
INTERNATIONAL MARKET ENTRY STRATEGIES IN TOURISM: A COMPARATIVE ANALYSIS OF GLOBAL EXPANSION MODELS, ENTRY MODES, AND GOVERNANCE CONSTRAINTS

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Abstract

International tourism enterprises, hotels, tour operators, travel distribution platforms, and destination-facing service providers expand globally through diverse market entry modes ranging from low-commitment contractual arrangements to high-commitment foreign direct investment (FDI). Tourism investment data indicates the persistence of cross-border investment flows and highlights the importance of hotels and tourism as a major share of tourism-cluster FDI, while also showing growing activity in travel arrangement services and software/IT services within tourism-related investment categories. Yet entry strategy in tourism is uniquely constrained by destination-specific regulation, asset specificity (immovable real estate, brand standards), seasonality, service quality risks, and the “social license” required to operate in places where tourism affects housing, labor, water, and heritage.

This article integrates core international business theories (1) the internationalization process model (Uppsala model) and its network-based revision, and (2) the eclectic (OLI) paradigm with tourism/hospitality entry mode research (franchising, management contracts, joint ventures, and equity investment). Using a conceptual comparative framework, it develops a decision matrix that links market uncertainty, resource commitment, control needs, and governance constraints to recommended entry modes and sequencing strategies for tourism enterprises. Case illustrations draw from published investment and entry-mode literature and are clearly labeled as illustrative where they are not empirically estimated. The paper concludes with policy implications for investment promotion agencies and destination regulators, aligned with sustainable

investment principles emphasizing that appropriately governed tourism investment can support inclusive long-term development.

Keywords

Internationalization; market entry mode; tourism enterprises; hospitality; franchising; management contract; foreign direct investment; OLI paradigm; Uppsala model; destination governance

Introduction

Tourism is simultaneously a globalized market and a locally grounded industry. On the demand side, tourists compare destinations globally; on the supply side, tourism services are delivered in specific places with distinct regulation, labor markets, infrastructure, and social expectations. This place-bounded nature means that “international market entry” is not merely a matter of exporting a product; it often involves entering a governance environment and aligning operations to destination constraints.

Investment data underscores the importance of tourism-related cross-border capital flows. A UN Tourism-associated tourism investment report (based on fDi Markets data) provides breakdowns showing that hotels and tourism are a major share of tourism-cluster FDI projects and employment, and that travel arrangement and reservation services as well as software/IT services appear prominently in tourism-related investment activity. Meanwhile, sustainable investment frameworks emphasize that tourism investment can foster long-term growth and quality employment if appropriately promoted and regulated, implying that entry strategies are increasingly evaluated not only for profitability but also for sustainability and legitimacy outcomes.

This paper addresses three questions:

1. What are the dominant entry modes and sequencing strategies used by tourism enterprises?
2. How do international business theories explain entry mode choice in tourism contexts?
3. How should tourism enterprises adapt entry strategies under new constraints of platformization, sustainability governance, and social license pressures?

Literature review

International business theories: internationalization process and OLI paradigm

The internationalization process model (Johanson & Vahlne, 1977) conceptualizes internationalization as a gradual process driven by learning and

increasing market commitments as firms gain knowledge. A later revision emphasizes “liability of outsidership,” framing network embeddedness as a key barrier and driver in contemporary internationalization.

Dunning’s eclectic paradigm (OLI) explains international production and FDI through three advantage types: ownership, location, and internalization advantages, with later work framing the paradigm as an “envelope” integrating multiple theories and responding to changing MNE patterns.

Together, these theories provide complementary lenses: Uppsala emphasizes learning, sequencing, and networks; OLI emphasizes why and when firms internalize abroad versus contract, based on assets and location benefits.

Tourism and hospitality entry modes: contractual vs equity pathways

Tourism and hospitality often expand through non-equity and hybrid entry modes such as franchising and management contracts, as well as through joint ventures and wholly owned investments. A hospitality management contracts study notes management contracts as a prominent entry mode enabling access to operational expertise for owners and lower equity investment for chains, while introducing potential governance and power-balance issues.

Hotel franchising is another widely studied mode. An International Journal of Hospitality Management article finds that a hotel franchisor’s decision to internationalize through franchising is related to organizational factors (e.g., franchise intensity), illustrating the strategic logic of scaling brands while reducing capital intensity.

Entry mode choice also interacts with host-market characteristics and capital markets. Research on stock market reactions to entry mode choices suggests that alignment between entry mode and host-country characteristics can matter for perceived performance outcomes.

Tourism investment and governance constraints

Tourism-related FDI trends and sector composition data suggest that tourism entry decisions occur in an environment where capital allocation and cross-border investment patterns shift across regions and subsectors. The Tourism Investment Report 2024 provides region-level project counts and sector composition, illustrating that tourism investment fluctuates post-pandemic and that subsectors like travel arrangement services and software/IT services can exhibit different recovery trajectories than hotels.

Sustainable investment policy frameworks argue that tourism investment can promote inclusive growth and environmental protection when appropriately

regulated, emphasizing the governance role of investment promotion and host-country policy.

Theoretical framework

This paper proposes a Tourism International Entry Strategy Matrix (TIESM) integrating:

1. Commitment and control axis (internalization logic):
 - Low commitment / low control: digital export, reseller agreements, licensing.
 - Medium: franchising, management contracts, strategic alliances (hybrid).
 - High: joint ventures, acquisitions, greenfield FDI.
2. Market uncertainty and outsidership axis (learning/network logic):
 - Low uncertainty / strong networks: faster move to deeper commitment possible.
 - High uncertainty / outsidership: staged entry and partner-led modes become more attractive.
3. Destination governance constraint axis (tourism-specific):
 - High regulatory friction (permits, land use, heritage, labor).
 - High social license risk (resident backlash, housing impacts, congestion).
 - Sustainability standards pressure (environmental performance expectations).

Methodology

This is a conceptual comparative analysis using secondary sources. It develops a typology and decision matrix grounded in:

- Primary conceptual foundations in international business (Uppsala and OLI).
- Tourism/hospitality entry-mode literature (management contracts; franchising determinants; entry mode alignment with market characteristics).
- Tourism investment evidence to contextualize entry strategies in current capital flow patterns (Tourism Investment Report 2024).
- Sustainable investment policy principles (UNCTAD).

No new econometric estimation is presented; “case examples” below are either source-grounded summaries or explicitly labeled as illustrative.

Data and case examples

Case example one: Sequencing entry modes for a hotel brand under uncertainty (illustrative, theory-grounded)

A hotel enterprise facing high uncertainty and outsidership in a new region can follow a staged approach consistent with Uppsala logic: begin with lower-commitment entry, learn market dynamics and build networks, and then increase commitments. In hospitality, management contracts allow rapid expansion with limited equity investment, while franchising can scale brand presence with reduced capital needs but requires governance mechanisms to maintain brand standards.

Illustrative mode sequence: management contract or franchising → joint venture for flagship property → selective equity acquisition once demand predictability and governance familiarity increase.

Case example two: Digital travel enterprise entry under “AI-compressed discovery” dynamics (industry-contextual)

Industry reporting suggests that AI is affecting discovery and booking and could shift advantage toward platforms and brands that manage personalization and the booking process end-to-end. Under this dynamic, a travel enterprise may enter a market through digital channels (cross-border service provision) but still require local partnerships for regulatory compliance, trust building, and service delivery.

This supports the “liability of outsidership” framing of internationalization: network position and local legitimacy remain critical even when digital distribution lowers some transaction costs.

Case example three: Investment and entry mode context from tourism FDI patterns (empirical context)

The Tourism Investment Report 2024 provides evidence that tourism-cluster FDI patterns vary by sector and time, and that hotels and tourism account for a large share of tourism-cluster projects and jobs in the 2019–2023 period, while travel arrangement services and software/IT services show distinct trajectories. This supports a strategic implication: entry designs should be aligned with subsectoral investment realities, including sponsor availability, region-level recovery patterns, and infrastructure investment gaps.

Findings and analysis

Finding one: Tourism entry mode choice is best modeled as a joint function of (a) internalization economics and (b) destination governance constraints

OLI logic explains why firms internalize (equity) when ownership advantages require control and when internalization reduces transaction costs. However, tourism’s place dependency and regulatory complexity mean that location advantages are inseparable from governance constraints: permits, land, labor, sustainability requirements, and resident acceptance shape feasible modes.

Finding two: Contractual modes remain structurally attractive in hotels, but require governance sophistication

Management contracts and franchising enable rapid expansion with limited equity investment, but rely on contracting, monitoring, and relationship governance. This is consistent with transaction-cost and internalization reasoning: firms can choose contractual modes when they can manage quality and opportunism risks through contracts and systems rather than ownership.

Finding three: Network embeddedness (“insidership”) is an increasingly decisive capability in tourism expansion

The revised Uppsala framing emphasizes outsidership as a barrier; in tourism, outsidership can manifest as lack of local legitimacy, limited governmental relationships, and weak destination stakeholder ties. As sustainable investment and destination governance become more salient, insidership becomes not only a market access factor but also a “social license” factor.

Finding four: Subsectoral shifts (travel arrangement and software/IT services) change how tourism enterprises internationalize

FDI activity and sector composition evidence suggests increased relevance of travel arrangement/reservation services and software/IT services within tourism-related investment categories, indicating that tourism internationalization increasingly includes technology and platform-oriented enterprises, not only hotels and attractions. Entry frameworks must therefore cover digital export pathways, localization strategies, and partner ecosystems, not only physical asset investments.

Strategic, policy, and managerial implications

For tourism enterprises

- Use a staged entry logic under uncertainty (Uppsala), but assess when ownership/control needs justify internalization (OLI).

- Treat contractual modes (management contracts, franchising) as governance-intensive: success depends on standards enforcement, partner selection, and dispute resolution capacity.

- Build destination legitimacy: integrate resident and sustainability considerations early to reduce regulatory and reputational friction, consistent with sustainable investment principles emphasizing inclusive and environmentally responsible investment.

For destination policymakers and investment promotion agencies

- Define “quality investment” criteria that include sustainability and community benefits; UNCTAD emphasizes that appropriately promoted and

regulated tourism investment can support quality employment, inclusion, innovation, and environmental protection.

- Align investment facilitation with data and sector intelligence: FDI sector composition and regional recovery patterns affect which entry models are feasible and attractive.

Conclusion

International market entry in tourism is a strategic choice shaped by learning, networks, asset/control needs, and destination governance constraints. The Uppsala model and its revision explain why staged entry and network embeddedness matter, while OLI explains when internalization and FDI become rational. Tourism-specific entry mode literature shows that contractual modes (management contracts, franchising) can deliver rapid expansion but require governance sophistication to maintain quality and manage partner incentives. Finally, contemporary investment evidence indicates that tourism internationalization increasingly spans both physical assets (hotels) and digital service subsectors (travel arrangement services and software/IT), reinforcing the need for entry strategy frameworks that integrate digital and sustainability governance.

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