that family-run amorphous style, fluid with...30, 40, 50, 100 hotels. I know it couldn't do it with 100, I know it couldn't. You have to have more centralisation, more command and control, and the minute you start using those words you are running contrary to the [firm] culture.'

Organisation Processes

Coordination and Control: Financial Control: Financial control is predominantly achieved through the budgeting process. Informants within this Firm were somewhat more reluctant to discuss the actual process but did suggest that there was involvement at the unit level by various Heads of Department, the Discipline Directors and the corporate level. The organisation chart however, depicts 44 positions at the corporate level within the Accounts Department, making this the largest department. The largest section of this department is given over to hotel accounting systems. The payroll function is also undertaken at corporate level suggesting that the corporate level maintains the majority of the financial control function.

Quality Control: Since the recent start of an ongoing refurbishment programme, Affiliate A has adopted brand values rather than brand standards. They have identified ten values that are described as 'well defined' but according to one informant,

> 'the real key challenge is the internalisation of that message. In a non-patronising way, which is key'.

Maintenance of the brand values appears to rely heavily on Discipline Managers within this organisation. According to an informant, it is their role to, 'implement policy across the group, so that there would be consistency across the group, rather than 10 individuals working to their own hotel needs.'

However, the informant also suggested that:

'We do act independently I would say to our own goals and this again is one of the key challenges for us moving forward, how do we integrate and mesh in with each other more effectively? I'd say we don't do that so well, but I think we do it far better than other groups at the moment simply because of the structure we have.'

Customer Satisfaction: Customer satisfaction is a key element of quality within Affiliate A and is monitored in three ways. A national marketing firm is charged with undertaking customer surveys and this is referred to as 'a GAP audit, a reality check'. The results of these surveys are monitored at corporate office and any corrective action necessary is determined by the relevant Discipline Manager. The corporate level also monitors guest willingness to return through guest comment cards. The third way customer satisfaction is monitored is through guest invocations. Affiliate A offers a 100% Guest Satisfaction Guarantee and therefore monitors the level of invocations to monitor guest satisfaction levels.

Informal Processes: Informants reported very few informal processes for managing control. The key mechanism was reported to be the brand values. One informant reported:

'It emerged that we thought our values, as defined by the employees in the organisation, were the most important thing, and moving forward the emphasis in our positioning had to be on the values and how this was translated. That was the key challenge for me and still is, is internalising this positioning of values and what it means for the customer, and what it means for the employees. I'm taking the emphasis away from the product.'

Decision Making: Despite the 'empowered organisational culture', all informants reported the involvement of the Chairman in the decision making to some extent. In some cases, the Chairman is reported to undertake unilateral decisions. One example given of this was with regard to refurbishment and a realignment of the brand image. According to one informant:

'The design was very much in his head, and he is not a designer! His wife is very involved in the design side, but he had his own ideas of what he wanted, which was, I can look at it and smile now, because some interesting stuff went on. He had in his mind what kind of design he wanted and so that whole programme started.'

However, this approach did cause consternation, particularly within the marketing division whose members,

> 'felt very strongly that there was an identity crisis going on here. There was a lot of confusion, people were lost and confused about what we stood for as a product.'

Despite these issues created within the Firm, the Chairman proceeded as he desired. According to another informant, the Chairman also has the final decision when it comes to any type of decision that requires a certain level of expenditure. The informant suggested that:

> 'Yeah, this is family run, everything goes to [chairman] on an expenditure point of view of any magnitude. If he likes it, it gets off the ground, and if he doesn't, it doesn't, and it's very simple.'

The informant explained:

> 'I haven't done a single business case in 15 months, I'll go in there and I'll say, paraphrasing, trust me, I need to do this, and you get the look that says well, that's great, if it doesn't I'll kick you. And you know the score and you get on and do it accordingly.'

However, this approach does imply that different organisational levels participate in decision-making, even if final authority remains at the most senior level. The extent of the level of empowerment within this Firm is therefore somewhat unclear given these comments and the size of the corporate office.

Communication: Formal communication within the Firm between the corporate level and the unit level hotels is facilitated through the Discipline Managers. Their role is reported to be as a disseminator and formal reports come through this position. The exact nature of the communication however, can vary according to the discipline. For instance, within marketing, rather than send a formal written monthly update of activities to departmental members, the informant believes in using face-to-face communication and perceives,

> 'Email to me is the kiss of death. No matter how well you intend to communicate a particular way, someone out there will misread it. Guarantee you. So, my attitude is, if you want to get the message across, do it with all the nuances of the English language and the tonality, etc. It is the only way to influence people, is verbal.'

Informally, communication is reported to be frequent, informal and lateral. One informant suggested that:

> ' that is the culture here as we are not a formal management structure here. A housekeeper will go straight to the chairman if she has a problem, that she doesn't feel is being addressed adequately within the value set of the organisation. So we are very fluid, very permeable and we have the same mindset.'

This mindset is also said to lead to create an amiable and distinct communication culture within this Firm. According to another informant,

> 'there's a lot of heresy goes on here...in a sort of 'knocking the boss' sort of syndrome.'

Appendix J: Profile of Affiliate B

Background: Affiliate B is part of a publicly-owned conglomerate headquartered in Europe. It began trading as part of a larger organisation in the 1960's. It began to expand operations outside of its home region in the 1980's through a joint venture with another hotel firm that is now part of Firm B in phase two of this research. That relationship ended and in the mid 1990's Affiliate B entered into a master franchise agreement with the Brand Owner.

Portfolio: Affiliate B's portfolio consists of 110 upmarket and full-service hotels, predominantly in the 4-star category. These co-branded properties are located in city centre, airport and resort locations in 38 different countries within the EMEA. The portfolio of hotels is quite diverse with room capacity ranging from 40 to 700 bedrooms. Affiliate B targets domestic and international business and leisure travellers and each segment is supported by its own brand loyalty programmes. The independent business traveller represents the key target market for this Affiliate. During the course of this research, Affiliate B sold its share in a further seven properties operated under a different brand name with a different inter-firm agreement. Affiliate B also operates hotels under different brands but these are outside the scope of this investigation.

Affiliation: Affiliate B originally developed organically through hotel ownership but it has sought to decrease its equity investments in hotel properties. Currently it is affiliated with its portfolio of co-branded properties through direct ownership, leasehold and management agreements, with or without equity, and through franchising. Management agreements account for the bulk of its portfolio, yet 85% of revenue is derived from the owned and leased elements. The agreement with the Brand Owner includes development rights for a defined geographical territory and has recently been amended from 30 to 50 years duration.

Growth Strategy: Future expansion plans under the master franchise agreement with the Brand Owner are to decrease the reliance on full ownership in favour of leasehold, management and franchised agreements. One informant reported:

> 'Starting out as a small and unknown operator, the only way to achieve fast growth without massive investment of funds, was to accept a higher financial risk level in the contract portfolio of hotels. Our major focus has been on variable lease contracts and capped committed contracts, both management and lease.'

The master franchise agreement signed with the Brand Owner included specific and ambitious development targets. Preferred growth is through management contracts without equity, but equity will be invested in strategic locations. This market entry method is reported to offer more control over the quality of the product and service delivery. Franchising was used as a growth strategy in the past, but only in tertiary locations when the market would not tolerate further hotel development. However, master franchising has been used more recently, for instance in Italy and Israel. According to one informant, 'that was for two reasons. Strategy number one we needed to increase the number from 29 in the first year to 49 and we achieved that by franchises, which is the fastest way of growth. We did that at the beginning and then of course we decided that is not where we make the money first, and second we decided it doesn't help to maintain the quality and similarity of the quality.'

Organisation Culture: All informants within Affiliate B used the term 'entrepreneurial to describe the organisation culture. The CEO is credited with creating and maintaining this entrepreneurial culture as well as the 'informal' nature reported by all key informants. One informant added that this made Affiliate B flexible in its approach. Two of the informants also related the culture to the Firm's national roots, but also suggested that this was starting to change given its international growth. This growth is also reported by two key informants to be having an impact on the informal nature of the organisation and its flexibility.

Organisation Structure: Company documentation promotes Affiliate B as 'flat, flexible and entrepreneurial, lean but not mean' and organisation charts do reflect this. There are three organisational levels depicted in the charts that are divided geographically. At corporate level, around sixty employees are responsible for strategy development, goal setting, brand guidelines, growth strategy, succession planning, auditing, creating brand awareness and meeting financial targets. These corporate level employees are housed within 17 departments. At the regional level, fourteen directors are responsible for profitability and revenue, brand compliance, managing owner relationships, exploring operational synergies, leadership development and strategy implementation. At unit level, GM's are responsible for recruitment and development, meeting business objectives, brand delivery, profit generation, and ensuring customer, owner and employee satisfaction.

However, senior managers interviewed in this study, identify that the structure of the firm is having to change due to its increasing size. These changes are reported to be necessary to increase efficiency and to achieve greater control. Two of the three informants identified increasing levels of formalisation within the firm. Greater levels of hierarchy were reported but these were not readily depicted by the organisation chart supplied. As one informant commented, we are,

'now a company running operations for 38 countries....it came from a very informal structure and then we have maybe gone a little bit too far to the other side ....and we are like many other companies in a constant seek for improving the organisational structure, meeting structures, communication structures, and so on.'

Another informant suggested that previously they were 'very informal, very, very flexible at the same time' but considered that 'maybe it is getting too big for that' and there is a greater need for efficiency.

That being said, informants were clear that before and after growth, decisions are still undertaken by relatively few senior members at the corporate level and as such it is considered by members of the organisation to be centralised.

Informants also noted that the franchised hotels were really treated as a separate division. One informant suggested,

> 'to me we have two sets, managed and franchised. We lump the others into managed.'

Further probing suggests that working with the franchise hotels involves getting them involved in the firm's purchasing programme and sales programmes. In this way, the quality of the brand in the franchised properties can be controlled. These properties are perceived as important in creating brand awareness in secondary and tertiary markets. However, it was also noted that they could use this approach given the small number of franchised properties.

Organisational Processes

Coordination and Control: Financial Control: Within the OLM divisions, the budgeting process is the key financial control tool used within this firm. As with other firms it begins with a bottom up approach from unit level and then moves up the hierarchy for corporate level approval. In this firm however, there are less hierarchical levels to move up. However, unit level managers within this firm are reported to have more authority over financial decisions on pricing and promotional events. For franchised properties however, the corporate level only has access to revenue figures and contributions made to revenue through the reservation system.

Quality Control: A number of processes are used to monitor quality and these are mostly undertaken through external agencies. Quality is measured through adherence to brand standards and through customer satisfaction scores. Affiliate B also subscribes to an external benchmarking agency that monitors brand awareness and brand satisfaction levels against competitor firms. These processes are followed whether unit level properties are owned, leased and managed or franchised. Customer satisfaction is taken very seriously within Affiliate B and according to one informant, the CEO 'is the kind of guy who will ring on a Sunday a guy who has written to complain to us'.

Performance at the unit level within the OLM divisions is also monitored through a proprietal programme that assesses each unit against the above, as well as on health and safety and environmental issues. In this way a balanced approach is undertaken to performance measurement.

In addition to these processes, Affiliate B has a hotel management school and runs regular training programmes and development activities for members of staff. For General Managers, there is also a company mentoring programme where current GM's are trained as mentors and then mentor departmental managers to become future GM's. These training and development initiatives are supported through a policy of promotion from within the company.

Decision Making Processes: Informants all emphasised the degree of empowerment within the company for unit level employees to make decisions. However, further probing suggests that these decisions are set within defined parameters. In addition, as identified above, there is still a high degree of centralised decision-making within this Firm. The nature of the franchise contract grants more decision-making authority to the franchised hotels.

Communication Processes: There are a number of formal vehicles to encourage communication within Affiliate B, apart from the formal reporting procedures. With the size of the firm rapidly expanding, it decided to develop an intranet to facilitate communication between the corporate, regional and unit levels of the firm. In addition, this can be used for more informal communication between different organisational members. A bi-monthly staff magazine is also distributed to keep staff members informed of current events within the firm.

Within the OLM division, there is a good deal of informal communication reported across the geographical divisions and across different organisational levels. This informal communication is reported to be driven by the CEO who is reported to have an 'open door policy'. There is not as much informal communication between the corporate level and franchisees.