

Strategy for Hospitality Businesses in the Developing World

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The purpose of this paper is to present an alternate framework for evaluating strategic decisions of hospitality businesses in developing nations, particularly small- and medium-sized enterprises (SMEs). While strategy literature is extensive and diverse, it remains focused on developed nation contexts. By default, so is the case with hospitality strategy literature. This has created a paucity of research for hospitality businesses in developing nations; these businesses are largely SMEs in dynamic environments seldom similar to the ones in developed nations. Therefore, the proposed framework emphasizes the role of environment, and its relationship to strategic choice, resource allocation, and strategy evaluation. A set of research questions is also proposed.

Have researchers in strategy, driven by ever more vigilant attempts at succeeding in using the most advanced methods of research, missed the essence and relevance of strategy in understanding firm success in emerging economies? Or, asked differently, could the contemporary body of knowledge in hospitality strategic management that originated from research in the free-market economies of the developed world find transferability to the developing world?

For many developing nations, hospitality businesses are becoming an important source of economic diversification. However, in these predominantly agricultural, mining, and manufacturing economies, the transition to consumer services is complex and uncertain. The strategic development process in such environments must be contextual to appropriately reflect the historical evolution of these economies, many of which were formerly socialist. The current gap in hospitality literature indicates limited understanding of the factors and processes that ensure competitiveness of hospitality enterprises in developing countries. Most business-strategy theories available for adoption in developing countries were formulated and researched in developed countries. As a consequence, these theories are ineffective at capturing nuances of the local environment that critically affect the business-strategy process. An added variable is that significant hospitality business activity in these nations is of small- and medium-sized enterprises (SMEs). The SME literature in hospitality is also underdeveloped, thereby increasing the magnitude of this lack of understanding. This gap is critical also because as services continue to take an increasingly larger share of developing-country economic activities, their lack of competitiveness will have an adverse impact on national productivity.

The purpose of this paper is to propose a framework within which competitiveness of hospitality businesses in the developing world can be investigated. Research questions will be developed from this framework that will stimulate critically needed research to improve our understanding of the competitive behavior of hospitality businesses, especially SMEs in developing countries.

BACKGROUND

Research in strategic management has been generated primarily in the developed world and has focused on organizations and corporations that dominate the business environment. These corporations have enjoyed large market capitalizations and excellent market share. Growing out of this research has been the literature of hospitality strategic management. Unfortunately, however, it has provided only a limited understanding of hospitality business strategy in developing countries. The perspective of strategy in developing countries is that of multinational organizations that have decided to expand internationally. This research has been facilitated in part by the availability of information and data resulting from regulatory requirements of governments in developed economies, as well as the work of researchers who have viewed strategy through the lens of developed economies. These requirements have

assisted scholars in producing large data bases, such as PIMS and COMPUSTAT, which have enabled them to use more scientific and deductive methodologies in their research.

STRATEGY RESEARCH: CONCEPTS AND REALITIES

Strategy research has developed rapidly over the past 50 years, beginning with Weber's views of the organization (1947), the Aston School (Pugh, 1973), Thompson (1967), Lawrence and Lorsch (1968), Mintzberg (1975), Porter (1980), Miles and Snow (1978), and Hamel and Prahalad (1994). These represent just a few of the leading scholars who have contributed to the body of knowledge in the field. They and others have served to create what Mintzberg et al. captioned in the first chapter of the book *Strategy Safari* (1998): "And over here, ladies and gentlemen: the strategic management beast." The metaphor is, of course, related to the ten schools of thought the authors summarized relative to the construct of strategy. Their message seems clear: We have an eclectic body of work but have not been able to capture the holy grail of this complex field.

In their comprehensive review of the literature, Hoskisson et al. (1999) suggested focusing on the swing of the pendulum in strategy research. That research has moved from the normative and/or prescriptive approach, as evidenced by the work Chandler (1962), Hofer and Schendel (1978), Thompson (1967), and others, for whom generalizability has been based upon induction. Taking its place has been the industrial organization (IO) paradigm, as advanced by Porter (1980), which relied heavily upon deductive, empirical research. This latter approach was welcomed by researchers as a more scientific and legitimate approach to strategy research. This approach also looked at industry-wide issues that differed from the earlier research, which had focused upon case studies or the behavior of large firms.

Soon to follow the IO approach, according to Hoskisson et al., was research in the realm of organizational economics as it crossed into strategic thinking. Specifically they cited the importance of transaction-costs economics (Williamson, 1975, 1985) and agency theory as advanced by Fama (1980). In this framework, efforts became more specific to firms and reintroduced the role of humans in the analysis. This approach to strategy research created new challenges, however, since many of the variables were often unobservable, thus making the explanation of important and significant relationships more difficult.

Most recently, the resource-based view (RBV) has emerged to take analysis of the firm further (Wernerfelt, 1984). The RBV addressed the unique differences between and among firms, and explained how these unique, inimitable resources create sustainable competitive advantage (Barney, 1991). This view maintained the focus on the firm and its management. This created many measurement problems because key relationships often represented intangible or perceived variables. Yet, it was perhaps a more realistic acceptance of the fact that firm strategy is often a unique set of serendipitous, incremental decisions that do not lend themselves to classification and generalizability.

From an international perspective, scholars have focused primarily upon the behavior of multinationals. The focal point in the early phases was upon direct investment, with emphasis on location and control of production facilities (Stopford & Wells, 1972). Some of this early work was centered upon the environment of the multinational as it sought to develop strategies for growth through expansion into new international markets (Goodnow & Hansz, 1972; Sethi, 1982; Keegan, 1974; Rosenzweig & Singh, 1991). Uncertainty and complexity became important components in understanding the cause-and-effect relationships of the environment to the firm.

Several scholars have approached international strategies by using various frameworks for understanding international business activity. This activity includes twelve topics: (1) the global business environment, (2) internationalization, (3) entry-mode decisions, (4) international joint ventures, (5) foreign direct investment (FDI), (6) international exchange, (7) transfer of

knowledge, (8) strategic alliances and networks, (9) multinational enterprises, (10) subsidiary-headquarters relations, (11) subsidiary and multinational team management, and (12) expatriate management (Werner, 2002). Other researchers have focused upon transaction cost analysis, as advocated by Williamson (1975), Anderson and Gatignon, (1986), and Hill and Kim (1988); and challenged by Contractor (1990), Gomes-Casseres (1990), and Kim and Hwang (1992). Dunning (1980, 1988) also proposed a comprehensive framework commonly known as the eclectic model. Dunning stated that entry-mode choice is affected by three types of advantages: ownership, location, and internalization of integrating transactions within the firm. The model has been further developed and critiqued by Macharzina and Engelhard (1991) and Gugler (1992).

International generic strategies have been a favorite of researchers, with most focusing upon the multinational enterprise (MNE) (Sullivan & Bauerschmidt, 1991; Levitt, 1983; Kogut, 1985). Porter (1990) chose to focus on nations in addressing his now well-known and often controversial four-diamond model (Davies & Ellis, 2000). That model addressed industry-wide issues and offered several integrating propositions. Many have challenged its claims as an overarching framework for understanding strategy. While it clearly rested upon Porter's industrial economist views, it was criticized for leaving out important elements with regard to governments' roles in enhancing or limiting firms' strategies.

The body of work can be summarized as follows: Scholars have considered the external and internal environments, comparative and competitive advantages, generic international strategies, host-country conditions, location advantages, ownership advantages, and global-strategic variables. This work has utilized the MNE as the unit of analysis and reflects a perspective that suggests that strategies must emulate a Western rather than a global view. This view was essentially shaped by the concepts in strategy that have been developed over time in a Western context, with an international flavor added, as necessary.

While this research has been helpful, there appears to have been little attention given to what Copeland et al. (2000) suggested as the primary motivation for growth and international development strategies of businesses, namely the maximization of wealth, or as Rappaport suggested, the meeting of the challenge to increase shareholder value (1998). Put differently, the realities of global capital markets are demanding that business executives achieve added value. This level of pressure is further supported at the national level by policies of the World Bank and International Monetary Fund. These institutions require nations to put on what Friedman (1999) called the "golden straightjacket," meaning that nations should revise their monetary and financial systems to support free-market capitalization and to compete for scarce capital resources in the global system.

STRATEGY, FOREIGN DIRECT INVESTMENT, AND CORPORATE FINANCIAL MANAGEMENT

In international economics, the body of work that addresses in part the investment imperatives just described is most often referred to as foreign direct investment (FDI). The literature on FDI in the developing world is rich. Much has been written about the determinants of FDI. Asiedu (2002), in reviewing the literature, suggested these determinants of FDI that have proven to hold up in the literature: Real GDP per capita; returns on invested capital; infrastructure quality; labor cost; openness; taxes and tariffs; and political stability. Econometric models have been used to determine how these explanatory variables affect the total amount of FDI. Other researchers addressed additional independent variables, such as exchange-rate distortions as measured by "black market premiums," nationalization risk, contract enforcement, and bureaucratic delays (Gastanaga et al., 1998). This perspective suggests that governments greatly influence national and international firms' strategies, particularly with respect to political and economic risks associated with investments in their countries.

In considering developing countries more specifically, Wells (1998) offered a critique of Caves' second edition of *Multinational Enterprise and Economic Analysis*. Wells suggested that despite the book's comprehensiveness, it fails to address important issues regarding FDI's impact upon host countries. More importantly that research has not kept pace with the changing global marketplace, especially as it relates to developing countries.

Wells, in his retrospective on the work of Raymond Vernon's work, suggested that this scholar took a more comprehensive view of risk and addressed managers' motivations as well as firm relationships with governments, labor, etc. (2000). This further substantiated the role of governments in insuring that firms will be able to succeed with their intended strategies. From a financial perspective, risk is often characterized as the variation in the cash flows of the firm brought about by uncertainties in the firm's supply-and-demand environment. Approaches to measuring and forecasting risk are important parts of this body of literature; scholars have attempted to develop deterministic methods for addressing this important investment issue.

The corporate financial management literature is anchored to the belief that managers evaluate investment decisions rationally.¹ This rational approach considers future cash flow streams, an estimate of the life of the investment, an estimate of the cost of capital of an investment, and determinant costs of the investment itself. However, financial management literature, along with strategy literature, offers very little guidance. Managers and owners of SMEs are not shown how to capture and understand causal relationships between the firm and its environment,, how to make valid and reliable estimates of the economic or productive life of the future cash flow streams of an investment, or how to determine the cost of equity capital used to make these investments. In short, the literature offers very little real help in guiding managers through the minefield of making investments correctly to assure the realization of intended strategy.

Strategy, SMEs, and the Developing World

Research has shown that SMEs pursuing success in the developing world often face hostile environments. For example, Iqbal and Urata (2002) discussed various factors of small-firm dynamism in East Asia to understand the influence of public policy when firm size is a distinguishing factor.

North et al. (2001) evaluated a set of public policy instruments for their support of innovative SMEs. The difficulty of financing innovation in SMEs is shown to be a function of manager attitudes as well as supply-side failures. Similar research on supply-side aspects by Elliehausen and Wolken (1993) assessed the characteristics of trade credit (credit extended by a seller who does not require immediate payment for delivery of a product) by combining the theoretical underpinnings of transaction cost economics and financing theory. An approach to business-model development was offered by Minifie and West (1998), who formulated a model to assist small-business decision-makers in analyzing international opportunities. Similarly, Liedholm (2002) investigated the determinants of small and very small business survival in Africa and Latin America. The paper suggested that location is a critical factor: Firms in urban and commercial areas are more likely to survive during the year than those in rural regions.

Productivity of SMEs and overall productivity in developing economies have also attracted much attention. Wang and Yao (2002) researched the impact on SMEs of market reforms in the Chinese economy. The results showed that value addition and factor productivity of SMEs have increased significantly, but sustenance of SME performance can be achieved only

¹ This assumption of rationality does not always hold true, as evidenced by many investments that provide only emotional or personal, not economic, value.

through continued liberalization of the economy. Berry et al. (2002) discussed the role of clusters and subcontracting in the evolution of SMEs in Indonesia over the last 25 years.

The formation, survival, and evolution of SMEs is a complex, elusive process. Kawai and Urata (2002) investigated the declining entry rate of SMEs in Japan since the early 1980s. Nugent and Yhee (2002) provided an overview of the evolution of SMEs in Korea over the last 25 years. Highlights of SME evolution are their increasing share of employment and value addition through exports, foreign investment, and productivity performance. In the context of SME evolution and survival, Adegbite (2001) evaluated the business incubator concept in Nigeria and raised issues that would improve the effectiveness of such initiatives. In a similar vein, Wiboonchutikula (2002) reviewed the evolution of SMEs in Thailand over the decade of 1986-97. The study suggested that even when the economy is performing well, the share of employment of SMEs declines, possibly due to some smaller firms' expanding in size and others simply shutting down.

With respect to financing and financial management, Berger and Udell (1998) examined the economics of financing SMEs in private equity and debt markets. Their research discussed this within the financial-growth cycle paradigm in which different capital structures are optimal at different points in the business cycle. Important factors contributing to small-business finance vulnerability in the macro-economic environment are informational opacity; the legal and informational infrastructure; bankruptcy laws; and screening, contracting and monitoring procedures of intermediaries.

The investment-imperatives element of strategic decisions, and research into the strategies of SME businesses have been minimized in strategy research, especially in emerging nations. First, the ability to get accurate, reliable data over long periods of time presents special problems for those seeking to use quantitative methods, such as structural equation modeling, to describe strategic behavior in this context. Secondly, the issues of strategy regarding SMEs have perhaps been most often addressed in the field of entrepreneurial research, where leaders have been characterized as visionary, single-minded idea champions able to drive organizations in desired directions without relying upon more rational approaches to strategy. Thus, research may also have suffered since it is very difficult to get entrepreneurs to cooperate; they often consider such efforts a waste of time.

Additionally, strategy research that focuses upon SMEs has failed to pass the usual legitimacy tests of large samples and hard data utilized to explain complex phenomena through increasingly sophisticated quantitative models. This may be an issue of the inability of the researcher to clarify the context and priorities of SME research, as well as the inability of the refereed journal reviewers to see beyond stereotyped characteristics of research papers.

Has Research Passed the Relevancy Test in the Developing World?

Our arguments thus far have suggested that strategy research has failed to pass the relevancy test in the developing world. First, most of the work has been done in the context of capitalism as defined by Western standards, thus leaving much of the world excluded in terms of improved understanding of the relationships that drive business. The one exception may be the work done on multinationals, but that has also been focused mostly upon Western firms. Additionally, while strategy literature has addressed the environments of organizations, it has only helped to create constructs to use in describing and thinking about the environment; it has done little to identify and address the forces that exist within that environment and shape the future of business organizations. More importantly, it has offered little assistance in understanding the cause-and-effect relationships between the environment and the firm and how both affect value. Nor has it done much to link the causal relationships between external and internal drivers of business value. This is extremely important in developing countries, where the forces that drive change are many and varied and often differ from a Western perspective. Next,

the literature has focused upon large multinationals and offered little with respect to SMEs, which often constitute a significant portion of a developing nation's GDP.

The challenge, then, becomes, how to overcome the limitations just described. We argue that academic literature must now go beyond providing wonderful frameworks for understanding strategy and turn to making them relevant to the decisions that business leaders must make daily to survive and prosper. We also must recognize that strategy is an individual set of decisions by human beings who are driven by conflicting roles and goals and yet must still answer to stakeholders who have similar diversity among their desires. It is a firm-specific challenge for which the velocity of change often forces decisions to be made with too little time and information and too few conceptual skills to address the complexities of the environment.

Tourism businesses such as hotels and restaurants in developing nations are among the most complex organizations, operating as they do in such highly diverse, uncertain, and dynamic environments. Tourism is among the highest-growth economic activities in the world. According to the World Tourism Organization, in 2002 the industry accounted for some \$463 billion in economic activity, roughly 11% of the planet's gross product and 8% of world employment or one in every 12 jobs in at least 20 million enterprises across the globe. These jobs include airlines, car rentals, food services, security firms, cleaning services, technology transfers, safety and health measures, employment agencies providing labor, telecommunications, disposal and waste firms, entertainment firms, construction firms, gardeners, repair services, and pleasure-seeking services.

Despite its aggregate size, tourism still experiences an abnormally high rate of failure, often due to a lack of strategy that could otherwise result in investments that sustain firm life and contribute to economic development. In assessing the research on strategy to date, we cannot find much in the way of assistance for this category of businesses that are so important to the developing world. And, because it is a major component of the broader service industry, any work that addresses these challenges would be a welcome addition.

Revisiting Co-alignment in the Developing World.

To address this challenge, we propose to use a framework from the existing literature on strategic alignment (Chandler, 1962; Thompson, 1967; Bourgeois, 1980; Venkatramen & Prescott, 1990; Olsen, Tse, & West, 1998). The framework contains four major constructs: (1) environmental scanning and assessment, (2) strategy choice, or the investment in products and services to meet target-market needs, (3) the identification, development, and implementation of resource-based allocation decisions to investments, and (4) performance as measured by investor goals. We assume a directional yet iterative synergy among the first three constructs leading to the fourth. This framework will be used to demonstrate our arguments regarding the limitations of the aforementioned shortfalls in contemporary strategy research when applied in the context of SMEs in developing economies. It will also be used to formulate research questions designed to encourage more theory building in the SME context. This framework will bring together the important dimensions of investment and risk as influenced by forces not often recognized as important determinants of strategy in present theory.

It is not suggested here that the framework is new or unique in terms of the underpinnings of strategy as discussed thus far in this paper. Rather, it is an attempt to further integrate the prevailing thinking in the literature in the context of the immediate business environments of SMEs, in specific industry-sector contexts, in emerging economies. The guiding proposition adopted from the existing literature regarding the co-alignment framework is as follows:

Firms will achieve competitive advantage accompanied by sustained growth in value if able to align their strategies with forces that drive change, and if able to make investments in products and services that reflect those forces and follow

those investment choices with a consistent allocation of resources to those that produce the greatest value.

This proposition is commonly referred to as co-alignment. It suggests highly complex sets of relationships among the key constructs of environmental scanning, investment in competitive methods, appropriate resource-based allocation decisions, greatest-value-producing investments, and the resulting value addition through effective implementation. It intimates that decision makers must interpret, evaluate, and synthesize large amounts of information, and then make investments in the uncertain environments of developing countries. This is normally challenge enough in the developed world, so it is almost impossible in the developing world, where valid and reliable information is, in general, but a hoped for dream.

Environmental Scanning and Analysis

The co-alignment framework's first construct is the environment: Managers need information regarding their firms' remote and task environments. They seek to have knowledge about the remote business environment's economic, political, socio-cultural, technological, and ecological components. This further suggests that scanning processes will exist to identify the key drivers of change in each category and that the manager must hypothesize causal relationships between these variables and their impact upon the firm, its customers, suppliers, regulators, potential competitors, substitutes, and competitors (Porter, 1980). In understanding these causal relationships, the firm must proactively consider these value drivers and their timing as executives search for opportunities for new investment. Additionally, managers must assess how these relationships will impact the future cash-flow streams of the firm's investments. However, there remains a critical gap in understanding the set of value drivers that may have causal relationships with the firm's performance.

Literature on the environment and environmental scanning has been robust, beginning with the works of Dill (1958), Duncan (1972), and Lawrence and Lorsch (1968), and continuing with the efforts of Dess and Beard (1984), Miller and Friesen (1984), and Venkatramen and Prescott (1990). However, it has been very conceptual. Conclusions reflecting empirically tested causal relationships in the context of strategic management literature is minimal, especially with respect to SMEs in emerging economies.

Even though econometricians and financial theorists have attempted causal modeling, these efforts have reflected the more rational economies of the developed world. Most of the validated strategic models that meet tests of validity and reliability are based on data from firms in the US or other developed countries. It is therefore critical that datasets from hospitality businesses in developing countries be improved. However, it is also commonly recognized that the lack of clarity and instability of the economic environments of the developing countries make it difficult to obtain reliable data to statistically validate the models. Therefore, since the models cannot be presumed to represent reality on a worldwide basis, they are rendered invalid when applied elsewhere. Thus, recognizing the impossibility of validating the models in developing countries, we must also recognize that models may be incomplete or that the econometric parameters of the strategic models could have different values (weights) from those of the first-world strategy models. Rather than use insufficient statistics with limited explanatory capabilities, we need a comprehensive, proactive strategy to improve the quality of statistics in developing nations.

Because of the lack of statistics, there is little analysis reflecting the idiosyncratic nature of the environments of emerging economies, where phenomena such as personal relationships, underground economies, corruption, and the influence of business groups make up the fabric of the environment (Guillén, 2000). It is understandable that obtaining objective information about these phenomena is nearly impossible, but that does not provide license for

researchers and practitioners to apply in a wholesale manner research developed in stable economies to the emerging country setting.

In the literature reviewed earlier relating strategy and FDI, it is clear that FDI strategies and government policy coexist in a complex set of relationships, both in the developed and developing countries. Since governments play such a key role, the external analysis takes on more importance in developing countries, where less certainty is likely to be present. Strategic theory has been able to identify and standardize variables that affect risk in developing countries; however, it has not been able to lend much assistance to understanding causality. The reason for that is that government intervention creates various forms of political and economic risks that are unique to each developing nation. This risk is not the same in the developed world, where stability, clear rules, long-term planning, and efficient implementation of public policy and regulations reduce much of the risk associated with this variable. Even changes in public policy brought about by newly elected governments do not alter the risk equation as they may in developing nations.

These types of settings present risk and drive firms' strategies not by enforcing free market realities, but by either permitting or denying access to networks and influence. In this sphere rational behavior with respect the strategic models of developed nations has little valid application. Thus, given the complex, dynamic, and illiberal environments of emerging economies, generic theories about the environment emanating from the developed world can only serve as departure points for environmental scanning research rather than pure foundations upon which to build further theory. Therefore, assuming that environmental analysis is the antecedent to strategy choice in the co-alignment relationship, the following research questions are offered as guidance for further research:

Successful identification of strategic choice opportunities in the remote and task environments in the developing world is often a function not of objective analysis of the environment based upon econometric variables and models, but of the uncertainties and complexities involving the forces pertaining to less understood contingencies created by governments, powerful business groups, and subcultures that make up the dominant coalitions in the environment.

Research question 1: What influence does the business and investment climate have on the performance of hospitality businesses?

Research question 2: How can developing nations improve the reliability of their hospitality and tourism industry statistics?

Research question 3: What is the impact of value drivers through their quantifiable indices on a firm's revenue-generation capabilities and cost structure?

Research question 4: Over time, how will the influences of different environments impact hospitality business performance (by type of impact (revenue or cost), magnitude of impact, and direction of impact)?

The co-alignment proposition suggests a linear direction that begins with environmental analysis. Based upon organized and serendipitous environmental scanning activities, executives must synthesize from a vast variety of information sources and, through a process of inductive reasoning, make choices about which forces driving change will pose threats or opportunities to the firm. These conclusions lead logically to the choice of investment decisions that must be made while preserving the scarce investment resources of the firm. Crucial to these investment-choice decisions is the need for executives to rely upon environmental information to properly predict cash-flow streams and their variance, the life cycle of the investment, the cost of capital, and the investment requirements themselves. The investment-choice decision is perhaps the most important strategic decision an executive can

make, yet little strategic theory addresses the complexity of this challenge for the SME in the developing world.

Strategy Choice: Investing in Competitive Methods

Strategic thought in the developed world regarding strategy choice has been influenced by the need to consider generic strategies such as low cost and/or differentiation (Porter, 1980; Child, 1972). While generic strategies have served MNEs in a useful manner, for the SME, the most critical decision is: What investment must be made in products and services that will result in survival (the next day's cash-flow needs) and continuing sustainability in an asymmetrical, localized environment. In other words, what investments must be made to continue the flow of customers over time while meeting the need for growth at minimum risk? This challenge is exacerbated for service firms, such as tourism enterprises, because so much investment goes toward the creation or enhancement of intangible elements of the product/service bundle. The synthesis of the risks in the remote and firm environment with the investment decision in intangibles is not well addressed in contemporary strategy-choice literature.

As previously stated, capital-market theory implies that all firms endure systematic risk with major market indices regarding earnings streams. This assumes that all firms experience the same impact from external-environmental value drivers, such as inflation, GDP growth, etc. When a firm's earnings do not vary consistently with the market, this variance is often attributed to unsystematic risk or managerial strategic choices. This is perhaps more the case with SMEs such as tourism enterprises that experience more local environmental contingencies and whose earnings streams are more a function of these conditions than broad market conditions. In this financial context, there is little theory here to guide the SME through the mine field of business- and family-group influences, government intervention, NGO behaviors, and asymmetric patterns of influence that exist in the developing world. It would therefore be almost impossible through research to identify generic strategy types in this context that meet the standards of relevancy and generalizability.

Assuming these theoretical discontinuities with respect to systematic and unsystematic risk between the developed and developing world, international investors face a dilemma. Those who rely upon the theory of developed economies to guide investment decisions in developing economies will be hampered in their ability to interpret signals correctly regarding modes of entry and amounts of direct investment. Those seeking to invest from within the developing nation must be familiar with the formal and informal rules and norms as stipulated by the dominant groups, or else they are also likely to misinterpret signs regarding the strategic investment choices to be made. This leads to our next proposition:

Strategic investments made in the developing world must reflect the dynamics of systematic and unsystematic risk, which deviate from those underpinning the theories of capital market behaviors in the developed world. These elements of risk must consider the role of investment behavior among business groups, the social objectives of governments and institutions, and the complex interactions among them, all of which affect SME performance in imperfect market conditions.

Research question 5: How will the business and investment climate determine the choices made by hospitality businesses in their product and service offerings?

Research question 6: What will be the influence of risks of value drivers on the firm, specifically risks related to product and service investments in these businesses?

Resource Allocation

After successfully completing the environmental scan and making the strategic investment choice, management must consistently allocate resources to those investments that produce the greatest amount of continuing value to the firm, according to the co-alignment proposition. The simple idea is that the resources and capabilities of the firm must be utilized to support those investments which offer the greatest long-term potential for creating value (Penrose, 1959; Chandler, 1962; Barney, 1991; Hamel & Prahalad, 1994). The resource-based view includes capabilities, resources, the role of leadership, decision making, and knowledge-based capabilities (Hoskisson et al., 1999). These views have been based upon the role of structure in organizations within the developed world.

As with all the previous constructs of the co-alignment proposition, the match between developing-world realities and developed-world theories is low. In principle, firms must possess resources and capabilities if they are to prosper, no matter in what context they exist. However, the definitions, processes, and means associated with resources and capabilities, such as leadership, decision making and knowledge-based management, would tend to take on a different perspective and meaning in the developing world. The reasons can be several. Educational institutions in these two worlds offer different perspectives on management education, albeit with some gaps closing due to globalization. Governments address resource needs with varying types of programs and taxing systems that affect the utilization of resources, often not in the most productive manner. Labor unions affect the utilization and development of human resources and capabilities. The propensity for peoples of a nation to be more or less dependant upon government to solve problems also affects the decisions about resource allocation. Obtaining resources to do what is desired may be impossible without infrastructure such as roads, communication systems, or banking systems and other institutions that are fully developed.

In the context of SMEs, achieving alignment would imply that managers know and understand which products and services they offer add the greatest value. For example, with respect to the tourism industry, which of the many products and services offered by a resort add the greatest value? A full-service facility may offer hundreds of such products and services bundled differently; it thus becomes an extremely difficult task to assess the value production of each (or bundled with others) or to determine the appropriate allocation of resources to those that generate the greatest value. To compound this problem, general accounting principles do not support this type of management-information collection, as they are mostly concerned with providing legal and tax information. Simply put, managers in these settings may simply not possess the conceptual and informational capability of knowing where value is created and how to determine the resources that should go to those that produce the greatest value. Thus, the resource-based view offers useful guidance in theory, but the ability to realize it in the context of a broader proposition on co-alignment for SMEs in the developing world suggests more contextual research is needed. This leads to the next proposition:

Resources and capabilities, as important determinants of strategic theory, must be considered within the fabric of cultures of emerging economies and as being divergent from the pure rational economic models of allocation in the developed economies.

Research question 7: How will firms make decisions regarding resource allocation based on their choice of product and service investments?

Research question 8: What will be the influence of different types of resource allocation decisions on a firm's performance?

It becomes quite clear that several determinants affect the relevancy of contemporary strategic management theory in emerging economies. These determinants are part of the overall tapestry of a nation and reflect a complexity that defies simple explanations and the rigor of

measurement associated with scientific inquiry. When SMEs are added to the equation, the difficulty of trying to conduct meaningful research acceptable for publication in leading journals is overwhelming, thus leaving the development of our understanding of strategy in these important contexts wanting. It must also be recognized here that strategy in this context is more firm specific and idiosyncratic. Consequently, knowledge will be difficult to obtain that is generalizable, in some cases even across industry sectors. This implies that the accepted approaches to research and theory building in these contexts must be evaluated in terms of their relevancy to SMEs.

In reviewing our discussion, Figure 1 summarizes the co-alignment proposition and the key arguments driving our propositions and position on the inability of strategic theory to meet the needs of emerging economies. Each construct of the co-alignment framework represents the discontinuities between the developed and developing world. The elements of the developed economy reflect the cited strategy literature, which is robust and well developed. The elements of the developing economy reflect the literature on SMEs and observations of the authors in the context of the tourism industry. If we accept the principle of generalization as necessary for meaningful scientific inquiry, it is our conclusion that it is extremely difficult to generalize from the current theories in strategy to the developing world. Too many contingent environmental factors render current theory somewhat helpless. We also must further argue that contextual research within industry contexts is essential as in the case put forth here, where many aspects of a particular industry, such as tourism, are local. This localization implies decisions made by executives that are entrepreneurial and often based on passion more than theory. Thus, theory building will perhaps again turn to inductive research techniques for guidance and explanation of phenomena in the developing world.

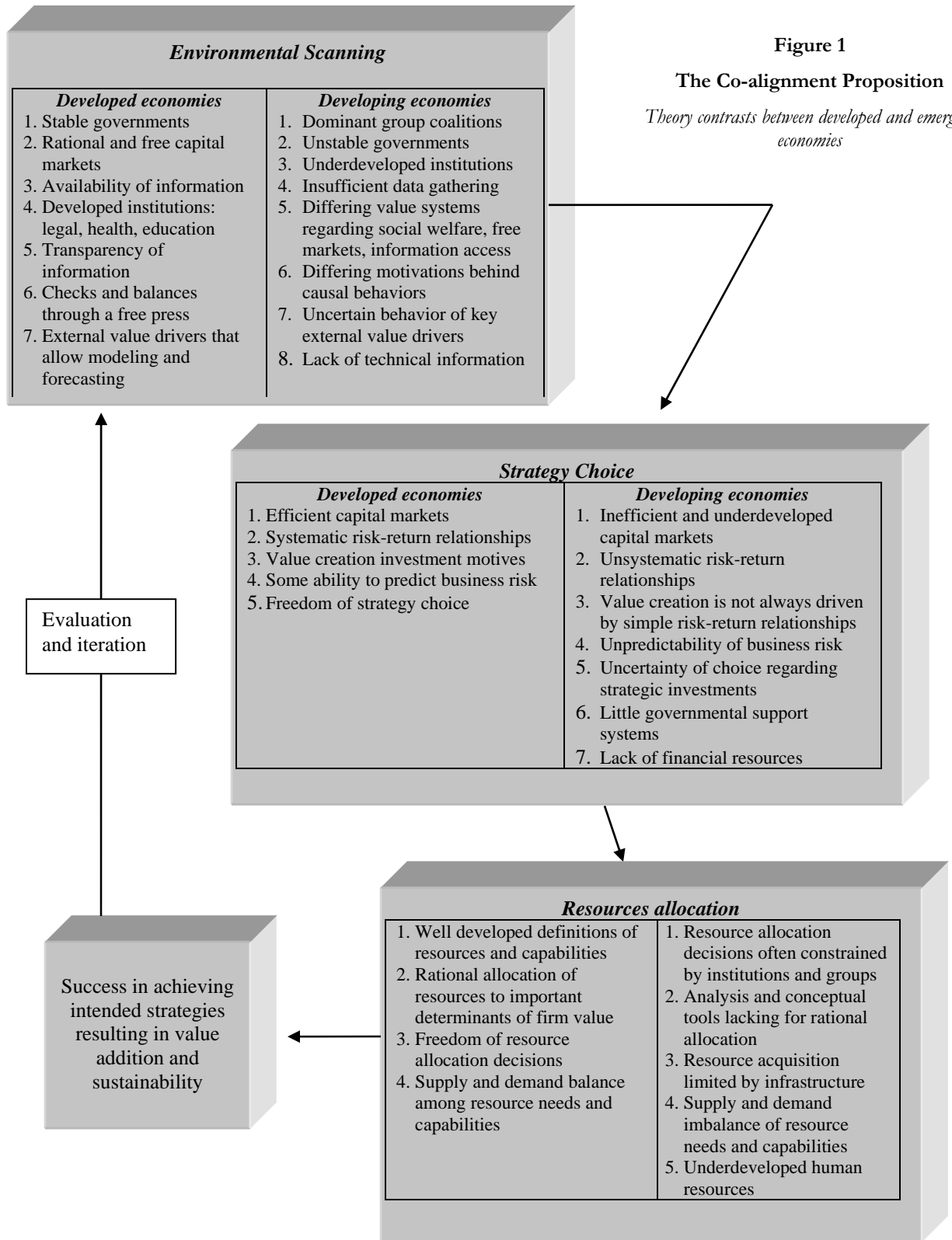
We believe that organizations wishing to achieve sustainable success over time should align the constructs of environment, investment in competitive approaches, and effective resource allocation to those approaches that add the greatest value. In addition, we believe that strategy research is an essential goal in the developing world. Much remains to be done, and it will require new and innovative ways of defining problems and relationships, developing valid and reliable measures for the variables making up the relationships, and conducting research that will assist in resolving these challenges.

Evaluation

Research question 9: How will the investment and resource allocation decisions for specific products/services together impact firm performance?

Concluding Remarks

Even though the concepts of the environment, strategic choice, resource allocation, and evaluation have been studied extensively in strategy literature, the proposed framework integrates them and highlights the causal relationships. Given the paucity of strategy research in developing nations, the proposed environment-driven framework emphasizes this dynamic context of hospitality businesses, especially the SMEs. Based on this framework, a number of research questions are proposed that would hopefully drive future investigations. Another distinguishing feature of this framework is that while as a whole it provides a critical decision-making model for individual businesses, it also presents a frame of causal relationships. A deeper understanding of these relationships, on the one hand, will help researchers better understand the strategic decision-making phenomenon and, on the other, increase the effectiveness of the decision-making model. While the emphasis in this discussion has been on the strategic process in developing nations, particularly focused on hospitality SMEs, there is no reason why the framework is not applicable to the growing complexity of strategic processes in hospitality and other service businesses around the globe.



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