

NAVIGATING THE ELUSIVE INDUSTRY: A GROUNDED INVESTIGATION INTO  
HOTEL BUSINESS MANAGEMENT IN A DEVELOPING  
PACIFIC ISLAND COUNTRY

By

TYLER S. STUMPF

A dissertation submitted in partial fulfillment of  
the requirements for the degree of

DOCTOR OF PHILOSOPHY

WASHINGTON STATE UNIVERSITY  
Carson College of Business

MAY 2015

© Copyright by TYLER S. STUMPF, 2015  
All Rights Reserved

UMI Number: 3717489

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



UMI 3717489

Published by ProQuest LLC (2015). Copyright in the Dissertation held by the Author.

Microform Edition © ProQuest LLC.

All rights reserved. This work is protected against unauthorized copying under Title 17, United States Code



ProQuest LLC.  
789 East Eisenhower Parkway  
P.O. Box 1346  
Ann Arbor, MI 48106 - 1346

© Copyright by TYLER S. STUMPF, 2015  
All Rights Reserved

To the Faculty of Washington State University:

The members of the Committee appointed to examine the dissertation of TYLER S. STUMPF find it satisfactory and recommend that it be accepted.

---

Nancy Swanger, Ph.D., Chair

---

Dennis Reynolds, Ph.D.

---

Suprateek Sarker, Ph.D.

## ACKNOWLEDGMENT

They say it takes a village to raise a PhD. In my case, it felt more like an entire international coalition, and therefore I have many people to thank. First, I want to express my utmost gratitude to my committee chair Dr. Nancy Swanger, and committee members Dr. Dennis Reynolds and Dr. Suprateek Sarker. Dr. Reynolds, I am humbled by the unfailing support and guidance you have provided me with over the years. Your commitment to excellence in the classroom and in research has been an inspiration. Dr. Sarker, thank you for opening the doors to the universe of engaged scholarship and alternative research paradigms. This dissertation would not have been possible without it. Dr. Swanger, I am grateful to call you both my committee chair and friend. Thank you for believing in me when I didn't always believe in myself, and for the countless ways you have supported me throughout my doctoral studies. I hope one day I can bestow the same sense of empowerment and trust on a student I am mentoring as you have on me throughout this program. Also, thank you to all the SHBM staff, faculty, and students. I am honored to know you and Go Cougs!

There are also many individuals outside of WSU to thank. To my friend Dr. C. L. Cheshire at the University of Hawaii, I owe a debt of gratitude that is impossible to repay. Your generosity of time and knowledge has been appreciated beyond measure. Next, I would like to acknowledge my intrepid sidekick in the field (or is it the other way around?), E. Johnson. Thank you for your assistance on this project, and for always helping me to see the islands in interesting ways. I would also like to thank all of the hotel owners and other individuals that helped and hosted me during my field work in Micronesia. This dissertation would not have been possible without your willingness to share your time and knowledge. Lastly, this dissertation project may have never left the planning stages without the support of Ms. Anna

Mendiola and the Board of Directors at the FSM Development Bank. I am eternally grateful for your generosity and trust. Kalahngan.

Finally, a giant thank you to my family. In particular, I would like to acknowledge my grandparents, Everett and Mavis Stromme, for always taking a special interest in what I am doing, and encouraging me along the way. Ma se tok, nga lungse sang sie special kulo nu sin sucu srihsrihk se luhk ke kahsrh lowos ac mongfihsracsr lowos an. Tari pacl in lutlut, pacl in som engyeng srihk e Walung pa inge. Mac sruhk, mac ma uh.

NAVIGATING THE ELUSIVE INDUSTRY: A GROUNDED INVESTIGATION INTO  
HOTEL BUSINESS MANAGEMENT IN A DEVELOPING  
PACIFIC ISLAND COUNTRY

Abstract

by Tyler S. Stumpf, Ph.D.  
Washington State University  
May 2015

Chair: Nancy Swanger

In that most industries with the potential to advance increased economic self-reliance in developing Pacific Island countries (PICs) have proven ineffectual over time, tourism has emerged as one of the only economic activities characterized by a comparative advantage. Despite this theoretical comparative advantage, some PICs have been unable to develop tourism into a viable industry. In addition to various intrinsic barriers to tourism development, many such PICs are also characterized by environments where ease of doing business is very low. Despite the gamut of micro and macro-level challenges, some hotel businesses in these low-performing PICs have continued to survive. How this is accomplished has yet to be systematically studied and accounted for. As such, hotel entrepreneurs and the entities that support them have lacked relevant guidance on how to develop successful business models in these challenging contexts.

The aim of this research is to elucidate a grounded theory on how to design and maintain a workable hotel business model in a developing Pacific Island country that does not have a workable tourism business model, and where ease of doing business is low. The Federated

States of Micronesia is used as the setting for this research. Grounded theory method is used as the research method, and transaction cost economics is used as the meta-theoretical lens for the data collection and analysis. Two rounds of data are collected via semi-structured interviews with hotel operators and other relevant subjects via on-location field work. The result is an endemic theory on hotel business management grounded in practitioner expertise.

The theoretical insights of this research stand in stark contrast to the status quo approach to business management and development frequently advocated for in PICs. As opposed to either ignoring normative systems or predicating the success of business on their reform, the present findings reveal an alternative theoretical perspective on how hotel entrepreneurs structure transaction cost economizing business arrangements by effectively working within these systems. By accepting the contextual realities businesses must navigate, it is argued that this solutions-oriented perspective yields a more realistic and relevant approach for use by researchers and managers in PICs.



## TABLE OF CONTENTS

ACKNOWLEDGEMENT.....	iii
ABSTRACT.....	v
LIST OF TABLES.....	xi
LIST OF FIGURES.....	xii
CHAPTERS	
1. INTRODUCTION.....	1
Statement of the Research Problem.....	1
Overview.....	1
Aims and objectives.....	3
Significance of research.....	6
Chapter Organization and Overview.....	8
2. LITERATURE REVIEW.....	9
Tourism Development in PICs.....	9
The significance of tourism in PICs.....	9
Recent regional trends.....	11
Tourism in Micronesia: The ‘haves’ and ‘have nots’.....	12
The FSM: An overview.....	13
Tourism in the FSM states: Yap, Chuuk, Pohnpei, and Kosrae.....	15
Tourism constraints in the FSM.....	17
Remoteness and inaccessibility.....	18
Air transportation and air transportation infrastructure.....	19
Lack of attraction variety and supporting facilities.....	21

Hotel Management in PICs.....	23
Entrepreneurship and strategy: Some relevant concepts.....	23
Entrepreneurship.....	23
Strategy.....	26
Business management theory in PICs.....	29
Ease of Doing Business in the FSM.....	30
Institutions.....	32
Contracts.....	34
Land.....	35
TCE as Meta-Theoretical Lens.....	37
Conceptual foundation of TCE.....	37
Core concepts of TCE.....	40
Contractual governance.....	41
Asset specificity.....	42
Uncertainty.....	44
Bounded rationality.....	45
Opportunism.....	45
Summary.....	46
Applications and empirical support of TCE.....	47
3. METHODOLOGY.....	50
Research Epistemology.....	50
Engaged scholarship approach.....	50
Variance and process approach.....	54

Theory Development.....	57
GTM: An overview.....	59
Classic GTM: An overview of key procedural elements.....	63
The role of TCE as meta-theory.....	65
Data Collection and Analysis.....	67
Selection of the data collection site.....	67
Semi-structured interview approach.....	68
Sample overview.....	71
Data collection and analysis procedure: Study 1.....	75
Open coding.....	76
Selective coding.....	79
Data collection and analysis procedure: Study 2.....	85
Theoretical coding.....	87
4. FINDINGS AND DISCUSSION.....	89
The IOCP Process Approach.....	89
Introduction and overview.....	89
FDI in the FSM: The status quo approach.....	91
The IOCP process: An alternative approach.....	98
Core category: Working within the system.....	100
Sub-category 1: Combining specialized assets.....	102
Sub-category 2: Adapting to what is.....	112
Sub-category 3: Maintaining sociocultural order.....	118
Sub-category 4: Valuing relationships.....	124

The IOCP Process Theory: A Summary.....	136
5. CONCLUSION.....	142
Overview.....	142
For Managers.....	144
Approaching the business.....	145
Connecting insiders and outsiders: The role of an on-island agent.....	147
Recognizing and utilizing normative systems.....	149
Education and training.....	151
Business and economic development organizations.....	153
For Researchers.....	154
TCE in developing economies.....	155
Valuation of insider assets.....	159
Socioculturally derived transaction costs.....	161
Relational asset specificity.....	163
The role of trust in Pacific Island business.....	165
Pacific Island business theory.....	167
Limitations.....	169
REFERENCES.....	172
APPENDIX	
Appendix 1. The four sub-categories of Working within the System and their conceptual properties.....	191

## LIST OF TABLES

Table 1. Overview of interviews in Study 1 and Study 2.....	73
Table 2. From data incident to open code.....	77
Table 3. From open code to selective code.....	80
Table 4. From selective code to sub-category.....	82
Table 5. From sub-category to core category.....	84
Table 6. Summary of trigger mechanisms in IOCP process model.....	141

## LIST OF FIGURES

Figure 1. Sample of the substantive coding process using the Adapting to What Is sub-category.....	83
Figure 2. Model of the theoretical coding process.....	88
Figure 3. Theoretical framework of the IOCP process approach.....	100
Figure 4. Conceptual process model: Combining Specialized Assets sub-category.....	112
Figure 5. Conceptual process model: Adapting to What Is sub-category.....	118
Figure 6. Conceptual process model: Maintaining Sociocultural Order sub-category.....	124
Figure 7. Conceptual process model: Valuing Relationships sub-category.....	136
Figure 8. Theoretical process model: Working within the System in the IOCP process approach.....	140

## **Dedication**

This dissertation is dedicated to my late mother, Shelley,  
who didn't get the chance to finish hers.

## CHAPTER ONE

### INTRODUCTION

This chapter starts by setting the context for this research, and providing some initial background for the central research question. The specific aim of the research is then presented. This includes a preliminary explanation of the research setting and its relevance to the central research question of this study. The research method is then overviewed, which includes a brief synopsis of the data collection and analysis process. Next, the managerial and research implications of this study are previewed. This chapter concludes with an overview of the subsequent chapters of this dissertation and their organization.

#### **Statement of the Research Problem**

##### *Overview*

In the eighteenth-century, the economic ventures of the Western world began to encroach upon Pacific Island societies in earnest (Kiste, 1994). From beche-de-mer to whale oil to copra to sugar, these islands served as a breeding ground for centuries of international trade and colonial imposition (Cheshire, 2010; Kiste, 1994). In the post-World War II period, an emphasis on productive economic activity began to take on new significance in many of the newly formed Pacific Island countries (PICs) (Hanlon, 1998). It was during this period that the colonial superpowers of the Pacific began to instill the foundations considered essential to the economic future of PICs. Specifically, this was the period where the ideology of economic independence via the development of market-based economies began to take root. Because exports have always been considered a major component of the economic development formula in PICs, myriad export-based economic activities have been attempted to advance the ideal of increased economic self-reliance in the subsequent decades (Hezel, 2012). For reasons ranging from



geographic remoteness to diseconomies of scale to conflicts between traditional and capitalist values, most industries with the potential to facilitate increased economic independence in PICs have proven ineffectual over time.

As such, the “invisible export” of tourism has emerged as one of the only economic activities in PICs characterized by a theoretical comparative advantage. While some PICs have been able to convert this theoretical comparative advantage in tourism into actual economic gain via the development of viable tourism industries, others have been confronted with significant barriers in doing so. Such barriers include remoteness and accessibility constraints, lack of regular and affordable air transportation, underdeveloped infrastructure, inadequate links to tourist markets, lack of attraction variety, and ease of doing business constraints, to name a few. This has prompted some to conclude that despite having the requisite raw materials for tourism, some Pacific Islands will likely never become viable tourism destinations (Connell, 2007a; Farrell, 1985). As tourism fails to materialize into a workable industry in some low performing PICs, hotels in these destinations continue to provide much needed private-sector employment, contribute tax revenue to local governments, and produce the platform from which visitors engage in their tourism experience. How these businesses are made to work when both the broader industry is not, and in the face of the often touted ease of doing business constraints, has yet to be accounted for in theoretical terms.

Previous research suggests the idiosyncratic nature of both small business management and tourism development in PICs is recalcitrant to mainstream management theory, particularly when such theory is squarely imagined or generically applied (Cahn, 2008; Choy, 1992; Curry, 1999). Several previous studies have suggested only broad success factors of general business management practice in PICs (Fairbairn, 1988; Hailey, 1987; Yusuf, 1998), and have lacked a

focus on service industry businesses. The lack of theoretical understanding in this area is especially problematic in that service industries, particularly related to tourism and hospitality, have been targeted as a major component of the economic development formula for most PICs going forward. Moreover, most studies on economic activity in developing island states have typically focused on detailing constraints while ignoring solutions (Sheyvens & Momsen, 2008). This has resulted in a body of research that is heavy on pessimism, but lacking in practicality.

To date, hotel business entrepreneurs in PICs have been afforded no practical or theoretical guidance on how to develop successful business models given the micro and macro-level challenges faced in these environments. Consequently, entrepreneurial individuals must either rely on materials with limited relevance to the business reality in PICs, or trial-by-fire approaches which can often be non-productive at best, and detrimental to the overall sociocultural and economic landscape at worst. Until endemic theories are systematically developed, research and practice in this area will either remain atheoretical, or rely on imported theories not well suited to the businesses environment in PICs.

### ***Aims and objectives***

The aim of this research is to elucidate a grounded theory on how to design and maintain a workable hotel business model in a developing Pacific Island country that itself does not have a workable tourism business model, and where ease of doing business is low. The Federated States of Micronesia (FSM) is used as the setting for this study for several key reasons. First, the FSM is a country where despite tourism being targeted as the economic activity with the greatest potential to drive increased economic self-sufficiency, tourist arrivals continue to be far below what is required to achieve successful utilization of its hotel capacity (Department of the Interior, Office of Insular Affairs, 2012; Federated States of Micronesia Economic Summit, 2004).

Second, the FSM is consistently characterized as one of the most difficult places to do business in the world, with a ranking of 156 out of 189 countries on the World Bank's Ease of Doing Business Index in 2014 (World Bank, 2014). Nonetheless, there are independently-owned and operated hotel businesses in the FSM that have continued to persevere. Third, the FSM provided an initial comparative advantage to the researcher through firsthand knowledge of economic and sociocultural environment gained through previous experience living and working in the country. Approaching the study with an a priori understanding of a country and its circumstances is requisite to conducting meaningful research in the FSM and PICs like it (Duncan, et al. 2014). This previous experience also provided an established network of on-site contacts that would be prohibitively difficult to develop elsewhere.

Grounded theory method (GTM) is the research method used to address the central research question of this study. GTM was chosen on account of its widely recognized utility for developing new and systematically generated theory in substantive areas. GTM is also particularly relevant for the purposes of this research in that the output of grounded theory research is often inherently solutions oriented rather than problem focused (Gynnild, 2014). Achieving a good fit between the researcher, the research question, and the version of GTM used is a critical aspect of GTM research (Fendt & Sachs, 2008). To this end, this dissertation follows the tenets of classic GTM (Glaser, 1978; Glaser, 1992; Glaser, 1998; Glaser & Strauss, 1967; Holton, 2007).

As Sarker et al. (2013a) suggest, theoretical engagement is an important component of grounded investigations. Theoretical engagement involves the use of an existing theory as the meta-theoretical lens in grounded theory research. This approach helps provide organization and focus to the data collection and analysis, and can help enable enriched interpretations of

empirical qualitative data (Sarker et al., 2013a). As McMillan (2002, p.225) states, “some good theory to organize your thoughts” is important to addressing any question relating to business and economic activity. To this end, transaction cost economics (TCE) (Williamson, 1975; 1985, 1995) is utilized as the meta-theoretical lens for this research. True to the tenets of classic GTM, TCE concepts were not forced on the data, and this research does not seek to prove or disprove TCE theory. Rather, TCE served to orient the data collection and analysis toward certain issues identified as particularly relevant to the central research question.

TCE uses an exchange-based approach for studying the firm-environment interface (Hoskisson et al., 2000). As opposed to macro-analytic approaches to studying organizations which gloss over the decisions of human actors, and highly micro-analytic approaches “in which personalities and detailed organizational procedures are scrutinized” (Williamson, 1981, p. 574), TCE adopts a semi-micro analytic approach which focuses on the planning, execution, monitoring, and adaptation of business arrangements. As such, TCE is broadly applicable to the study of how individuals form feasible business arrangements based on practical purpose given the constraints of industry and/or institutional environment. While TCE has earned a distinction as one of the most prominent theories in business, it remains responsive to new applications (Williamson, 2012). This combination of being well-established, yet flexible, was amenable for use in conjunction with the theory development aim of GTM.

The data collection and analysis procedure of this research occurred in two waves. For the first wave of data collection (Study 1), a semi-structured format was used to interview hotel operators on-location in all four FSM states (Yap, Chuuk, Pohnpei, and Kosrae). Theoretical sampling was used to direct additional sources of data collection as the interviews progressed and data were coded. A total of 37 interviews were conducted as part of Study 1. The second

wave of data collection and analysis (Study 2) involved roughly two weeks of follow-up interviews on-location in the FSM. A total of 11 interviews were conducted as part of Study 2. Open coding was used in the initial breakdown of the data to develop preliminary understandings about what was happening in the data, what the data are communicating about the shape and direction of the study, and how data incidents relate to the emerging conceptual categories (Glaser, 1998). Upon selection of the core conceptual category, selective coding was used to saturate the concepts relevant to the emerging theoretical framework. Finally, theoretical coding was used to integrating the findings with the extant literature to develop theoretical insights about how relationships between the substantive codes can be abstracted at the theoretical level. The results culminated in the development of an endemic process theory on hotel business management in a developing Pacific Island country grounded in practitioner expertise. This grounded theoretical perspective contrasts the status quo approach to hotel business management and development that is often promoted in the FSM and PICs like it.

### ***Significance of research***

This dissertation utilizes the engaged scholarship approach to social science research (Van de Ven, 2007). Engaged scholarship is a participative form of research designed to reduce theory-practice gaps via engagement between the researcher, users, and practitioners throughout all stages of the research process (Van de Ven, 2007). The specific aim of this dissertation was identified through months of engagement between the researcher and various key individuals with intimate knowledge of private-sector business in the FSM and PICs like it. Examination of the extant literature corroborated the significant theoretical gaps regarding hotel business management in PICs with challenging tourism and business environments. As such, a grounded

theoretical perspective on how these businesses are made to work has high potential utility in both practical and scientific terms.

The findings of this research represent an important step toward helping to bridge the gap between theoretically uninformed business management practice and practically uninformed business management theory in PICs. To accomplish this requires the development of systematically-generated theories which account for the nuanced contextual elements which factor in heavily to the design and maintenance of a workable business model in these challenging environments. In addition to the contribution to Pacific Island business theory, the results of this study help to fill the perceived theoretical void in both hospitality and tourism research (Franklin & Crang, 2001; Mehmetoglu & Altinay, 2006; Olsen & Roper, 1998; Pritchard & Morgan, 2007), as well as in regard to applications of TCE in developing economies (Hoskisson et al., 2000; Promsivapallop, et al., 2015). While the level of generalizability is yet to be understood, the grounded theory of this research should be useful to future investigations of hotel management in other PICs and perhaps beyond.

From a practitioner standpoint, any attempt at knowledge advancement which is inherently rooted in pessimism is not helpful in creating the effective organizations of the future (Ghoshal, 2005). As opposed to focusing solely on what's not working, this research contributes to the advancement of management practice in PICs by developing a grounded perspective on how to make a business work even when a broader industry is not, and in an environment where ease of doing business is very low. This approach can help advance business practice in PICs in a way which moves away from the pessimistic and fatalistic (Baldacchino, 2000; Campling, 2006), and towards the advancement of informed solutions to complex management issues which have hitherto not been well delineated. As detailed in the subsequent chapters of this study, the

grounded theory developed in this study thus yields important managerial implications for hotel investors and entrepreneurs, policy-makers and strategists, business and economic development organizations, education and training institutions, and other stakeholders with an interest in the success of private-sector businesses in the FSM and PICs like it.

### **Chapter Organization and Overview**

The following chapter (Chapter Two) sets the context by providing some background on the fundamental components of the central research of this study. Specifically, an overview of the literature is provided regarding tourism development in PICs, hotel management in PICs, ease of doing business in the FSM, and TCE as meta-theoretical lens. The research methodology of this study is detailed in Chapter Three. This includes an overview of the research epistemology, how the basic operational research approach was selected, GTM and the version of GTM selected, and the data collection and analysis procedures of this study.

Chapter Four details the findings developed during the substantive coding process. This chapter focuses specifically on detailing the integration of the substantive codes with each other and the extant literature through theoretical coding. This includes an overview of the theoretical process model which addresses the central research question of this study, and its core category, sub-categories, and conceptual properties. Finally, Chapter Five outlines the proposed managerial and research implications of this research, and suggests various avenues for future research. Some potential limitations are also discussed.

## CHAPTER TWO

### LITERATURE REVIEW

This chapter begins with an overview of the significance of tourism to PICs, followed by a more focused analysis of the Pacific sub-region of Micronesia. This includes discussion of some of the key constraints faced by PICs like the FSM to developing a workable tourism model. Second, some extant literature relevant to the study of hotel management in PICs is presented, including background information on entrepreneurship, strategy, and private-sector business management in PICs. Next, the ease of doing business component in the FSM is explained. This chapter concludes with a discussion of TCE and its relevant concepts as the meta-theoretical lens used for this research.

#### **Tourism Development in PICs**

##### ***The significance of tourism in PICs***

The role of tourism as an economic, environmental, sociocultural, and political phenomenon in PICs has been well-established (Hall & Page, 1996). This is due in large part to the fact that few other places in the world have been able to symbolize the archetypal tourism experience like the tropical islands of the Pacific. The earliest accounts of Pacific Islands from 18-19<sup>th</sup> century explorers, authors, and artists helped to create the allure of escape to the quintessential “South Seas paradise” to many in the Western world. This image of “waving palms, white sand beaches, balmy breezes, and (of course) gentle, exotic, erotic, and welcoming people” (Harrison, 2003, p. 6) was reinforced by the advertising campaigns of transportation companies who carried some of the earliest waves of tourists to the Pacific. Over subsequent decades, the combination of appealing image, advances in aviation technology and infrastructure stemming from World War II, and growing prosperity in major tourist markets created a focus on



tourism as the most promising industry for many Pacific Islands throughout the 20<sup>th</sup> century (Harrison, 2003).

At the same time, most PICs are characterized by histories of colonial control stemming from the “imperial adventures of European powers in the eighteenth and nineteenth centuries” (Hall & Page, 1996, p. 5). During the 1970-80s, most PICs officially gained their political independence from their former colonizers. Since gaining formal independence, PICs have faced increased expectations to assimilate into the global political-economic system. With these increased expectations to integrate have come increased expectations to achieve increased level of economic self-reliance from the governments of large, aid-providing nations and former colonizers (e.g., Australia, France, Japan, New Zealand, the U.K., and the U.S). Despite lacking many of the resources traditionally utilized in international trade, PICs are thought to have the important intrinsic resources for tourism. Specifically, those resources which normally cannot be exchanged, namely social, cultural, and environmental attractiveness, are plentiful in most PICs and can be valued at a premium through tourism (Mihalic, 2002).

The concerted emphasis on tourism as an economic driver in PICs largely stems from the outside imposition of the neoliberal approach to economic development. Neoliberalism is a market-based economic philosophy focused on private-sector led economic growth, free-trade, and the opening to foreign capital and investment (Bargh, 2001). This approach began moving PICs away from agriculture-oriented import substitution and toward export-oriented economic growth. As such, varying attempts to drive economic activity have been pursued in PICs, including agricultural exports, mining, manufacturing, internet domain name licensing, offshore banking, aquaculture, logging, and fisheries. However, the combination of high costs, diseconomies of scale, small domestic markets, limited resource endowments, and vulnerability

to external shocks has subjected these economic activities to an inherent disadvantage (Knapman, 1994). Consequently, most such endeavors have failed, fizzled, or provided minimal impact. All of these factors have contributed to the situation whereby the “invisible export” of tourism has become considered by many to be the most conceivable driving force behind future job creation, economic growth, and sustainable development in PICs (Hezel, 2012).

### *Recent regional trends*

Over the past 30 years, the greater East Asia-Pacific region has been the fastest growing region for international tourism, with arrivals expected to reach 397 million by 2020 (UNWTO, 2012). In 2013 alone, the growth in demand for international tourism in the East Asia-Pacific region was the strongest for any major region in the world, a trend projected to continue through 2014 (UNWTO, 2014a). Despite these upward trends, tourism growth in the region’s PICs has collectively been more modest at roughly 2% annually since 1995, and is projected to remain between 2-3% annually through 2030 (UNWTO, 2012). In 2013, the islands of Oceania (including Australia and New Zealand) accounted for roughly 5% of the East Asia-Pacific region’s 248 million international tourist arrivals, and generated total tourism receipts of approximately \$42.5 billion (UNWTO, 2014). Factoring out the contributions of Australia and New Zealand from these statistics reduces the totals significantly.

While on a global scale the economic significance of tourism in PICs may be considered insignificant, it is considered a fast-growing and important private-sector contributor to gross domestic product (GDP) in many PICs (Asian Development Bank, 2012). Thus, the importance of tourism as an economic activity is quite significant on a local scale. PICs have capitalized on regional tourism growth trends to varying degrees. Despite the successes of some PICs in translating sun, sand, sea, and romanticized abstractions of exotic and welcoming island cultures

into positive economic growth (Armstrong & Read, 2000; Narayan, et al., 2010), for others “successful tourism remains elusive as ever; a panacea for development that has proven illusory” (Connell, 2007a, p. 12).

### ***Tourism in Micronesia: The ‘haves’ and ‘have nots’***

The gap between those PICs that have been able to develop viable tourism industries and those that have not is well exemplified in the North Pacific. While tourism often conjures up idyllic images of South Pacific islands (Crocombe, 2007), a substantial portion of the tourism activity in Oceania occurs in those Pacific Islands lying north of the equator. In fact, three of the four Pacific “honey pots” (Fagence, 1996, p. 96) are located in the North Pacific (Guam, Saipan, and Hawaii), while only one is in the South Pacific (Fiji). Of the three top tourism destinations in the North Pacific, two (Guam and Saipan) are located in the Pacific sub-region of Micronesia. However, in Micronesia a wide and salient gap can be observed between the tourism development ‘haves’ and ‘have nots’.

The Micronesian islands of Guam and Saipan have both been developed into major tourism destinations. In Guam, international tourist arrivals exceeded 1.2 million in 2013. Accordingly, tourism in Guam has become a \$1.4 billion industry that currently generates over 18,000 jobs, or 31% of all non-federal employment on the island (Guam Visitors Bureau, 2014). While annual arrivals in Saipan are down significantly from their peak in 1997 (727,000), tourism remains a major industry, with between 300-400,000 international tourists still visiting the island each year (Marianas Visitor’s Authority, 2012). Also, the Republic of Palau in western Micronesia is currently recognized as one of the fastest growing tourism destinations in the world. In Palau, tourism has more than doubled to over 100,000 annual arrivals in the past decade, and currently accounts for over 50% of the country’s total GDP (Asian Development

Bank, 2012). In contrast to the experiences of Guam, Saipan, and Palau, tourism has not developed into a viable industry for some other countries of the Micronesia sub-region. One such country is the FSM.

#### *The FSM: An overview*

Situated slightly above the equator, the FSM is a sovereign nation comprised of roughly 708 islands (65 inhabited) which span roughly 1,161,300 square miles of ocean in the Micronesia sub-region. The FSM is grouped into four states (west to east): Yap, Chuuk, Pohnpei, and Kosrae. Each state is comprised of many islands, with the exception of Kosrae, which is a single island state. The total combined land area of the four states is approximately 271 square miles. Population levels in the FSM have recently showed a downward trend. Since 2004, population has declined by about 0.4% annually, due largely to steady 1.6% annual outward migration rates of FSM citizens seeking to take advantage of favorable emigration policies to the U.S. and its Pacific territories. Some 15,200 FSM nationals, or roughly 15% of the total population, have emigrated since 2004. The total population of the FSM is currently about 102,843 (Yap: 11,377; Chuuk: 48,654; Pohnpei: 36,196; Kosrae: 6,616) (Department of the Interior, Office of Insular Affairs, 2012).

Previously part of the Trust Territory of the Pacific Islands formed by the U.S. after World War II, the FSM formally gained its political independence in 1986. Today, the FSM remains a self-governing nation in free association with the U.S. under the Compact of Free Association (hereafter simply Compact) agreement between the countries. The most recent Compact stipulates the U.S. provide roughly \$3 billion in development aid to the FSM through 2023 in exchange for certain national defense and security-related provisions. For the FSM, the Compact funds have ostensibly been designed to support increased levels of development and

economic self-sufficiency. However, overall economic performance in the FSM under the current Compact has been poor. Net change in GDP has been near zero since the amended Compact took effect in 2004, and the number of jobs has decreased by about 7.4% during this timeframe. Real per capita incomes have also remained stagnant, and are currently around \$2,383 compared to \$2,334 in 2004. The structure of the FSM economy is characterized by a disproportionately large public-sector, which is supplemented by a private-sector largely dependent on selling non-traded goods and services (e.g., wholesaling, retailing, construction, communication services, transportation and lodging services, etc.) to individuals and agencies of the public sector. Despite recognition of how important a productive private-sector is to the overall economic development scheme of the FSM, the private-sector has contracted by an annual average of 3.1% since 2004 (Department of the Interior, Office of Insular Affairs, 2012).

In its national strategic development plan entitled *Federated States of Micronesia's Strategic Development Plan 2004-2023: The Next 20 Years – Achieving Economic Growth and Self-Reliance*, the FSM has identified agriculture, fisheries, and tourism as the target industries for driving increased economic development. To date, agriculture and fisheries both remain underdeveloped and low-performing. Despite tourism being singled-out in the plan as the industry with the single greatest potential, the FSM has also continually underperformed as a tourism destination. Annual arrivals to the FSM have hovered between 17,500 to 22,000 since the mid-1990s (Asian Development Bank, 2012). Reliable data on the actual breakdown of visitor categories is difficult to access. However, some evidence suggests that in 2012, only 12,565 of the 19,891 total arrivals to the FSM were actual tourists, with the rest being visitors, business travelers, volunteers, and seaman (Department of the Interior, Office of Insular Affairs, 2012). Also, available data does not differentiate between international tourists and FSM

citizens visiting friends and relatives, and so the actual number of bona fide tourists among the 12,565 may be substantially lower. In any event, visitor numbers to the FSM have consistently been far short of the 42,000 annual arrivals required to achieve the 65% hotel occupancy rate the country has defined as successful utilization of its hotel capacity (Federated States of Micronesia Economic Summit, 2004). In fact, there is some evidence to suggest that despite the official focus on tourism as the main driver of increased economic self-reliance, overall arrival trends to the FSM have actually been declining since the amended Compact took effect in 2004 (Department of the Interior, Office of Insular Affairs, 2012).

*Tourism in the FSM states: Yap, Chuuk, Pohnpei, and Kosrae*

Each FSM state offers a distinct tourism product. Yap State is comprised of 139 islets which amount to about 46 total square miles of land. Approximately 98% of all dry land in Yap is privately owned, with the remaining 2% being public and commercial land (Federated States of Micronesia SBOC, 2008). Yap is distinct among the FSM states in several ways. First, Yap is the only state not included in United Airlines' "island hopper" route out of Hawaii which makes stops in Kosrae, Pohnpei, and Chuuk before arriving in Guam. Instead, United Airlines services Yap separately out of Guam. Yap is also generally thought to have the most intact traditional culture of all four FSM states, and to this day Yapese society is characterized by a complex sociopolitical organization of castes, councils, and chiefs. In 2012, total arrivals to Yap were approximately 4,149. Of these, approximately 3,235 (78%) were tourists and visitors (Department of the Interior, Office of Insular Affairs, 2012). Some of the main attractions in Yap are its ancient stone money, cultural tours, deep-sea fishing, and world-class manta ray diving.

Some 900 miles to the east of Yap, Chuuk State is comprised of 542 islets amounting to 49 total square miles of land. Similar to Yap, approximately 98% of all dry land in Chuuk is privately owned, with the remaining 2% split evenly between public and commercial land (Federated States of Micronesia SBOC, 2008). Chuuk is serviced by United Airlines' "island hopper" route originating out of both Hawaii and Guam. In 2012, total arrivals to Chuuk were about 5,739. Of these, approximately 4,424 (77%) were tourists and visitors (Department of the Interior, Office of Insular Affairs, 2012). Tourism in Chuuk is almost entirely centered on historical resources from World War II. The centerpiece for this is Chuuk Lagoon, which is home to the largest fleet of downed World War II Japanese air and water craft in the world, and is thus considered the world's premiere site for wreck diving. In addition to the lagoon, there are terrestrial sites from the war which tourists can access.

Four hundred fifty miles to the east of Chuuk is Pohnpei State. Pohnpei is comprised of 26 islets, which together amount to 133 total square miles of land. As opposed to Yap and Chuuk, only about 63 percent of all dry land in Pohnpei is privately owned, whereas 36% is public land and the remaining 1% is commercial land (Federated States of Micronesia SBOC, 2008). Like Chuuk, Pohnpei is serviced by United Airlines' "island hopper" route originating out of both Hawaii and Guam. Pohnpei typically ranks the highest among the FSM states in terms of total arrivals due to it being both home to the nation's capital and the nation's largest single island of Pohnpei proper (129 square miles). In 2012, total arrivals to Pohnpei were about 9,002. Of these, only 4,035 (45%) were tourists and visitors (Department of the Interior, Office of Insular Affairs, 2012). Pohnpei offers the most diverse tourism product of the FSM states. This includes deep-sea fishing, diving, hiking, World War II historical sites, and visits to Nan Madol, the world's only ancient city built on top of a coral reef. Pohnpei proper is also home to

Palikir Pass, which is widely recognized as one of the best right-hand surf breaks in the world. This has helped ignite the island's surf tourism industry in recent years.

Finally, Kosrae State is the easternmost FSM state, situated 340 miles from Pohnpei. Kosrae is the only FSM state comprised of a single island, which is approximately 42 square miles in size. Kosrae is unique among the FSM states in that only about 35% of all dry land is privately owned, with 64% classified as public land, and the remaining 1% being commercial land (Federated States of Micronesia SBOC, 2008). Along with Chuuk and Pohnpei, Kosrae is serviced by United Airlines' "island hopper" route originating out of both Hawaii and Guam. Despite being recognized by seasoned travelers as one of Oceania's most beautiful islands, Kosrae generates the lowest number of annual visitors among the four FSM states. In 2012, total arrivals to Kosrae were about 1,601, or about 8% of all visitors to the FSM. Of these, about 871 (54%) were tourists and visitors (Department of the Interior, Office of Insular Affairs, 2012). Kosrae mainly attracts nature and adventure tourists looking for uncrowded diving, jungle hiking, and mangrove kayaking. Like Nan Madol in Pohnpei, Kosrae is also home to the Lelu Ruins, an ancient compound which once served as the ruling center for the high chiefs of the island, and which now serves as an attraction for visitors.

#### *Tourism constraints in the FSM*

To help contextualize the challenges faced by hotel entrepreneurs in the FSM, it is useful to identify some of the barriers the FSM faces in developing tourism in to a workable economic activity. Standard lines of reasoning for the state of tourism non-development in the FSM (and PICs like it) include remoteness and inaccessibility, inadequate air transportation and air transportation infrastructure, a negligible domestic market, lack of attraction variety and supporting facilities, underdeveloped tourism infrastructure, insufficient marketing and



promotional efforts, institutional environments which foster an unfavorable investment climate, or lack of some other intrinsic aspect of the county's tourism product (Armstrong & Read, 2002; Connell, 1991; Farrell, 1985; Hezel, 2012; Prasad, 2008). Three of these (remoteness and accessibility constraints, inadequate air transportation and air transportation infrastructure, and lack of attraction variety and supporting facilities) are discussed in greater detail next.

*Remoteness and inaccessibility.* Remoteness and accessibility has been cited as the most significant barrier to economic development in PICs in general (Armstrong & Read, 2006). As veteran travelers of the Pacific can attest, the sheer vastness of the region is remarkable. The Pacific Ocean covers an area of over 65 million square miles, and the islands and archipelagos of Oceania can be spread across huge swaths of ocean and lie large distances from major markets. Citing a study by the United Nations Council of Trade and Development, Knapman (1994) explains that the geographical distribution of Pacific Islands is especially severe even relative to other island regions, with mean dispersion being over nine times that of Caribbean islands, and nearly five times that of islands in the Africa and Indian Ocean region. Knapman (1994, p. 329) also states that “outer island remoteness from capitals, and the capitals’ remoteness from the metropolitan cities, particularly distinguishes the Pacific Islands from the general body of small nations.” Armstrong and Read (2006) find that PICs are even relatively more remote than other formally defined small states, with 73 percent being more than 3,100 miles from their nearest major market, as opposed to only 37 percent for other small states of the world.

Thus, remoteness and inaccessibility are frequently posited as formidable barriers to establishing a viable tourism industry in some PICs. As Connell (2007a, p. 12) concludes, “some small islands are simply too remote to exercise theoretical comparative advantages, attract a local or distant private sector and move into the global tourist system.” Lying on the remote

eastern edge of the Micronesia sub-region, the FSM is very challenging to access for potential tourist markets in the U.S., Japan, Australia, China, Russia, and Korea. As such, distance decay (i.e., the decrease in tourism demand as travel time and cost increase) is perceived as a major intrinsic obstacle to tourism development in the FSM. Due to its physical and geographic characteristics, the FSM is “unlikely ever to become a high volume destination for leisure tourists” (Federated States of Micronesia Economic Summit, 2004, p. 228).

*Air transportation and air transportation infrastructure.* Inherent to the issue of distance decay is a lack of regular, affordable air transportation. Air transportation development has the ability to structure the very nature of a destination’s tourism product (Bieger & Wittmer, 2006). Despite its centrality to tourism, the critical air transportation component is an often neglected component to tourism development. As such, many developing island countries seeking to develop tourism have lacked sufficient provision for well-coordinated policies linking air transportation and tourism (Abeyratne, 1999; Raguraman, 1995).

According to Bieger and Wittmer (2006), all destinations can fall on an air transportation management – tourism management continuum anchored by centralized and decentralized management systems. Centrally managed destinations are characterized by an integrated supply chain where a small number of companies link transportation, accommodations, and activities to the tourist market. Such high levels of vertical integration help create competitive advantages by creating barriers to entry and reducing transaction costs (Porter, 1980). Conversely, decentralized destination management is characterized by many companies working independently, thus reducing market power and ability to capitalize on economies of scale (Bieger & Wittmer, 2006). While there are significant challenges associated with sustaining high levels of vertical integration in tourism (See Lafferty & van Fossen, 2001), several of the

Pacific's most successful destinations have been developed by effectively integrating the tourism supply chain. Some notable examples of how centralized tourism development schemes have contributed to the successful development of tourism can be found in the Pacific Islands of Saipan, Guam, Fiji, and Palau.

In the FSM, efforts by transportation companies to integrate the tourism supply chain have been far less successful. In the late 1960s, several airlines were vying for the right to provide air service to the Micronesian islands. One of these was Continental Airlines, who led the formation of the United Micronesia Development Association (UMDA). The goals of the UMDA (in which Continental took a 32% interest) were centered on using tourism to spur economic development in the region. Continental concurrently launched Air Micronesia, a proposed air service of which UMDA (49%) and Continental (31%) became the largest shareholders. As part of the proposal, Continental pledged that Air Micronesia would devote itself to the economic development of the islands by creating a tourism industry anchored by resort hotels built and managed by Continental (Davies, 1984).

Continental gained exclusive and permanent rights to service Micronesia in 1971. The company subsequently formed a wholly-owned subsidiary called Continental Hotels, Inc. to build a chain of Continental hotels across Micronesia to promote tourism and integrate operations. This included plans to build hotels in the FSM states of Chuuk and Pohnpei (Carlile, 2000; Kelley & Penseyres, 1976). The Continental Hotel in Chuuk was built in 1970, but at a size almost twice the original plan and \$250,000 over budget (Kelley & Penseyres, 1976). The proposed hotel in Pohnpei was blocked by the local government and was never built (Hanlon, 1998). Thus, despite having a monopoly on the region, Continental's efforts to develop tourism into a viable industry in the FSM through an integrated supply chain did not prove successful.

Consequently, the Continental hotels did not survive and were subsequently sold or repurposed. In 2011, Continental Airlines was bought by United Airlines, which at the time of this study has continued to act as the sole provider of air transportation service to the FSM via bi-weekly flights from both Hawaii and Guam.

In an effort to help “solve” the transportation problem, many Pacific Island governments have attempted to set up state-owned air services. However, problems related to limited passenger numbers, high operating costs and fares, low yields, low market potential, and inconvenient routes and connections have required many of these state-owned air service endeavors to be heavily subsidized (Crocombe, 2001; Forsyth & King, 1996). On account of the often crippling level of subsidization required, some PICs have instead focused on upgrading air transportation infrastructure to signal they are able to accommodate large aircraft and thus open for tourism business. In the FSM, funding for air transportation infrastructure enhancements has come from foreign aid. For example, in 2008 the FSM state of Pohnpei received a \$25 million grant by the Japan International Cooperation Agency to extend its runway and update its airport terminal, with the hope that the ability to facilitate larger aircraft from Japan and other Asian source countries will open up Pohnpei to new tourist markets. While the runway expansion has been completed, any resulting increases in tourism have yet to unfold. In PICs like the FSM, any potential advantages to be gained from tourism infrastructure improvements can be readily contested by more well-endowed competitors (Choy, 1984). Thus, the physical tourism infrastructure of tourism is a necessary but not sufficient prerequisite of tourism development in the FSM and PICs like it (Choy, 1984).

*Lack of attraction variety and supporting facilities.* Tourists lack incentive to travel to destinations which do not have some basis of attraction. Lack of attractions is thought to be a

particular problem for small Pacific Islands, which typically offer tourists very limited activities beyond diving, fishing, or other select nature-based activities. While it is commonly suggested that PICs have the essential raw materials of tourism (sun, sand and sea), in reality many islands are fringed by dense mangrove swamps, have beaches which are unpolished or difficult to access, and/or are characterized by heat and humidity that can reach oppressive levels during the day. Furthermore, many of the kinds of attractions and activities that would appeal to international tourists to PICs are often undeveloped or not supported by active promotional efforts. All of these constraints resulting from lack of attractions hold true in the FSM, where according to the country's strategic development plan, "only a limited range of activities and opportunities" are offered for visitors (Federated States of Micronesia Economic Summit, 2004, p. 228). The plan goes on to state that "in most islands there is not enough for leisure visitors to do other than those whose stay is only a few days, and what there is to do is often difficult to access and poorly publicized" (Federated States of Micronesia Economic Summit, 2004, p. 228).

Many developing PICs are also cited as lacking the kinds of facilities and supporting services needed to accommodate most international tourist segments. Examples include lack of quality restaurants and bars, hotels, shopping options, and/or professional guide services. To illustrate, Connell (2007a) cites a travel article on the small Pacific Island of Niue in which the author laments that "in the course of a week you can eat in all the restaurants – several times." According to the FSM's own strategic development plan, "there are very few urban/retail centers, restaurants or cafes providing the type of products and services, and the typical points of interest/assembly that appeal to most international visitors" (Federated States of Micronesia Economic Summit, 2004, p. 229). For the FSM and PICs like it, the ability to serve tourist

markets other than the kinds of niche segments historically attracted to off-the-beaten-path type destinations is thus called into question.

Nonetheless, the FSM has recently advocated a mission to “progressively develop the tourism sector to become the leading sustainable economic activity in the nation and establish the FSM as a top quality, premium-priced international tourism destination by 2020” (Federated States of Micronesia Economic Summit, 2004, p. 267). An emphasis on developing a high quality, premium-priced tourism product will attract higher spending tourists, thus creating a “virtuous circle” (Croes, 2006, p. 14) in which the economic benefit of tourism is maximized. While an increased focus on quality assurance is key to “establishing the FSM as an up-market destination and enabling it to deliver what it promises” (Federated States of Micronesia Economic Summit, 2004, p. 247), the challenges associated with achieving this goal through the exclusive use of internal resources are substantial. As such, the need for foreign investment in hospitality and tourism facilities is considered basically unavoidable in the FSM and PICs like it.

### **Hotel Management in PICs**

#### ***Entrepreneurship and strategy: Some relevant concepts***

##### *Entrepreneurship*

The role of entrepreneurship is inherent in any analysis relating to private-sector business management and development in PICs like the FSM. This is particularly true for theory development research in this area. Shane and Venkataraman (2000, p. 219) state that the absence of entrepreneurship from theories of “markets, firms, organizations, and change makes our understanding of the business landscape incomplete.” It is entrepreneurship that brings the factors of production together, and thus plays a vital role in the advancement of productive economic activity (Stevenson & Jarillo, 1990). The role of entrepreneurship is particularly

important to acknowledge in the study of hotel businesses in the FSM, as nearly all hotels in the country are the direct result of entrepreneurial activity as opposed to international expansion by a multinational corporation. The one exception is the Blue Lagoon Resort in the FSM state of Chuuk, which was formerly the Truk Continental Hotel. As mentioned above, this hotel was originally built and operated by a wholly-owned subsidiary of Continental Airlines, but was purchased by a local Chuukese family in the late 1990s who continue to operate the hotel to present day.

A universally accepted definition of entrepreneurship does not exist. While the definition put forth by Shane and Venkataraman (2000) comes as close as any in terms of consensus appeal, others argue their definition as overly broad (Reynolds & Curtin, 2007). In addition, research on entrepreneurship has focused largely on the developed world, while giving less focus to developing economies like the FSM (Kiss et al., 2012). In one of the few studies on entrepreneurship in PICs, Hailey (1987) argues that conventional (i.e., Western, Europocentric) definitions of entrepreneurship do not account for the sociocultural complexities and alternative performance metrics that characterize Pacific Island business. According to the author, a Pacific entrepreneur is:

One who shows a practical creativity and managerial ability in effectively combining resources and opportunities in new ways so as to provide goods and services appropriate to island communities, and yet who can still generate sufficient income to create new opportunities for the individual, the family, and the community as a whole (Hailey, 1987, p. 28).

It should be noted here that Hailey's (1987) study focused only on local Pacific Islanders operating in the so-called "indigenous business sector." In that a large portion of the hotel businesses in PICs (FSM included) are at least partly owned and operated by foreign expatriates

(Crocombe, 2007), it has been unclear to what extent this definition is relevant for all who have made the decision to start a new private-sector business venture in PICs.

Most governments acknowledge the important role entrepreneurship has in helping to create jobs and promote prosperity in local communities through the establishment of small businesses. The FSM is no different, as the following excerpt from the county's strategic development plan (Federated States of Micronesia Economic Summit, 2004) communicates about the value of entrepreneurship to the economic future:

With limited and scarce natural resources and collective property rights, great distances to markets and high costs of exporting and importing goods and commodities, FSM comparative advantage for ensuring sustainable livelihood for its people and for creating realistic employment opportunities is through entrepreneurship and small micro-enterprise development (SMEs) (p. 513)

Different performance metrics can be used to assess the performance of entrepreneurial activity. These metrics range from survival, growth, profitability, all the way to initial public offerings (Shane, 2003). Given the challenging states of the tourism industry and ease of doing business climate in the FSM, the present study uses survival as the performance metric for the hotel businesses analyzed in this research. Firms in the survival stage have been able to demonstrate they are workable business entities, but often focus heavily on generating sufficient revenue to merely earn break-even economic returns (Churchill & Lewis, 1983). Many entrepreneurial efforts do not survive even one year of operation, and most fail to make it five years (Shane, 2003). Reliable data on new venture survival rates for private-sector businesses in the FSM are not available. However, despite a range of technical support and training available to FSM entrepreneurs through a variety of institutions and agencies, there is reason to believe that survival rates are indeed very low (Federated States of Micronesia Economic Summit, 2004). Thus, understanding how hotel businesses which started as entrepreneurial ventures have



organized critical success factors in ways which promote survival (Parker, 2006) has remained a fundamental issue worthy of systematic exploration in the FSM and PICs like it.

### *Strategy*

Issues relating to strategy are also important to consider when developing a global perspective on how to design a workable hotel business management model in a hostile environment for private-sector business development, as found in the FSM. Covin and Slevin (1989, p. 75) define hostile environments as those “characterized by precarious industry settings, intense competition, harsh, overwhelming business climates, and the relative lack of exploitable opportunities.” Such environments intensify and complicate firms’ operational challenges (Miller & Friesen, 1983). As touched on above and which will be expanded upon in subsequent sections, the FSM is characterized as one of the lowest ranking countries in the world in terms of ease of doing business. While this should point towards the importance of understanding more about the requisite business strategies for operating in such a difficult environment, this topic has hitherto not been systematically studied in the FSM and other PICs.

A firm’s strategy allocates “resources, capabilities, and competencies so that [the firm] will be properly aligned with its external environment” and achieve desired performance outcomes (Hitt et al. 2009, p. 98). The resources used in the production process include both property-based (i.e., tangible) and knowledge-based (i.e., intangible) resources (Galunic & Rodan, 1998). Most definitions of strategy treat it as an explicit plan determined consciously and in advance of actual action steps. However, this is only one side of the business strategy coin. As such, the present study approaches hotel business strategy in the FSM in terms of predetermined strategies that actually become realized (i.e., deliberate strategies), predetermined strategies that do not materialize (i.e., unrealized strategies), and unintended strategies developed

extemporaneously that become realized (i.e., emergent strategies) (Mintzberg, 1978). Thus, strategy as examined here involves provisions for the actions which do and do not allow a firm to establish a place in its environment, and any subsequent changes in the patterns of actions organizational processes in response to changes in often confusing and unpredictable environments (Mintzberg, 1978). While individual businesses within a specific industry or environment may each utilize unique strategies, it is assumed here that it should be possible to delineate the core tenets of what contributes to a workable business model in that industry and/or context (Köseoglu et al. 2013).

There remains a need for additional research on business strategy in the hotel industry (Phillips & Moutinho, 2014). This is particularly true for developing countries in general (Köseoglu et al. 2013), and for developing countries in the East Asia-Pacific region in particular. Despite the fact that there are about 25,000 islands in the Pacific (Hailey, 1987), there is a dearth of knowledge on hotel business strategy in PICs. Much of the hotel strategy-related research in East Asia-Pacific has focused on major industrial locations like Hong Kong (Yeung & Lau, 2005), China (Lo, 2012; Wang et al., 2012), and Korea (Han, 2012). Moreover, existing research of hotel business strategy in East Asia-Pacific is largely positivist in nature, seeking to empirically test models based on existing theories. For example, both Lo (2012) and Yeung and Lau (2005) deductively developed and statistically evaluated hypotheses regarding hotel business strategy in Asian countries based on the well-known work of Porter (1980, 1991). These kinds of studies are commensurate with Murthy's (1994) observation that the vast majority of strategy research in hospitality is based on unmodified applications of well-known strategy theories and typologies. However, as Murthy (1994) points out, the generic application of standard strategic

typologies may not be well-suited to service-oriented industries like hospitality in that most were developed via research in industries like manufacturing.

Also, while Porter's (1980) model, for example, says much about "how firms adapt to competitive forces, it has little to say about the firm and management of the firm" (Reve, 1990). The factors which contribute to the success of private-sector businesses in developing countries differ from developed countries on account of distinct contextual elements (Benzing et al., 2009). However, conventional strategy theories developed in Western contexts exhibit some naiveté regarding strategy implantation in the "diverse texture of different business systems" where sensitivity and careful consideration of context is important (Olsen & Roper, 1998, p. 117). Accordingly, the applicability of unmodified management theories to developing countries has been called into question (Kiggundu et al. 1983; Saffu, 2003).

As such, additional research is needed to understand the "alternative strategic management frameworks" (Olsen & Roper, 1998, p. 11) requisite to operating in environments with distinctive economic climate and cultural foundations where defining organizational goals in terms of profit maximization may not entirely fit (Cahn, 2008; Curry, G. 1999; Phillips & Moutinho, 2014). There also remains a need to understand local approaches to management and entrepreneurship within the confines of a given institutional environment (Bruton et al., 2010; Hitt et al., 2004). All of this suggests a need for theory building (rather than theory verifying) research on hotel business management in developing countries using non-linear (rather than linear) research methodologies which account for (rather than ignore) the characteristics of the complex and idiosyncratic business landscapes endemic to places like the FSM and other PICs.

### ***Business management theory in PICs***

Various scholars have suggested that doing business in PICs requires the utilization of unique business management and entrepreneurship models (Saffu, 2003; Solomona & Davis, 2012). However, previous research related to private-sector business management in PICs has either focused on the success factors of indigenously-operated businesses (Fairbairn, 1988; Saffu, 2003; Solomona & Davis, 2012; Yusuf, 1998), or made a priori distinction between indigenous and non-indigenous businesses in examining these factors (Yusuf, 1995). Such research fails to address the central research question of this dissertation on several fronts. First, research on business management in PICs has typically resulted in the identification of very broad success factors as opposed to developing actual management theory. For example, both Yusuf (1995) and Hailey (1987) identify good management and personal qualities as top success factors for Pacific Island businesses. Fairbairn (1988) suggests outsmarting competitors, sound record keeping, and high levels of motivation as the important success factors for Pacific Island entrepreneurs. Solomana and Davis (2012) use GTM to develop a grounded theory of successful entrepreneurship in the Pacific Island nation of Tonga. However, as opposed to the development of actual theory, this study merely recycles conventional perspectives regarding what is thought to be important to business and entrepreneurial activity in PICs, such as access to finance, motivation, and governmental commitment to the development of private-sector business. The present research seeks to advance knowledge beyond these more generic conceptualizations via use of a systematic and rigorous epistemological approach which will help add new depth to management science theory in the FSM and PICs like it.

Next, existing business research in PICs has not focused on service industry businesses in general, and hotel businesses in particular. A service can be defined as “an activity or series

of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees, and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems” (Grönroos, 1990, p. 27). Given the features unique to services relative to products (Nambisan, 2001; Sundbo, 1994; Zeithaml et al., 1985), there is reason to believe that designing and maintaining a workable hotel business model in PICs like the FSM may be different than other product-based businesses. Given the importance of service industries to the overall economic landscape in PICs, the present research has the potential to help fill an important gap in the business management literature in this area.

Finally, in contrast with previous research, the present study is approached with the aim of avoiding a priori categorization of indigenous and non-indigenous operators in the development an overarching hotel business management theory. Some have postulated that indigenous entrepreneurship differs from other forms in terms of desired goals and outcomes, organizational form and structure, community orientation, and the context in which they operate (Peredo & Anderson, 2006). These distinctions may hold in PICs with higher levels of tourism development where non-indigenous operations may be larger, more sophisticated, and/or controlled by multinational companies (Fairbairn, 1988). However, it has been unclear whether they hold in low performing PICs like the FSM where such differences are less salient.

### **Ease of Doing Business in the FSM**

In the FSM, the development of a productive private-sector is considered a cornerstone of the country’s economic future. This is particularly true for tourism-related businesses like hotels, given the FSM’s focus on tourism as the economic activity with the greatest potential going forward (Federated States of Micronesia Economic Summit, 2004). According to the

FSM's strategic development plan, developing a productive private-sector involves improving the climate for foreign investment, improving business support and training services, improving the regulatory environment, and refining investment laws (Federated States of Micronesia Economic Summit, 2004). Foreign capital has been particularly emphasized as requisite to tourism-related business development and on account of internal resource and technical constraints in the FSM. According to the FSM's plan, while substantial increases in private-sector investment are needed in order to expand its tourism industry, "domestic resource mobilization or saving is unlikely to generate the required volume and a significant increase in foreign investment [is] needed" (Federated States of Micronesia Economic Summit, 2004, p. 15). However, the challenges of realizing this are substantial given the idiosyncratic institutional environment in the FSM. As the FSM's plan states, "although the rhetoric to promote foreign investment has been in place for some time, it is clear that the constraints to such have yet to be comprehensively addressed" (Federated States of Micronesia Economic Summit, 2004, p. 198).

Accordingly, the FSM has consistently ranked as one of the most difficult places to do business in the world based on the World Bank's Ease of Doing Business Index (hereafter EODBI). The EODBI is a tool the World Bank uses to advance its agenda of worldwide private-sector development. The EODBI collects data on a country's regulatory environment for business, and uses the findings to suggest reforms thought to promote a more vibrant private-sector and more effective economic development. According to the World Bank (2013, p.5), "for policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies." The 11 areas measured in the EODBI are: Starting a business, dealing with construction permits, getting electricity, registering property, obtaining credit, protecting

investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and employing workers (World Bank, 2013a).

In 2013, the FSM ranked 150<sup>th</sup> out of 189 countries on the EODBI. In 2014, the FSM dropped six ranks to 156<sup>th</sup>. This is compared to an average regional ranking of 88<sup>th</sup>. Out of 189 countries the FSM ranks 178<sup>th</sup> in protecting investors, 152<sup>nd</sup> in enforcing contracts, and 189<sup>th</sup> in registering property (World Bank, 2013; 2014). Given their relevance to hotel businesses in the FSM, the topics germane to each of these three areas are overviewed next.

*Institutions.* The institutional environment in the FSM is thought to create “binding constraints” on economic growth at a very deep and fundamental level (Duncan et al., 2014, p., 5). The complex mix of traditional and modern institutional forces in the FSM (and PICs like it) has contributed to a situation where the path to developing successful private-sector business ventures is not well understood. While the formal institutions (i.e., banks, courts, government agencies, etc.) in the FSM are often characterized as ineffective and/or inefficient, the informal institutions (i.e., social norms, culture, etc.) in the FSM are strong. As opposed to formal institutions which are formed consciously, informal institutions are embedded in societies over time and do not immediately respond to change (North, 1990). The informal institutional environment impacts entrepreneurial activity by influencing the social desirability of engaging in business, affecting the transmission of business knowledge and acumen via social networks, and defining cultural norms regarding strategy, resource acquisition, and organizational form and structure (Shane, 2003).

The informal institutions in the FSM are often criticized as not syncing well with private-sector business goals of profit maximization, growth, or in some cases even mere survival. In fact, as the FSM has progressed through various planning stages of economic development,

sociocultural norms and practices have been generally regarded as the “foremost impediment to general commercial development” (Hanlon, 1998, p. 120). For example, Hanlon (1998) recounts the sociocultural barriers to the development of the ill-fated Continental Travel Lodge Hotel in Pohnpei State in the early stages of tourism development in the FSM. Citing lack of planning and operational incongruence between the proposed fifty-unit hotel and local Pohnpeian culture, a resolution was passed through the Pohnpei legislature preventing construction of the hotel (Hanlon, 1998). Similar incidents leading to the demise of hotels and other business projects have played out in all three other FSM states (Chuuk, Pohnpei, and Kosrae) throughout the quest for private-sector led economic development over the past six decades.

Thus, in the FSM there are significant challenges associated with operating a business in an informal institutional environment that may be designated as anti-business. Examples include social pressures which blur the lines between family/community assets and business assets, having to accommodate employees’ social and cultural obligations while ensuring work obligations are met, and extending benefits and/or services to community members which carry unrecoverable monetary costs (Cheshire, 2001). While business development organizations and consultants “are aware of the cultural resistance to business development in Micronesia,” they have lacked the tools to address this problem (Cheshire, 2001, p. 3). As such, the management practices they advocate and business models they suggest to FSM business operators have been imported from environments where these problems don’t exist and are therefore not amenable for use in the FSM (Cheshire, 2001). Understanding how to operate a business in an institutional environment that values sociocultural goals over economic goals has been an issue deserving of systematic analysis.



*Contracts.* The legal contract supported by efficient and effective formal institutions is a Western benchmark of good business practice. As such, the idea of the contract in business has subsequently been inherited by the FSM and PICs like it through their colonial histories. However, some contradictory perspectives regarding which kinds of contractual arrangements facilitate successful private-sector business ventures in PICs like the FSM have been advanced (Cheshire, 2010). One perspective focuses on the role of property rights in fostering an environment conducive to successful private-sector business investments. Property rights are the rules and laws which allow for the ownership and contracting of assets. It is thought by organizations like the World Bank that having a stable and reliable legal framework regarding contractually backed property rights supports private-sector business activity by reducing threat of exploitation, and increasing confidence regarding resource coordination and planning abilities (Shane, 2003). Therefore, the assumption is that business arrangements can work as long as they are supported by formal business contracts that carefully specify what each party may and may not do, what each party is and is not responsible for, the processes by which disputes are to be resolved, the consequences of contractual breach, and so on (Poppo & Zenger, 2002). From the World Bank's point of view, deficiencies in these areas contribute to ease of doing business constraints in the FSM. While some advocate substantial legal and regulatory reforms to ensure secure contracts as imperative for private-sector business development in PICs like the FSM (Prasad, 2008), there is surprisingly little empirical evidence to support the direct relationship between property rights and entrepreneurial activity (Shane, 2003).

As such, an alternative perspective views decentralized activity focused on the proper leveraging of incentives between specialized parties as the hallmark of successful organizational form in remote Pacific Island operations (Cheshire, 2010). This view is corroborated by those

who suggest that entrepreneurial activity is best cultivated in decentralized market societies where different actors hold different information and resources which can be combined to exploit opportunities in optimal ways (Shane, 2003). For PICs, many notable private-sector business ventures have resulted not from centralized planning, but rather the right combination of actors with the right combination of knowledge/resources working together under the right arrangement (Cheshire, 2010). However, much has yet to be understood regarding the nature of these arrangements in private-sector businesses in PICs in general, and service industry businesses like hotels in particular. As such, considerable ambiguity remains regarding what kind of arrangements are required around firm organization, ownership structures, and/or myriad internal and external partnerships for hotel businesses to work in a challenging environment like the FSM.

*Land.* Traditional land holding systems are regularly cited by organizations like the World Bank and others (Duncan et al., 2014) as a substantial barrier to private-sector business development in the FSM. Like other PICs, land in the FSM is “managed under a complex mix of modern and traditional systems” (Federated States of Micronesia Economic Summit, 2004, p. 35). While land may be regarded as a relatively less important factor of production in the development of product-based ventures (Parker, 2006), quite the opposite is true for island hotels. This is on account of the premium placed on ideal location combined with the small and finite amount of such locations. Land is a precious resource in Pacific Islands, and ownership of land has historically been deeply entangled in the complexities of island sociocultural and political systems (Bascom, 1965; Connell, 2007; Lingenfelter, 1975; Peoples, 1985). Consider the following passage which attempts to explain one small aspect of the intricacies of land ownership in the FSM state of Yap (Labby, 1976, p. 35-36):

The estate itself was seen to consist not only of the domestic group living on specific land, but also an entire extended network of relations of people and land... Since the man's claim on his land began with his mother, who had worked to earn it for her children, the land was not simply his alone. It also belonged to his siblings... Brothers, of course, would have been given pieces of their father's land, but sisters had to marry out... Although the [sister] could not use the land she left at her natal estate, she and the children she bore stood as guardians to it, watching over those who had taken their place, the woman's brother's wife and her children... It was only after four generations had passed that the claim of the people established on the land by an in-marrying woman finally expired, that the clan group was fully repaid for its investment in the land.

Using the small example, one can extrapolate insights on the difficulties associated with acquiring and developing land for commercial use in islands with highly nuanced traditional land holding systems.

FSM national law prohibits non-FSM citizens (including foreign commercial banks) from buying land. In addition, each FSM state is also responsible for adding any additional caveats to this national policy (e.g., land in Pohnpei State can only be sold to other Pohnpeians). Thus, land developed for commercial purposes by non-FSM citizens must be leased, and the nuances of lease arrangements are not always well-understood by the lessor, the lessee, or both. Intricate and sometimes ambiguous land tenure laws which restrict land purchase have been thought to pose formidable difficulties for hotel operators in PICs, and negotiations around the use of land for hotel development purposes have historically been wrought with convoluted, uncertainty, and confrontation (Fagence, 1996). One of the most notorious examples of this is the controversial case of the Nikko Hotel in the Micronesian island of Saipan. The Hotel Nikko was a large resort hotel built on private land acquired by a group of Japanese investors. After the hotel was built and in operation, the original landowners sued for return of the land on the premise the land was acquired by illegally circumventing land tenure laws. The court ruled in the original landowners favor. The land on which the Hotel Nikko sat was returned, thereby

leaving the Japanese investors without a hotel and any legal recourse. This landmark decision significantly altered the business investment landscape in Saipan, which in turn sent a shockwave through the island's entire tourism industry (see Nevitt, 2005 for a full description of the case).

In the FSM, an illustrative example of the complications of developing land for commercial use can be found in the so-called "Battle of Map." This case involved a proposed resort complex called Yap Nature Life Garden, Inc. to be built in the district of Map in Yap State, FSM, and was to be funded by a Japanese investment company (Hanlon, 1998). In response to the plans for the proposed resort, the district chiefs of Map successfully circulated a petition against what they felt was unlawful use of land inherited in trust to the villagers of Map. Their efforts to protect against what they considered to be foreign exploitation of Yapese land culminated in a government directive requiring Yap Nature Life Garden, Inc. to discontinue the project and withdraw from Yap entirely (Hanlon, 1998). Thus, new depths of understanding regarding the land tenure-hotel management nexus, including the elements which do and do not support successful agreements around land use for hotel development, has been an issue worthy of additional exploration in the FSM and PICs like it.

### **TCE as Meta-Theoretical Lens**

TCE is employed as the meta-theoretical lens for this grounded theory investigation on hotel business management in a developing Pacific Island country. A detailed discussion of how TCE was both selected and utilized as meta-theory is provided in Chapter Three. The subsequent section focuses on providing an overview of TCE and its core concepts.

### ***Conceptual foundation of TCE***

The TCE approach utilized as meta-theoretical lens for this research draws heavily on the work of Oliver Williamson, who in 2009 was awarded the Nobel Prize in Economics

for his contributions in this area. Williamson's work on TCE is part of an overarching paradigm of theory and scholarship known as "new institutional economics" (NIE) (Coase, 1998; North, 1990; Ostrom, 1990; Williamson, 1985). NIE is based on the proposition that institutions matter in the study of economic activity and are susceptible to analysis (Matthews, 1986, Williamson, 2000). Institutions are recognized in NIE as providing the rules of the game which structure business and economic activity in societies (North, 1990). In NIE, these institutions range from the informal (i.e., cultural traditions, unwritten rules, social norms, etc.) to formal (i.e., laws, courts, legal system, etc.) constraints on such activity (North, 1990; Ostrom, 2005). Whereas institutions provide the rules of the game, organizations and individuals (i.e., entrepreneurs) become the players of the game from the NIE perspective.

Those who emphasize the role of strong formal institutions in an institutional environment square much of the attention on the de jure components to business and economic activity, such as well-functioning legal systems for enforcing property rights and contract law. As Williamson (2000, p. 598) states, advocates of the role of strong property rights to successful economic organization take the position that "once property rights have been defined and their enforcement assured, the government steps aside. Resources are allocated to their highest value as the marvel of the market works its wonders." While the de jure mechanisms of economic activity like the role of property rights enforced by a functioning legal system are important, Williamson suggests that the practicalities and costs associated with accomplishing this are often underestimated. Moreover, too narrow of an emphasis on de jure institutions will preclude an understanding on the solutions that exchange parties develop based on their own devices (Williamson, 1995).

As such, a major component of the conceptual foundation of TCE proposes that business and activity should be investigated from more of a de facto, *private ordering* approach (Llewellyn, 1931; Williamson, 1985). The emphasis on de facto private ordering supports a more bottom-up, semi-micro analytic approach to the study of organizations in TCE (Williamson, 1995). Rather than devoting time and energy on delineating often unattainable hypothetical ideals regarding de jure economic organization, the TCE approach stemming from NIE focuses more on identifying feasible organizational alternatives given a set of constraints (Williamson, 2000, p. 601). In other words, this approach places more focus on how economic activities, such as business arrangements between exchange parties, are governed by the parties based on practical purpose, as opposed to legal rules and the courts. As Williamson (1989, p.137) states, this approach helps drawn attention to “efforts by the parties to align their own affairs and devise mechanisms to resolve differences, with correspondingly less weight being assigned to legal centrism (dispute resolution under the legal rules evolved by the courts and adopted by the state).” As such, aspects of organizational governance such as the role of implicit contracting are given greater provision in TCE (Macneil, 1980).

In TCE, the transaction is the unit of analysis. TCE posits that there are costs associated with transactions characterized by certain attributes (i.e., asset specificity and uncertainty) and behavioral assumptions of exchange parties (i.e., bounded rationality and opportunism). Thus, understanding how exchange parties structure arrangements in transaction cost economizing ways becomes essential to the study of economic organization (Williamson, 1981). In this way, the organization as governance structure, as opposed to production function, is the focus of TCE (Williamson, 1985). Transaction costs can occur

both ex ante and ex post to an arrangement between exchange parties. Examples of ex ante costs include search and contracting costs, or those costs associated with finding an exchange partner and developing a business arrangement. Ex post costs include monitoring and enforcement costs, or those costs associated with ensuring the terms of the business arrangement are being followed by each party, and sanctioning parties to the arrangement as necessary (Williamson, 1985; Dyer, 1997; Dyer & Chu, 2003).

The transaction cost in the study of organizations is analogous to friction in physics. Like the presence of friction prevents harmonious operation between mechanical parts, transaction costs in business prevent harmonious operation in arrangements between transacting parties, and thus can cause breakdowns and malfunctions in the exchange (Williamson, 1981). Both human factors and environmental factors are thought to play a role in determining the costs of designing, executing, and maintaining complex contractual business arrangements (Williamson, 1975). Being sensitized to transaction costs becomes imperative to organizational analysis in order to examine the “comparative costs of planning, adapting, and monitoring task completion under alternative governance structures” (Williamson, 1981, p.553).

### ***Core concepts of TCE***

Scholars from various disciplines have made refinements to different aspects of TCE as established by Williamson (1975, 1985). However, it is often very difficult to gauge the worth of many of these perceived developments, and thus many modifications and extensions have been poorly integrated with the initial TCE framework (Rindfleisch & Heide, 1997). As such, the present research does not attempt a comprehensive cross-discipline integration of TCE literature a priori. Commensurate with other research (David

& Han, 2004), the meta-theoretical approach of the present study focuses on the core tenets of TCE (Williamson, 1975, 1981, 1985). These core components are: contractual governance, bounded rationality, opportunism, asset specificity, and uncertainty. While being equipped with an understanding of each is requisite to the use of TCE as the meta-theoretical lens, the importance of any single component to the theory development process of this research is not assumed a priori.

### *Contractual governance*

TCE posits that different organizational governance structures are well-suited to economizing on different kinds of transactions. Thus, the main hypothesis to which the TCE approach appeals is to understand how “transactions, which differ in their attributes, are aligned with governance structures, which differ in their cost and competences, so as to effect a (mainly) transaction cost economizing outcome” (Williamson, 2010, p. 681). A primary assumption in TCE is that managers navigate business arrangements impacting organizational form in ways which economize the transaction costs of contracting (Williamson, 1991a). In Western business practice, contractual arrangements between exchange parties are predominantly safeguarded by a formal legal contract, and thus the term “contract” is often used and interpreted in a strictly legal sense (Williamson, 1990). In TCE, the notion of the contract is broadly understood as the “arrangement between two or more actors supported by reciprocal expectations and behavior” (Gordon, 1988, p. 2 as cited in Williamson, 1990). As such, contractual arrangements may be governed by informal incentives and safeguards devised by transacting parties, formal legal recourse based on the letter of the contract, or some combination of both. Contractual arrangements governed by informal mechanisms are characterized as self-enforcing agreements (Telser, 1980).



The three types of transaction governance primarily discussed by Williamson are markets, hybrids, and hierarchies. The market form means that functions of the organization are acquired via spot market transactions involving autonomous exchange parties rather than performed internally. For certain types of transactions, the costs of arm's length market governance become too high, thereby pushing firms toward hybrid or hierarchy forms. Another name for the hybrid form is the long-term contract, meaning that individuals and/or firms enter into bilateral business relationships based on a contractual arrangement. The hierarchy form means the organizational function has been fully integrated into the firm to economize on the transaction costs stemming from contractual governance (Williamson, 1991). In TCE, understanding which kinds of transactions are best suited to which governance forms requires provision for both the attributes of the transactions, and the behavioral assumptions assigned to the human actors of transactions. The two main transaction attributes to be discussed here are *asset specificity* and *uncertainty*, and the two main behavioral assumptions discussed are *bounded rationality* and *opportunism*.

#### *Asset specificity.*

Asset specificity refers to the extent to which an asset can be redeployed for alternative uses while maintaining the same level of productive value (Williamson, 1985). As asset specificity increases, the ability to reassign the asset for alternative uses decreases. Put simply, an asset that has little value outside of a particular business arrangement is highly asset specific (Lohtia et al. 1994). Various sub-dimensions of asset specificity have been identified, including site specificity (i.e., based on location), human specificity (i.e., specialized skill developed over time), physical specificity (i.e., a tool or system's level of specialization), dedicated specificity (i.e., investments which target a single user), and procedural specificity (i.e., customized

workflows and processes) (Williamson, 1983; Zaheer & Venkatraman, 1994). In TCE, the condition of asset specificity creates bilateral dependency affecting how arrangements are governed, and thus organizational form (Williamson, 1989). For example, the degree of asset specificity determines the contractual safeguards that must be put in place for transacting parties to protect their investments (Milgrom & Roberts, 1992). With high asset specific investments, the potential transaction costs of contractual organizational governance may be high, thus pushing parties toward more hierarchical organization forms that economize on these potential transaction costs.

To illustrate, consider a parcel of undeveloped land on a scenic coastline. An investor approaches the landowner about building a resort hotel on the site. In this case, the resort hotel would be a highly specific asset, in that it would likely not retain the same production value if redeployed for an alternative use. However, due to a sense of uncertainty surrounding this investment, combined with the ex-ante limitations of the transacting parties to structure and monitor a contractual arrangement characterized by safeguards which adequately account for all future contingencies, the costs of less hierarchical governance are high. Thus, either entering into a completely binding, long-term contractual arrangement, or completely integrating this function of the investment (i.e., purchasing the land) would theoretically help to economize on transaction costs associated with this highly asset-specific investment. However, these are not always realistic options in developing countries like the FSM. As such, the ability to create and maintain harmony in the contractual interface between landowner and investor in this example becomes the source of economic value according to the TCE approach (Williamson, 1985).

## *Uncertainty*

Uncertainty is another core condition affecting how business arrangements between transacting parties are governed, and thus organizational form. Inasmuch as business arrangements are a problem confronted by exchange parties, uncertainty can be defined as the “lack of knowledge of the attributes that characterize the problem” (Jones, 1999, p. 308). While uncertainty can stem from broader economic and environmental dynamics, equally important is the uncertainty resulting from lack of behavioral certainty between parties (Williamson, 1989). Were it not for the condition of asset specificity combined with the limits of transacting parties to structure binding contractual arrangements, uncertainty would not be an issue in that all possible issues would be recognized and accounted for ex-ante to the arrangement. Since this is not a realistic assumption, transacting parties must account for uncertainty via governance structures which can economize the potential transaction costs stemming from it (Williamson, 1985).

TCE proposes there are interaction effects between uncertainty and asset specificity, such that devising governance structures to effectively cope with uncertainty becomes more important under conditions of high asset specificity. In such circumstances, higher organizational integration can serve to reduce transaction costs for the parties to the arrangement. The concept of information impactedness also relates to uncertainty. Information impactedness occurs when one party to an arrangement has more understanding or more important information than the other (Williamson, 1975). This can add complexity and risk to market-based transactions, thereby also moving transacting parties to more integrated arrangements (Williamson, 1975).

In addition to considering the effect these transaction attributes impacting organizational form and decision-making, it is important to understand the behavioral assumptions which characterize exchange parties in the TCE approach. The two behavioral assumptions given the

most attention in the literature, and also perceived most relevant to the present study are *bounded rationality* and *opportunism*. It is only when the aforementioned transaction attributes are considered in conjunction with these behavioral assumptions that the organizational issues which TCE targets are adequately understood.

#### *Bounded rationality*

As opposed to the assumption of the perfect rationality and perfect information of exchange parties, TCE is predicated on the behavioral assumption of bounded rationality. Simply put, bounded rationality is the idea that while human actors (i.e., business owners, managers, investors, etc.) are inclined toward rational decision-making, all are inherently bound by limits on cognitive ability, knowledge, available information, skill, and predictive capacity (Williamson, 1989). Therefore, although it is “instructive and a great analytical convenience” (Williamson, 1989, p. 139) to assume otherwise, TCE posits that all contractually governed arrangements involving human actors are necessarily imperfect on account of their cognitive bounds. While such “computational constraints” are the main focus in TCE, Williamson (1975, p. 255) also suggests bounded rationality can stem from “language constraints”, or limitations on “the ability to communicate successfully about the nature of the transaction through the use of words or symbols that are contractually meaningful.” The behavioral assumption of bounded rationality is thought to construct barriers to contractually governed market transactions via increased transaction costs, thereby pushing parties to more hierarchical arrangements.

#### *Opportunism*

The second major behavioral assumption in TCE is opportunism, or “self-interest seeking with guile” (Williamson, 1991, p. 79). Absent the threat of opportunism, all business

arrangements between parties could be carried out without either having to employ contractual safeguards to ensure equity. In other words, transaction costs resulting from the threat of opportunism would be zero. Opportunism can range from more explicit forms such as stealing and conning, to more subtle forms such as withholding information, failing to accurately disclose risk, and misleading. In TCE, the threat of opportunism is assumed present both ex ante and ex post to an arrangement. As such, successful contractual arrangements must develop ex ante safeguards to protect against ex post opportunism, thereby increasing potential transaction costs.

One example of a safeguard to ensure equitable arrangements is the use of credible commitments (Williamson, 1985). Contrasting a legalistic view that formal institutions enforce the terms of an agreement, credible commitments are aligned with the private-ordering approach whereby reciprocal acts are conducted by transacting parties to provide added assurance and safeguards to the relationship (Williamson, 2010). Credible commitments thus represent an alternative mode of organization governed by less formal mechanisms (Williamson, 1983). The behavioral assumptions of opportunism and bounded rationality are major components the study of organizations using the TCE approach, and can be summarized accordingly (Williamson, 1990, p. 12):

Given bounded rationality, all complex contracts are unavoidably incomplete. Given opportunism, contract-as-promise unsupported by credible commitments is hopelessly naïve. Taken together, the following organizational imperative obtains: organize transactions so as to economize on bounded rationality while simultaneously safeguarding transactions against the hazards of opportunism.

### *Summary*

The preceding discussion has presented the inter-related factors contributing to problems and issues related to successful firm organization and arrangements between parties in TCE.

These include the transaction attributes of asset specificity and uncertainty, and the behavioral

assumptions of bounded rationality and opportunism. To summarize, TCE suggests that the condition of high asset specificity will contribute to bilateral dependency between transacting parties, particularly in conditions of high uncertainty. Furthermore, all contractually-governed arrangements between parties are characterized by imperfect rationality and information due to the cognitive bounds of human actors. As such, appropriate incentives and safeguards must be devised to help prevent governance problems associated with the threat of opportunism. While the desire to economize on the associated transaction costs will move organizations away from market forms and towards more hierarchical forms, the practicalities associated with each organizational governance form are also affected by factors in the institutional environment (Williamson, 1997).

#### ***Applications and empirical support of TCE***

TCE has become one of the leading theoretical perspectives in business and organizational studies (David & Han, 2004; Tsang, 2006). The most common application of TCE has been in explaining firms' organizational boundary (i.e., vertical integration) decisions (Geyskens et al., 2006). The basic idea is that the transaction costs of acquiring the functions of the business contractually on the open market can be high under certain conditions. Thus, firms will choose to organize themselves in transaction costs economizing ways, namely by moving toward more hierarchical forms that integrate such functions into their operations. While TCE is ostensibly about how firms organize through various governance structures to economize transaction costs, the basic idea of TCE is that provision for organizational governance within a given context is important to business strategy (Reve, 1990). Beyond explaining organizational boundary decisions, TCE "requires detailed information on organizational form as well as on attributes of transactions such as the level

of uncertainty associated with exchange, the complexity of products and processes, and the extent to which assets needed for production are specific to a particular relationship” (Williamson & Masten, 1999, p. xv). Thus, utilizing TCE solely for analyzing vertical integration decisions is but one of TCE’s many potential applications.

Williamson has also upheld TCE’s potential for addressing a wide variety of phenomena. For example, Williamson and Masten (1999, p. xx) illustrate TCE’s flexibility by pointing out that TCE has been used to “illuminate such apparently disparate phenomenon as the organization of Congress and indentured prostitution in Imperial Japan.” As Williamson (2000, p. 599) states, “as it turns out, any issue that arises as or can be reformulated as a contracting issue can be examined to advantage in transaction cost economizing terms.” In short, the potential for innovative applications of TCE are “endless” (Williamson, 2012, p. 1). On account of TCE’s “analytical diversity” (Rindfleisch & Heide, 1997, p. 32), the literature related to TCE is vast and extends across numerous fields, including business strategy, organizational theory, marketing, operations management, law, economics, accounting, sociology, and political science (Geyskens et al., 2006; Williamson, 2012). Despite the considerable empirical support for TCE (LaFontaine & Slade, 2007; Williamson & Masten, 1999), the sheer breadth (number of disciplines which use TCE) and depth (amount of research studies on TCE within disciplines) of TCE scholarship has contributed to a situation where TCE continues to be “refined and reformulated, corrected and expanded in response to new theoretical and empirical developments” (Geyskens et al., 2006, p. 519).

However, despite its perceived utility for analyzing hospitality and tourism business phenomena (Buckley, 1987), TCE has scarcely been utilized in these fields (Song et al.,

2012). Furthermore, the TCE research that has been conducted on the hotel industry has largely relied on a narrow utilization of TCE theory to investigate organizational boundary decisions in hotel businesses (Promsivapallop et al., 2015). As such, there is high potential for new applications and developments of TCE in this area. Also, given that the TCE approach focuses less on de jure aspects of economic organization, and more on de facto private ordering, the benefits of using TCE to analyze business activity in developing PICs where formal institutions are often ineffective are fairly evident. However, the core concepts of TCE have never been employed to investigate the success and failure of businesses in these contexts.



## CHAPTER THREE

### METHODOLOGY

This chapter details the research methodology used to address the central research question of this study. First, the research epistemology is discussed. This includes special provision for the engaged scholarship approach utilized throughout this research, and also for how the basic operational research approach was selected. This is followed by discussions on theory in tourism and hospitality-related research, GTM and the version of GTM used in this study, and the role of TCE as meta-theory in this grounded investigation. The remainder of the chapter is devoted to explaining the data collection and analysis procedures of this study, including delineation of the substantive coding processes and results.

#### **Research Epistemology**

##### ***Engaged scholarship approach***

The engaged scholarship (ES) approach was utilized as the epistemological foundation for the design and execution of this research. ES is a participative form of social science research which embraces the idea that complex issues can be best framed and investigated by leveraging the insights of practitioners and stakeholders (Van de Ven, 2007). The ES approach posits that more engagement between researchers and practitioners throughout the entire research process can facilitate more penetrating research questions, and generate richer insights for problem-solving than when these parties work separately. Cooperation in the knowledge production process is designed to reduce gaps between theory and practice, which was deemed particularly relevant in the present study.

Van de Ven (2007) discusses three ways in which theory-practice gaps have been framed. The first is as a *knowledge transfer* problem, which suggests that a communication boundary

often exists between researchers and practitioners that prevents knowledge from being transmitted and interpreted appropriately. The second relates to the *distinct forms of knowledge* used by researchers and practitioners. Whereas researchers typically use and produce “scientific” knowledge seeking to delineate theories, laws, and principles of phenomena, the knowledge of practitioners is based less on theories and more on that gained through actual experience. The epistemology of ES posits that these forms of knowledge should ideally be combined in a complimentary fashion. The third component of the researcher-practitioner gap relates to *knowledge production*. Researchers often develop research questions and then conduct research either alone, or in collaboration with other scholars. According to Van de Ven (2007), this can often lead to research that may not be fully grounded in reality. Thus, researchers can help avoid this problem by pursuing interactions with practitioners and key stakeholders before, during, and after the research process. Likewise, practitioners often take an atheoretical approach to addressing problems, and can potentially benefit by greater engagement with theory to help frame and understand issues. Therefore, the ES approach seeks to link the reality of practitioners, theory, research methods, and practical solutions via interactive scholarship espousing both rigor and relevance.

In ES, the researcher can advance knowledge on complex issues by engaging with practitioners and stakeholders in *problem formulation, theory building, research design, and problem solving* (Van de Ven, 2007). *Problem formulation* is the idea that research questions should be grounded in reality, and thus seeking practitioner input can help develop more informed and relevant questions. In the present study, input from a range of individuals with experience regarding business and economic development in the FSM and other PICs was actively sought to help formulate the central research question. This process included gathering

insights from academics, entrepreneurs, business and economic development specialists, independent researchers, non-governmental organizations, and other personal contacts in the region. In certain instances, open-ended questions were posed to help develop a broad perspective on the range of issues that could be considered as part of the problem formulation process. At other points, pre-developed research ideas were presented to knowledgeable individuals in order to garner feedback on their relevance to the FSM and other PICs, and then fine-tune as needed.

One theme to emerge from this process of engaging with practitioners and stakeholders in the problem formulation stage was that despite the significant challenges associated with doing business in the FSM, there are many notable examples of hotel businesses which have continued to survive. However, it became clear that exactly how this has been accomplished is not well understood even by those with extensive knowledge and experience in this area. Examination of the extant literature corroborated the substantial knowledge gaps regarding hotel business management in the challenging environments which characterize many developing PICs like the FSM. Thus, the potential utility of a systematic study on this topic specifically aimed at developing a theoretical foundation for this issue became apparent.

*Theory building* is the process of creating or elaborating a theory that fits the research question, such that the theory is the “mental image or conceptual framework that is brought to bear on the research problem” (Van de Ven, 2007, p. 19). While all theories are imperfect abstractions that cannot explain every aspect of a phenomenon, a priori theory selection is an important strategic decision that helps direct the study and frame the issues to be investigated. The selection of TCE as the meta-theoretical lens for informing the present theory development research was not automatic or intuitive. Instead, the potential usefulness of TCE as meta-theory

was only identified through months of elaborate communications with a respected business and economic development specialist based at a well-known university in the Pacific. By tapping into this individual's extensive practical experience with business development in the FSM and other PICs, it gradually became clear that combining GTM with TCE as meta-theoretical lens had the potential to help fill some important knowledge gaps regarding private-sector business management and development in PICs with challenging industry and institutional environments.

The ES approach also helps to inform the most appropriate *research design* for addressing research questions. This stands in contrast to the idea typically held by many scholars that providing useful consultation on research design is outside the realm of practitioners' capabilities. However, an important aspect of the present research was the incorporation of practitioner insights into the research design process. By gleaning information from practitioners with high levels of experience in PICs like the FSM, the limitations of the variance approach for addressing the central research question of this study became more salient. Therefore, it was decided that adopting more of a process approach could be the most epistemologically appropriate method for this research. This was corroborated by the perspective in the extant literature which suggests that interviewing managers to understand how TCE issues affect their business is an underutilized but potentially very useful for theory building in this area (Tsang, 2006). The discussion of variance and process approaches in relation to the present research is expanded upon in the next section.

The final main component of ES is *problem solving*, whereby the knowledge produced in research is communicated and transferred to those it may affect. In this sense, the completion of a research project is thought of as the beginning of its life as a tool that can be interpreted, utilized, and elaborated upon by stakeholders with their own unique knowledge and experiences.

The problem solving component of the present research will begin when the findings have been fully developed, whereby an active role will be taken in communicating any implications of this study to the various audiences which may be interested. These audiences may include (but not be limited to) business and economic development organizations, lending institutions, colleges and universities, other private-sector business communities, and current/prospective hotel entrepreneurs in the FSM and other PICs.

#### *Variance and process research*

There are two basic operational research approaches for developing and/or testing theories: variance and process (Van de Ven, 2007). Variance approaches are those typically associated with Popper-based positivism, and testing models using hypothetico-deductive techniques (e.g., multiple/hierarchical regression, analysis of variance, factor analysis, structural equation modeling, etc.). Investigations using the variance approach are normally designed to understand what influences or causes what. This is accomplished through the selection of one or more independent variables thought to cause variation in one or more dependent variables, and testing theory-based hypotheses on proposed relationships between variables using primary and/or secondary quantitative data. In this way a theory or integration of theories can be deductively converted into an operational research model (Van de Ven, 2007).

While the variance approach is the predominant paradigm in business research, it was not utilized to address the research question of the present study for some key reasons. First, the concepts germane to the central research question of this study (i.e., management, strategy, entrepreneurship, firm organization) are difficult to accurately operationalize and quantify empirically (Shane, 2003). Prasad and Prasad (2002, p. 5) suggest that examining management and organizational phenomena from strictly empirical, “fact-based” approaches has led to some

“questionable methodological maneuvers... motivated by a desire to produce universalistic and nomothetic organizational knowledge.” As a result of such perceived limitations to variance research in this area, the authors go on to state that “conventional quantitative organizational research, notwithstanding its use of increasingly complex statistical techniques, [have] often proved to be somewhat simplistic, ahistorical, decontextualized, reductionist, aphilosophical, and nonreflexive” (Prasad & Prasad, 2002, p. 5). Susman and Evered (1978, p. 583) similarly suggest that “by limiting its methods to what it claims is value-free, logical, and empirical, the positivist model of science when applied to organizations produces a knowledge that may only inadvertently serve and sometimes undermine the values of organizational members.” Similar criticisms have been appointed to variance research on TCE. For example, Tsang (2006, p. 1008) argues that quantitative research “is not likely to yield much meaningful information” regarding the behavioral assumptions of TCE, and that few researchers bother to probe deeper in these issues by actually talking to managers who make transaction decisions.

These perceived limitations of employing variance approaches to investigate the topics of this research exist even under the best conditions. This problem is further compounded when conducting research in the context of developing countries, where additional barriers to obtaining comprehensive and consistent quantitative data are often insurmountable. In PICs like the FSM, such barriers include lack of sound record keeping and statistical data, reliance on tacit knowledge and the difficulties in accessing such information, communication limitations, and small sample sizes. As such, combining the difficulties of operationalizing the concepts related to this research with the notorious difficulties in obtaining reliable quantitative data in developing PICs (Hezel, 2012; Hoskisson et al., 2000) creates substantial initial barriers to the variance approach.

From a more fundamental epistemological standpoint, the central research question of the present study is also not amenable to the variance approach. As opposed to examining what independent variables can be understood to predict change in one or more dependent variables, the present research is more focused on explaining *how* key events unfold and *how* an organizational entity reaches an outcome (Van de Ven, 2007). Thus, in an effort to avoid the tendency of addressing process questions in variance terms (Mohr, 1982), the epistemological foundation for addressing the central research question of this dissertation is based more on the process approach. Unlike variance studies, where the temporal sequences in which independent variables impact dependent variables are often not adequately accounted for, process studies put more emphasis on understanding how things develop over time (Poole et al., 2001). While ideally, research adopting more of a process approach will utilize longitudinal data, the practicalities of this can be prohibitive for most (Van de Ven, 2007). While the interview data of the present research is not longitudinal in the traditional sense, the questioning probed issues which invited subjects to provide insights and narrative accounts spanning the life of their business. This approach seemed reasonably effective in gaining insights into how key events relative to this research unfolded temporally.

Process approaches are thought to facilitate richer, less restrictive accounts of complex phenomena by considering a broader range of potentially complex variables and events. This helps to provide an opening for the possibility of unexpected discoveries in the data (Poole et al., 2001). Adopting a process approach is also important for advancing TCE research, where the ability to collect in-depth interview data from managers is needed to better understand actual transaction decisions (Tsang, 2006). Moreover, qualitative research involving on-location field work is important to developing in-depth accounts of business and economic activity in the FSM

and PICs like it (Duncan et al., 2014). In using more of an interpretivist, process approach, the present research endeavors to help “bridge the gap between micro practices and macro structures and to work on establishing the connections between local subjective worlds and macro organizational and institutional processes and phenomena” (Prasad & Prasad, 2002, p. 7). Given the complementarity between process and variance approaches (Van de Ven, 2007), the present effort should assist in clearing the way for more adequately addressing any future variance questions regarding hotel and other private-sector business management in the FSM and other PICs.

### **Theory Development**

Kilduff (2006, p. 252) suggests that advancing interesting and useful theory development scholarship is best facilitated by “an engagement with problems in the world.” But what constitutes good theory? How can theoretical contributions be best assessed? These questions are not easily answered, and varying definitions of what constitutes good theory have been advanced (Sutton & Staw, 1995). At a basic level, most definitions involve theory as a mechanism for delineating systematic relationships among ideas, concepts, or variables. Greenwald et al. (1986, p.217) define theory as “statements that express relationships between concepts,” and that such theoretical statements persevere until specific patterns of relationships among variables can be identified. Van de Ven (2007, p. 104) defines theory as “a pattern of conceptual organization that explains phenomena by rendering them intelligible.” Runkel and Runkel (1984, p. 130) posit theory as belonging “to the family of words that includes guess, speculation, supposition, conjecture, proposition, hypothesis, conception, explanation, model.” Moreover, Mintzberg (2005) suggests good theory posits changes to broadly-held perceptions of



phenomenon previously perceived as being clearly understood. Rudner (1966, p. 10) has offered perhaps one of the most widely accepted definitions of theory:

A theory is a systematically related set of statements, including some law like generalizations, that is empirically testable. The purpose of theory is to increase scientific understanding through a systematized structure capable of both explaining and predicting phenomena.

In that the present study is focused on developing a grounded theory, the notion of theory as used here combine Rudner's (1966) definition with the direction of Glaser and Strauss (1967, p. 31), who stipulate that a grounded theory be presented "either as a well-codified set of propositions or in a running text of theoretical discussion, using conceptual categories and their properties."

Both hospitality and tourism have historically struggled with perceptions of having little to claim in the way of homegrown theories which adequately address the unique phenomena of these fields (Brotherton & Wood, 2008; Franklin & Crang, 2001; Mehmetoglu & Altinay, 2006; Nailon, 1982; Pritchard & Morgan, 2007). This perceived shortcoming may be attributable to overreliance on conventionally applied theories from other disciplines (i.e., sociology, management, economics, psychology, anthropology), the prevalence of descriptive case studies which often omit any explicit theory development, and/or heavy reliance on hypothetico-deductive (i.e., variance) approaches (Ballantyne et al., 2009) which seek to empirically test existing theories rather than develop new ones. Moreover, it is often proposed the endemic theory which does exist in the hospitality and tourism fields has more often than not been "conceived and re-conceived in the socio-cultural particularities of Euro-American societies" (Winter, 2009, p. 23).

Thus, an important challenge remains to develop new theories in these fields "that encompass multiple worldviews and cultural differences and research praxis that recognizes and reflects the plurality of all positions, practices, and insights" (Pritchard & Morgan, 2007, p. 11).

Despite an emphasis on the need for increased use of systematic research methods explicitly aimed at theory development (Connell & Lowe, 1997; Farrell & Twining-Ward, 2004; Franklin & Crang, 2001; Mehmetoglu & Altinay, 2006), their use in hospitality and tourism research remain under-applied. The need to apply theory development research methods is particularly true in developing destinations, where super-imposing externally-generated theories without modification and/or consideration for potentially important contextual factors can be problematic. Thus, combining the use of an established yet analytically dexterous meta-theory (TCE) with a research method aimed at elucidating new theoretical insights (GTM) was deemed a potentially advantageous approach for addressing the central research question of the present study.

#### ***GTM: An overview***

GTM is recognized as one of the most prominent methods for qualitative research explicitly aimed at theory development (Bryant & Charmaz, 2007). GTM was introduced in *The Discovery of Grounded Theory: Strategies for Qualitative Research* (Glaser & Strauss, 1967). In this pioneering text, the authors suggest the capacity of any given theory to adequately explain and predict a phenomenon is intricately linked to the process used to create it. Thus, the authors aimed to develop a systematic research method that could be used to help “bridge the gap between theoretically uninformed empirical research and empirically uninformed theory” (Goulding, 1998, p. 51). In *Discovery of Grounded Theory*, the authors worked to advance this ideal by outlining what GTM is and how it can be used to advance knowledge through the creation of new theories, rather than the verification of existing ones (Glaser & Strauss, 1967).

Glaser and Strauss (1967) did not explicitly pronounce their ontological and epistemological position regarding GTM in their original text (Hallberg, 2006). However, as

Suddaby (2006, p. 634) notes, GTM was offered as “a compromise between extreme empiricism and complete relativism.” Extreme empiricism (i.e., positivism) is characterized by an ontology where reality is value-free and empirical, and an epistemology of inductive verification and deductive falsification of hypotheses. Complete relativism is characterized by an ontology where reality is subjective and socially-constructed, and also by a lack of “privileged epistemology due to the incommensurability of discourses” (Van de Ven, 2007, p. 39). With the creation of GTM, Glaser and Strauss (1967) articulated “a middle ground in which systematic data collection could be used to develop theories that address the interpretive realities of actors in social settings” (Suddaby, 2006, p. 634).

GTM’s approach to theory development is characterized by a meticulous process whereby concepts and theoretical insights are systematically worked out of the data throughout the course of the data collection (Glaser & Strauss, 1967). The interpretive component of GTM posits that the researcher is not understood as separate from the research process, and herein the creative component of the research process is both acknowledged and accepted (Suddaby, 2006). In inductive research, “the patterns, themes, and categories of analysis come from the data; they emerge out of the data rather than being imposed on them prior to data collection and analysis” (Patton, 1980, p. 306). However, GTM cannot be thought of as purely inductive in that researchers often apply past knowledge, experience, and even existing theoretical perspectives into the analysis. As such, the systematic process of collecting data, coding, generating categories, and linking concepts in GTM is also characterized as containing elements of both abduction and deductive positivism (Halaweh, 2012). Abduction is the aspect of the “cognitive logic of discovery” whereby the GTM researcher makes the “mental leap” between the data and the abstraction of data into overarching concepts (Reichertz, 2007, p. 220). Deductive research

is a top-down approach that begins with theory from which hypotheses can be derived and empirically tested. While GTM researchers do not utilize positivist “notions of falsification as a technique for making statements about reality, they do ‘test’ their tentative ideas and conceptual structures against ongoing observations” via the constant comparative method (Suddaby, 2006, p. 636). In this way, GTM can be thought of as both positivist and interpretive, and contain elements of induction, abduction, and deduction.

Aside from its capacity to generate new theoretical insights by blending different research paradigms, GTM was also chosen for the present study on account of its ability to accommodate a balance between mechanical application and flexibility. Walker and Myrick (2006, p. 548) characterize GTM as a “simple and complex, methodical and creative, rigorous and laissez-faire process in which the researcher engages to generate theory from the data.” Charmaz (2006, p. 2) describes GTM as “systematic, yet flexible guidelines for collecting and analyzing qualitative data to construct theories grounded in the data themselves.” Suddaby (2006, p. 638-639) suggests avoiding “fundamentalist tendencies” of rigid rule following and “mechanical application of technique” in GTM, and reminds readers of the “pragmatic core” or GTM research. Despite its strengths in developing novel theories via an iterative process of simultaneous data collection and analysis, GTM’s dexterity has been the source of some common problems identified in GTM research. For instance, in that various versions of GTM have been developed over the past five decades, some methodological inconsistencies exist regarding the execution of GTM research. Some versions of GTM are similar, whereas others are conflicting (Fendt & Sachs, 2008).

The most salient and widely acknowledged methodological divergence is found in the Straussian and Glaserian camps of GTM (Walker & Myrick, 2006). The years subsequent to *The*

*Discovery of Grounded Theory* (Glaser & Strauss, 1967) ushered in a gradual divergence of the method's founding fathers. While a comprehensive account of their methodological separation can be found elsewhere (see Bryant & Charmaz, 2007), much of the tension centered on an evolution of different data coding paradigms. The Straussian approach promoted a more rigid coding paradigm characterized by open, axial, and selective coding (Strauss & Corbin, 1990). Glaser criticized this as one that forces out conclusions from the data, and advocated a less formally structured approach whereby the researcher is less encumbered by strict procedures, and more focused on remaining sensitive to emerging theoretical frameworks (Glaser, 1992). One consequence of this coding debate is it has angled focus much more on the procedural aspects of GTM, and less on its intended outcome, which is development of grounded theory.

In fact, scholars in various disciplines have lamented the prioritization of procedure over interpretation in GTM research (Becker, 1983; Elliot & Lazenbatt, 2005; Fendt & Sachs, 2008; Layder, 1993). One perceived problem has been the prevalence of studies which posit GTM as a way of merely collecting and organizing data. In the management information systems field, for example, Urquhart et al. (2010, p. 358) observe low levels of theory development from GTM research in the field, asserting most studies “use [GTM] only as a coding method, and, indeed, the term ‘grounded theory’ itself has almost become a blanket term for a way of coding data.” In an editorial in the *Academy of Management Journal*, Suddaby (2006) suggests a common characteristic of many GTM papers is an orthodox application of coding procedures, but a failure of researchers to interpret interesting conceptual linkages in the data, thereby stunting the development of meaningful theoretical insights. Sutton and Staw (1995, p. 374) remind GTM researchers that “data describe which empirical patterns were observed and theory explains why empirical patterns were observed or are expected to be observed.”

Thus, GTM should not be misapplied as simply the presentation of indigested raw data (Suddaby, 2006). To help avoid this, an important aspect of GTM research is achieving a good fit between the researcher, research question, and version of GTM used. In other words, the version of GTM used needs to fit the researcher, rather than the other way around (Fendt & Sachs, 2008). To this end, the version of GTM widely referred to as “classic GTM” (Glaser, 1978; Glaser, 1992; Glaser, 1998; Glaser & Strauss, 1967; Holton, 2007) was selected as the research method for this study.

#### *Classic GTM: An overview of key procedural elements*

Most of the key procedural elements of classic GTM are enveloped under the coding processes. As such, coding procedures are considered to lie “at the heart of the grounded theory methodology” (Sarker et al. 2000, p.40). *Substantive* and *theoretical* coding processes form the core of classic GTM, allowing the researcher to conceptually abstract the data as it is being collected for subsequent reintegration into theory (Holton, 2007). Substantive coding is itself comprised of *open* and *selective* coding processes. Open coding involves developing preliminary understanding about what is happening in the data, how data incidents relate to emerging categories, and what the data is communicating about the shape and direction of the study (Glaser, 1998). In GTM, a data incident is a series of words or phrases being analyzed, and can be collected by either interviews or analysis of documentary materials. This initial breakdown of the data relies on the process of *constant comparison*, whereby concepts and categories are constantly refitted based on iterative comparisons of the data (Glaser, 1978). As data incidents are coded, constant comparison allows for the formation of groups of incidents to be abstracted into concepts, and groups of concepts to be abstracted into conceptual categories. Constant comparison begins in open coding, but more generally permeates every stage of GTM

as emerging codes, categories, and properties are continually compared against each other throughout the life of the analysis (Hallberg, 2006). Eventually, a core conceptual category is identified as the main focus of the research through open coding.

After the core category is identified, *selective coding* is used to focus in on the concepts relevant to the core category and the emerging theoretical framework. This process relies on *theoretical sampling* to identify the additional data collection sources required to fill important gaps in facilitating the theoretical saturation of concepts. As opposed to random sampling used in hypothetico-deductive research, theoretical sampling involves identifying the initial sources of data collection, and then allowing the subsequent sources of data collection to be directed by theoretical relevance to the emerging grounded theory (Glaser, 1978). In classic GTM, the time between data collection in open and selective coding is used for additional data analysis and *conceptual memoing*, whereby the researcher begins to delineate the properties of conceptual categories and how categories relate to each other. Memoing also plays an instrumental role in directing sources of additional data collection.

As the research progresses, both new and follow-up interviews are used to ensure the dimensions and conditions of the core category and related concepts have been fully and systematically established. When this occurs, this is also known as the point of *saturation* and the data collection can stop. With the data collection complete, the researcher's time is devoted to additional conceptual memoing, and to developing an integrated theoretical framework for the grounded theory via *theoretical coding* and *theoretical sorting*. Theoretical coding involves integrating the findings with the extant literature to develop hypotheses about how relationships between the substantive codes can be abstracted at the theoretical level. Theoretical sorting is used to further organize ideas into a formal outline for the write-up of the grounded theory into

dissertation and/or publication form (Holton, 2007). How these key procedural elements of classic GTM were utilized in the present research is detailed in subsequent sections of this chapter.

### ***The role of TCE as meta-theory***

The basic function of a theory is “to make sense of what would otherwise be inscrutable or unmeaning empirical findings” (Kaplan, 1964, p.302). In interpretive organizational research, theory can be used (1) initially as a guide to the research design and data collection, (2) iteratively throughout the data collection and analysis, and/or (3) as the intended outcome of the research project (Eisenhardt, 1989; Walsham, 1995). In the present research, TCE theory was used in these first two stages to facilitate the development of a grounded theory as the outcome of the study in the last stage.

Using theory as an initial guide in the first stage helps to provide a “sensible theoretical basis to inform the topics and approach” of the research (Walsham, 1995, p. 76). One potential pitfall of qualitative research is the potential for being overwhelmed by data sets which are not only large in volume, but which can often contain a large number of disparate pathways for the researcher to choose from (Eisenhardt, 1989; Holton, 2007; Turner, 1983). As such, commencing a major research project without any kind of guiding theoretical perspective can lead to collecting and analyzing large amounts of data which lack order and sense. As Harrington (2005, p. 5) states, if research “consisted only of heaps of information, it would be no more than a chaotic bundle of statements, impossible to decipher or evaluate or to apply to any meaningful purpose.” Sarker et al. (2013a, p. xiii) suggest that “even in grounded investigations, it is advisable to use general theories to enrich the understanding derived from empirical data.”



In the present research, TCE was used as the guiding analytic lens. Given the dearth of theory regarding hotel business management in PICs, the door was open for inquiry from topics ranging from operational issues like revenue management and/or human resource management to more broad issues relating to strategy. As such, using TCE as meta-theory in the initial stages helped focus on how individuals devise successful business arrangements which economize on the notoriously high transaction costs associated with doing business in a challenging industry and institutional environments as found in the FSM.

Using a meta-theory in the second stage helps provide the appropriate conceptual language to guide the iterative data collection and analysis. This is particularly important for qualitative research relying on interview data collected from practitioners, who almost always speak in a language that is atheoretical. As Brotherton and Wood (2008, p. 40) suggest:

An approach to the study of hospitality management based solely on industry provision and employing the language and concepts of management provides us with an approach that is in essence atheoretical, having no theory of hospitality and, more importantly, offering little prospect of ever developing one.

While a priori specification of a meta-theoretical lens is important in grounded investigations, it is important to note that not all concepts related to the theory are guaranteed a place as the analysis progresses (Eisenhardt, 1989). As Harrington (2005, p. 5) states, “theories ought not to dictate or dogmatically constrain a researcher’s field of observations.” Walsham (1995) utilizes a scaffolding metaphor to describe the use of theory in the second stage of interpretive organizational research, whereby theory is used in the construction process, and then removed once it has served its purpose. While TCE was used as the theoretical scaffolding in the iterative data collection and analysis process, this study also stayed true to the tenets of classic GTM whereby the researcher was not constrained by TCE concepts and retained openness to the data.

In other words, the data were allowed to “tell their own stories” (Tsang, 2006, p. 1008) in this grounded investigation.

One advantage of using TCE as meta-theory in this research is that like other social science theories that have exhibited longevity, TCE uses language and concepts that are static enough to provide clear structure, while retaining a flexibility which is amenable to new applications and interpretations. Thus, the core concepts which comprise the theoretical scaffolding of TCE were “expanded, revised, or abandoned altogether” (Walsham, 1995, p. 76) as the analysis progressed. The remainder of this study is devoted to the third stage of theory in interpretive organizational research, which is theory as an outcome of the research project.

## **Data Collection and Analysis**

### ***Selection of the data collection site***

The FSM was chosen as the site for addressing the central research question of this study for several key reasons. First, as discussed in the previous chapter, the FSM is a country which lacks a workable tourism model, and which is one of the lowest ranking countries in the world regarding ease of doing business. Nonetheless, there are independently-owned and operated hotel businesses in the FSM that have continued to persevere. As such, the FSM was conceptualized as a setting ripe with theory development potential. Moreover, the focus on tourism and tourism-related businesses like hotels to drive economic activity in the country, combined with the perceived lack of tools to realize this objective underscored the need for research in this area. Therefore, the potential utility of this research was perceived as very high at the onset from both a theoretical and practical vantage point.

From a more practical standpoint, the researcher has previous experience living and working in the FSM, which has been recognized as a crucial aspect of doing in-depth research in

the FSM and PICs like it (Duncan et al., 2014). Thus, using the FSM provided an initial comparative advantage through firsthand knowledge of the political, economic, and sociocultural environment that would be prohibitively difficult and costly to obtain elsewhere. Additionally, this previous experience in the FSM provided a pre-existing network of important contacts to tap into for the data collection of this research. Therefore, the time and resources required to developing such a network and to gain access to key individuals was less of an issue, allowing the focus to shift toward the actual data collection and analysis processes themselves.

### ***Semi-structured interview approach***

In qualitative investigations, researchers “study phenomena and processes in their natural settings, and intend to make sense of those matters in terms of the meanings people bring to them” (Hallberg, 2006, p.141). Interviews are thus recognized as the primary data source for collecting and interpreting subjects’ constructions of the issues relevant to the research (Walsham, 1995). The data collection of this research was centered on conducting semi-structured interviews with hotel operators and other key individuals on-location in the FSM. Utilizing a semi-structured approach was considered superior to other interview formats given the nature of this particular study. For example, in structured interviewing, “the interviewer asks all respondents the same series of pre-established questions with a limited set of response categories,” and thus the nature of the interview is very standardized and inflexible (Fontana & Frey, 2000, p. 649). Structured interviewing leaves little or no room for extemporization, thereby stunting the natural flow of interviews. In that remaining open to unexpected discoveries and the organic development of data streams is fundamental to classic GTM, entirely structured interviews were not deemed appropriate for this research.

In unstructured interviewing, the questions are not prearranged beforehand, and thus the nature of the interview is very casual and free-flowing (Fontana & Frey, 2000). Unstructured interviewing provides maximum space for uninhibited extemporization, thereby allowing the natural flow of the interview to travel down any number of potentially disjointed pathways. This may result in a large amount of possibly unusable data which lacks focus and precision. In that the present research was approached using a meta-theoretical framework to guide the data collection and analysis, entirely unstructured interviews were not deemed appropriate. In semi-structured interviewing, “an interview guide, usually including both closed-ended and open-ended questions, is prepared; but in the course of the interview, the interviewer has a certain amount of room to adjust the sequence of the questions to be asked and to add questions based on the context of the participants’ responses” (Zhang & Wildemuth, 2009, p. 222). This ability to strike a balance between structure and flexibility was deemed the most conducive to the grounded theory development aims of this study.

Fontana and Frey (2000) point out several important heuristic devices relevant to conducting interviews in the field, including gaining access to the setting, understanding the language and culture of participants, gaining and maintaining trust, and establishing rapport. To gain *access to the setting* for this research, emails were sent to all known hotel operators in the FSM starting roughly six months prior to the field work. These emails provided prospective subjects with an overview of the research, some background information on the researcher and his previous experience living and working in the FSM, and an invitation to participate in the interviews. This resulted in 18 hotels in the FSM providing initial consent to owner and/or manager participation in the study prior to the field work. This provided reason to believe that sufficient access had been established to make the data collection feasible.

When conducting field work in international settings, *understanding of the language and culture* of research subjects is important to reducing misunderstandings and misinterpretations in the data collection and analysis (Fontana & Frey, 2000). While as many as 17 distinct local languages are spoken throughout the four FSM states, the country uses English as its official language to unite the islands. As such, most local Micronesians are adept in conversational English. Therefore, a language interpreter was not needed to conduct the interviews. The researcher also approached the interviews with prior knowledge and experience with the nuances of local FSM culture which was utilized in the interview processes. For example, when seeking to interview local Micronesian individuals, there are certain protocols that should be followed when setting up the interview, when conducting the interview, and after the interview has been completed if one hopes to have a successful experience. A lack of understanding on certain sociocultural communication conventions in the FSM can lead to less than optimal results.

The researcher also remained mindful of proxemic, chronemic, kinesic, and paralinguistic considerations (Fontana & Frey, 2000) throughout the interviews in the FSM. For example, Western conversational style tends to be more fast-paced and direct, and requires the participants to maintain almost constant eye contact. In contrast, Micronesian conversational style tends to be more deliberate and indirect, often requires provision for long pauses, and the use of direct eye contact for sustained periods is considered inappropriate. Therefore, in conducting the interviews, the researcher made conscious effort to adapt to the appropriate conversational norms of the participants, rather than vice versa. Additionally, many of the hotel operators in the FSM are foreign (i.e., American, Australian, European) expatriates, which further reduced the potential threat of language and cultural misunderstandings.

*Gaining and maintaining trust* is another vital component of conducting successful interviews (Fontana & Frey, 2000). Prior to the interviews in this research, subjects were informed that only the researcher would have access to all interviews data, would alone listen to all recorded interviews, and that all digital interview files would be stored on the password-protected personal computer of the researcher. Subjects were also informed that in the reporting of this dissertation research, no names of specific individuals, and/or the specific businesses/organizations they represent would be used. The researcher's prior in-country experience also helped to gain participants' trust.

Finally, to *establish rapport* with interview participants, a researcher "must be able to take the role of the respondents and attempt to see the situation from their viewpoint, rather than superimpose his or her world of academia and preconceptions upon them" (Fontana & Frey, 2000, p. 655). To this end, the researcher stayed as a paying guest at the hotel properties where interviews were conducted. This helped the researcher understand the objective reality of the subjects' business environment, and also helped establish a connection between subjects and researcher. In most cases, taking the role of guest also allowed for several instances of informal interaction and communication before the actual interviews were conducted, helping to build initial rapport. Finally, a conscious effort was made not to force academic terms and concepts on the interview subjects, but rather to facilitate conceptual elaboration through the language of the subjects. On other words, "interviews were conducted using the terms the manager employed rather than those of the interviewer" (Tsang, 2006, p. 1008).

### ***Sample overview***

The primary data collection and analysis procedure of this research occurred in two waves. The first wave of data collection and analysis (Study 1) involved approximately four

weeks of intensive field work in the FSM in early summer 2014. Roughly one week was spent conducting interviews on-location in each of the four FSM states (Yap, Chuuk, Pohnpei, and Kosrae). A total of 37 interviews were conducted as part of Study 1. Twenty-five of these interviews were with hotel operators, and 12 were conducted with other relevant individuals selected via the theoretical sampling process. These interviews ranged from 10 to 116 minutes, and the mean length of the interviews in Study 1 was 60.9 minutes. For the second wave of data collection and analysis (Study 2), roughly two weeks were spent conducting both new and follow-up interviews in the FSM states of Pohnpei and Kosrae in late summer 2014. A total of 11 interviews were conducted as part of Study 2. Seven of these interviews were with hotel operators, and 4 were with other relevant individuals selected by theoretical sampling. These interviews ranged from roughly 15 to 110 minutes, and the mean length of the interviews in Study 2 was 38.6 minutes.

Combining the number of interviews conducted in Study 1 and 2, a total of 48 interviews were conducted throughout the course of this research. A total of 32 of these interviews were with hotel operators, and 16 were with other key individuals directed by theoretical sampling. Six of the interviews were conducted in Yap, four were in Chuuk, 25 were in Pohnpei, and 13 were in Kosrae. Pohnpei State is more than twice as large as the other three FSM states, hence the higher proportion of interviews in Pohnpei approximates this. All together, these interviews totaled 2,679 minutes in length (44.65 hours). Table 1 presents an overview of the interviews conducted for this research.

**Table 1.**

## Overview of interviews in Study 1 and Study 2

<b>Yap</b>		<b>Chuuk</b>		<b>Pohnpei</b>		<b>Kosrae</b>	
Interview Number	Interview Length	Interview Number	Interview Length	Interview Number	Interview Length	Interview Number	Interview Length
32	48	28	116	1	61	2	22
33	41	29	15	12	90	3	84
34	67	30	55	13	71	4	106
35	85	31	62	14	74	5	70
36	84			15	36	6	101
37	55			16	82	7	30
				17	79	8	86
				18	87	9	10
				19	53	10	34
				20	56	11	48
				21	85	38	30
				22	40	39	35
				23	51	40	30
				24	30		
				25	28		
				26	64		
				27	48		
				41	20		
				42	20		
				43	15		
				44	40		
				45	35		
				46	25		
				47	65		
				48	110		
<b>6</b>	<b>380</b>	<b>4</b>	<b>248</b>	<b>25</b>	<b>1365</b>	<b>13</b>	<b>686</b>

*Note:* Interview length is expressed in minutes. Interviews 1 to 37 were conducted in Study 1. Interviews 38 to 48 were conducted in Study 2.

In contrast to data collection in quantitative research which is typically deemed complete when a certain number of responses have been collected, qualitative research must use number of responses and the concept of saturation to determine what constitutes an appropriate sample. As Mason (2010) points out, sample sizes in qualitative research must be large enough to ensure that relevant perceptions of the phenomenon under investigation are accounted for, but when the sample size is too large the data can be difficult to manage and also repetitive. Moreover, a number of factors can impact sample size in qualitative research, including the scope and nature



of the research question, criteria for selecting subjects, the nature of the group being studied, the research design and method, the quality of data collected, and budget and resource constraints (Mason, 2010; Morse, 2000; Ritchie et al., 2003). In his analysis of 560 qualitative doctoral dissertations which used interview data, Mason (2010) found the average number of interviews conducted was 31. For the studies which used GTM, the average number of interviews conducted was 32. Others have suggested that 20-30 (Creswell, 1998) and/or 30-50 (Morse, 1994) interviews may constitute an appropriate amount in GTM research. Therefore, from a purely quantifiable standpoint, the number of interviews conducted in the present study ( $n = 48$ ) seems to meet or exceed the minimum standard threshold for a thoroughly executed qualitative research project.

While number of interviews can be used to help established the perceived rigor of a qualitative study, the concept of saturation should be the primary driver of decisions regarding when to stop collecting data. Saturation occurs when “no additional data are being found whereby the [researcher] can develop properties of the category. As he sees similar instances over and over again, the researcher becomes empirically confident that a category is saturated” (Glaser & Strauss, 1967, p. 61). When the scope of the research question is narrower and the subject population more homogeneous, saturation may occur relatively early. When the study is more complex, delineating the properties and dimensions of important categories may require a greater number of interviews (Guest et al., 2006). In this regard, researchers must use good judgment and be able to recognize when saturation has occurred and data collection no longer needs to continue (Holton, 2007). In the present research, the researcher determined that saturation had occurred around interview number 34 in Study 1. Three more interviews were subsequently carried out in Study 1 to ensure this was indeed the case, and all other interviews

conducted as part of the research were aimed at verification. Additional details on how saturation was established in the present study are detailed in the subsequent sections of this chapter.

***Data collection and analysis procedure: Study 1***

For Study 1, a total of 25 interviews were conducted with both current and former hotel operators in each of the four FSM states. The range of subjects' experience ranged from less than one year to over 30 years as hotel operators in the FSM. Seven of the interviews with hotel operators were carried out in Kosrae, eight in Pohnpei, four in Chuuk, and six in Yap. A digital-voice recorder was used in 18 of the 25 interviews with hotel operators, with subject consent.

There are recognized advantages and disadvantages to the use of voice recorders in interviews. Some potential disadvantages include the amount of time that must be devoted to transcribing recorded interviews, the inability of recorded transcripts to account for important nonverbal cues, and/or the presence of a recording device may make subjects less truthful and forthcoming. Potential advantages include the ability to focus on what subjects are saying rather than taking notes, increased ability to engage with subjects, and the ability to listen to the interviews several times over and utilize direct quotes in reporting (Walsham, 2006). In the present research, the decision to use a digital-voice recorder was made on a case-by-case basis, and was based on the researcher's assessment of the appropriateness of doing so given the interviewee and the situation. When the digital-voice recorder was used, recording only began after the subjects had granted permission to do so. In all cases, permission to record the interviews was granted by all subjects when requested, and in no cases did the presence of the recording device seem to cause any notable concern.

As the interviews progressed in Study 1, theoretical sampling was used to direct additional sources of data collection. According to Glaser (1978, p. 36), theoretical sampling in classic GTM is “the process for data collection for generating theory whereby the analyst jointly collects, codes, and analyzes his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges.” In addition to hotel operators, a total of 12 interviews were conducted with individuals based on this theoretical sampling process. These individuals included local residents, employees of non-governmental organizations, government officials, community leaders, foreign expatriates, individuals from other private-sector business communities, chamber of commerce leaders from all four FSM states, tourism bureau officials, academics, and business and economic development specialists. A digital-voice recorder was used in 5 of the 12 of these interviews, with subject consent.

### *Open coding*

True to the tenets of classic GTM which stipulate that data collection and analysis occur simultaneously (Glaser, 1978), the majority of the interviews in Study 1 were formally transcribed by the researcher immediately subsequent to each interview. The transcription of the interviews was then directly followed by open coding of the data. The goal of open coding is to “generate an emergent set of categories and their properties which fit, work and are relevant for integrating into a theory” (Glaser, 1978, p. 56). To accomplish this, open coding is about “running the data open” (Glaser, 1978, p. 56) to generate a large number and variety of codes regardless of their relevance. This helps understand what is happening in the data, and what the data incidents are indicating about the direction of the study. In Study 1, line-by-line open coding was used initially. As the coding progressed, groups of sentences conveying the same concept were often treated as a single data incident and assigned an open code.

A total of 1,065 separate data incidents were examined from the interviews conducted in Study 1. Each incident was assigned an initial code that represented the concept being conveyed in the incident. As the coding progressed, constant comparison was utilized, whereby data incidents were constantly compared to previously coded incidents. This process continuously helped to refine and sharpen existing codes, and also to consolidate groups of codes together a higher level of abstraction into concepts. A total of 143 separate codes were generated through the open coding process in Study 1. Table 2 uses data from Study to illustrate how data incidents from the interviews were coded as concepts in open coding.

**Table 2.**

From data incident to open code

<b>Data incident</b>	<b>Open coding</b>
You can make little changes here and there over time, but you cannot expect to change the system here as an outsider investor.	<i>Outsiders can't expect to change system</i>
Outsiders come in with idealistic visions of how things are going to get done and on what time frame. Things don't happen that way here.	<i>Outsiders have unrealistic visions</i>
People come in, get super frustrated they can't get anything done, then they leave.	<i>Outsider frustration and lack of patience</i>
People think it's gonna be a cake walk coming in here. If outsiders can't adapt they won't last.	<i>Outsiders must adapt unrealistic visions</i>

Conceptual memoing also began during the open coding process of Study 1. Memoing is central to the development of grounded theory (Glaser, 1978). As the data are coded, the researcher stops to generate memos, or “the theorizing write-up of ideas about codes and their relationships as they strike the analyst while coding” (Glaser, 1978, p. 83). As opposed to simple description of the data, memos aim to elevate the data to higher levels of abstraction, assist in generating some initial hypotheses about concepts and their potential interrelationships, and begin exploring the direction of the emerging theoretical insights (Glaser, 1978). In the present

study, the individual memos generated during the data collection and analysis process of Study 1 ranged from roughly 10 to 1,500 words. Memoing was instrumental in cataloging ideas, integrating the data with meta-theoretical lens of the study, and providing direction on what data should be collected next and where it should be collected from. The following are excerpts from memos generated during the open coding stage of Study 1:

*Excerpt 1:* This interview helped to corroborate the relevance of the TCE/private-ordering approach to studying the development and management of hotels in the FSM. This approach takes a less legalistic view to study organizational form and arrangements between actors, instead focusing more on how these parties govern the arrangements between themselves. The data corroborate Dixit's (2004, p.vii) "lawlessness and economics" approach focusing on "the alternative institutions that support economic activity when a government is unable or unwilling to provide the adequate protection of property rights and enforcement of contracts through the machinery of state law." Talking with the subjects, it is evident that while the legal system in the FSM provides a structure for resolving some kinds of disputes, there are serious limits to its power. As such, the subjects are placing more emphasis on all the steps they went through to establish and maintain the crucial relationships with their local partners. This is supported by data incidents relating to how social laws are more powerful than formal laws. Looks like utilizing effective private-ordering approaches are more important to the design and maintenance of successful hotel businesses than legalistic approaches.

*Excerpt 2:* From this data, I get a strong sense that reliable partners with specialized knowledge, skills, and/or abilities are a vital component of a workable hotel business model in the FSM. Many of the best hotels here have an insider-outsider dynamic. Here we can see that outsiders lack knowledge on reliable local partners (insiders) they can trust when trying to locate such partners on the open market. In addition, they also lack knowledge on how to effectively build such trust with local partners. Insiders are lack knowledge of where to invest and who to invest with when making such decisions on the open market. In addition, local partners (insiders) lack full understanding and trust in outsiders' intentions. This is pointing towards the importance of linking up insiders and outsiders with complementary skills.

As can be seen in these memos, the open coding process of Study 1 began to identify the process of private-ordering in hotel businesses involving foreign and local entrepreneurs as an increasingly relevant and theoretically interesting aspect of designing and maintaining a successful hotel business model in the FSM. Borrowing from Cheshire (2013), the term

“insider” was used in reference to local FSM citizens, and the term “outsider” was used in reference to foreigner investors to the FSM. This process of developing insider-outsider hotel business arrangements was judged as having the makings of a basic social process theory. Basic social processes theoretically capture the patterned flows of social phenomena so they can be understood more clearly and systematically (Glaser & Holton, 2005). The social phenomenon regarding insider-outsider business arrangements was termed the *Insider and Outsider Connections and Partnerships* (IOCP) process.

Like all forms of grounded theories, those which represent a basic social process occur around a core conceptual category. In interview 13 of Study 1, a data incident was assigned the code “Importance of working within the system.” When viewed within the total context of that which had been developed up to this point in the coding (Glaser, 1978), the concept of “working within the system” was selected as one with great potential as a core category for integrating key concepts into a theory that could be used to understand and explain the IOCP process. This concept was judged to meet the criteria used to evaluate the suitability of a core category, in that it: (1) appeared centrally positioned in relation to potential sub-categories, (2) occurred frequently in the data, (3) had potential connections to a rich set of sub-categories, (4) had clear implications for a relevant theory on the research topic, and (5) was highly variable (Glaser, 1978). Therefore, *Working within the System* was selected as the core category of the study, and thus served to delimit the IOCP process theory by becoming the focus of the selective coding in the ongoing data collection and analysis.

### *Selective coding*

As key concepts of the study begin to emerge, the focus shifts from running the data open in open coding to delimiting the coding to “that which is relevant to the emerging conceptual

framework” (Holton, 2007, p. 280) via selective coding. While open and selective coding do not occur in isolation, focusing on saturating the groups of concepts selected as central to the emerging grounded theory helps to prevent collecting a potentially large and varied amount of data that may not be relevant to the theory (Holton, 2007). This is accomplished by delimiting subsequent lines of questioning around select concepts in the interviews, using theoretical sampling to direct additional sources of data collection, and by elevating certain groups of concepts into a higher level of abstraction through additional data collection and constant comparison. This process of analyzing how two or more concepts can be subsumed under progressively higher level concepts is also known as *arraying* in GTM research (LaRossa, 2005). This process is illustrated in Table 3, which uses the data incidents and open codes from Table 2 to illustrate the extension of the analysis regarding how groups of open codes were combined to form higher-level concepts in selective coding.

**Table 3.**

From open code to selective code

<b>Data incident</b>	<b>Open coding</b>	<b>Selective coding</b>
You can make little changes here and there over time, but you cannot expect to change the system here as an outsider investor	<i>Outsiders can't expect to change system</i>	<b>Outsiders have unrealistic visions</b>
Outsiders come in with idealistic visions of how things are going to get done and on what time frame. Things don't happen that way here.	<i>Outsiders have unrealistic visions</i>	
People come in, get super frustrated they can't get anything done, then they leave.	<i>Outsider frustration and lack of patience</i>	
People think it's gonna be a cake walk coming in here. If outsiders can't adapt they won't last.	<i>Outsiders must adapt unrealistic visions</i>	

Just as groups of open codes can be formed into higher level concepts, groups of similar concepts can then be grouped together at an even higher level of abstraction into conceptual

categories through the arraying process. Through selective coding in Study 1, concepts relating to the significance of relationships, the importance of maintaining social order and community orientation, individuals' adaptation to the existing system rather than vice versa, and finding the right combination of human assets were increasingly groups together in overarching conceptual categories deemed relevant to *Working within the System* in the IOCP process. The on-going data collection, analysis, and theoretical sampling were thus centered on saturating concepts in these areas, and occurred at two different levels. At the upper level, conceptual saturation focused on four sub-categories of the core category of *Working within the System*. These sub-categories were developed through identifying related concepts which were both frequently occurring and of particular relevance to the conceptual delimitation of the core category, and which could thus be classified to a higher level of abstraction. These four sub-categories were named: *Valuing Relationships*, *Maintaining Sociocultural Order*, *Adapting to What Is*, and *Combining Specialized Assets*. Table 4 uses the data from Tables 3 and 2 to illustrate how the analysis extended into the development of the *Adapting to What Is* sub-category.



**Table 4.**

From selective code to sub-category

<b>Data incident</b>	<b>Open coding</b>	<b>Selective coding</b>	<b>Sub-category</b>
The only way you could handle a problem with the written contractual arrangement is by having a local advocate who could speak for you and appeal to other individual but the legal system probably not going to help you.	Cultural traditions/practices more powerful than formal laws	<i>Legal system not trusted to adequately resolve all business disputes</i>	<b>Adapting to What Is</b>
They even sued the state and won, but didn't get money from their judgment. The local aspect of that never lost the upper hand.	Relying too much on legal system	<i>Legal system not trusted to adequately resolve all business disputes</i>	
People think it's gonna be a cake walk coming in here. If outsiders can't adapt they won't last.	Outsiders must adapt unrealistic visions	<i>Outsiders have unrealistic visions</i>	
Outsiders come in with idealistic visions of how things are going to get done and on what time frame. Things don't happen that way here.	Outsiders have unrealistic visions	<i>Outsiders have unrealistic visions</i>	

A more detailed illustration of the iterative conceptual abstraction process starting from data incident and moving to sub-category is also provided by Figure 1. In this figure, the double-arrows represent the practice of constant comparison, whereby all incidents, codes, and concepts are continuously compared against each other throughout the data collection and analysis. Using the data from Table 4, Figure 1 provides a visual depiction of how constant comparison of codes generated higher level concepts, and how constant comparison of concepts led to further abstraction into the sub-category *Adapting to What Is*.

**Figure 1.**

Sample of the substantive coding process using the *Adapting to What Is* sub-category

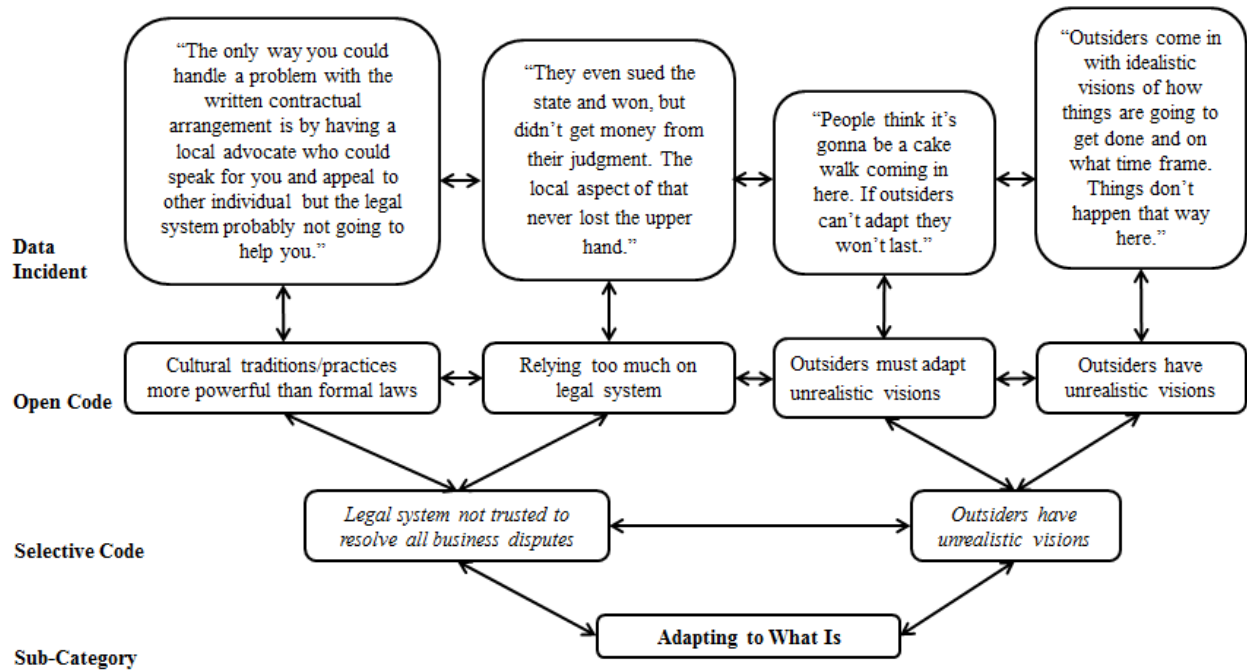


Table 5 presents an overview of the substantive coding process carried out in Study 1. This table illustrates how data incidents moved from concept to conceptual categories for all four sub-categories of *Working within the System*.

**Table 5.**

From sub-category to core category

<b>Data incident</b>	<b>Open coding → Selective coding</b>	<b>Sub-category</b>	<b>Core category</b>
When someone comes in here to make a deal about land, they don't appreciate the value of land to that person. They might see a small parcel that doesn't look like much, but to the people it means a lot.	Understanding and valuing insider assets	<i>Combining Specialized Assets</i>	<b>Working within the System</b>
Outsiders come in with idealistic visions of how things are going to get done and on what time frame. Things don't happen that way here.	Outsiders have unrealistic visions	<i>Adapting to What Is</i>	
Foreign investors have to be part of community; if they are just here to make money I cannot image how they will be able to make a successful business.	Community connections/support key to survival	<i>Maintaining Sociocultural Order</i>	
Foreigners value written contracts here and all over the world, but for us locals, believing in something is important to us. The written contract is not enough, have to feed the relationship and continue building good relationships.	Relationship contract power as/more important than legal contract power  Must continually feed relationship	<i>Valuing Relationships</i>	

At the lower level, each of these four sub-categories was conceived as consisting of multiple conceptual properties generated during substantive coding. A property is a conceptual characteristic of a category which exists at a slightly lesser level of abstraction than a category (Glaser, 1992). The conceptual properties of each sub-category were derived from the open and selective codes, and were refined through constant comparison. At the completion of the data collection and analysis of Study 1, the sub-category *Combining Specialized Assets* consisted of 19 properties, *Adapting to What Is* consisted of 17 properties, *Maintaining Sociocultural Order* consisted of 7 properties, and *Valuing Relationships* consisted of 16 properties.

### ***Data collection and analysis procedure: Study 2***

One of the major decisions in GTM research is when to stop collecting data. As Holton (2007) points out, the answer is simply that data collection should stop when the researcher no longer needs to continue. In other words, data collection stops when the research phase of conceptual saturation has been reached. Saturation occurs when all concepts and categories have been well-developed, the on-going data collection produces repetitive results, and the process of constant comparison is not yielding any new conceptual insights. Due to the extensive data collection and analysis conducted, it was determined that the core and sub-categories of the IOCP process had reached the point of conceptual saturation in the final stages of Study 1. While the final few interviews were still interesting, they also became predictable and were not yielding any new insights. Thus, it became clear that the main concepts of the emerging theoretical framework had been well developed.

With the point of conceptual density (Holton, 2007) having been reached, much of the focus of Study 2 was aimed at refining the grounded theoretical framework generated in Study 1, with special provision for relevance, parsimony, and clarity. Consistent with the engaged scholarship approach of garnering the insights of practitioners and key stakeholders throughout the research process, a sample of interview subjects from Study 1 were chosen to evaluate the results (i.e., process, core category, sub-categories, and conceptual properties) generated in Study 1. This involved a total of 11 interviews conducted on-location in the FSM roughly two months after Study 1. The initial findings from Study 1 were presented to the subjects, and they were then invited to make comments and suggestions. As opposed to Study 1, these interviews were not recorded in order to create a less formal atmosphere. A more interactive approach of taking notes as the subjects scrutinized the findings was therefore adopted in Study 2 (Holton, 2007).

In terms of relevance and coverage of key areas, the reactions to the results generated in Study 1 were positive, and no major revisions to the main components of the theoretical framework were suggested. However, some small wording changes were recommended to help improve the clarity of several sub-category properties. Also, to help with parsimony, several subjects recommended that some of the conceptual properties be consolidated. A few subjects of Study 2 pointed out that an insider-outsider dynamic is not present in all FSM hotels, and there are examples of completely locally-owned hotels that have continued to survive. However, these subjects also acknowledged that most of the highest quality, longest-tenured, and most well-run hotels in the FSM have been characterized by the insider-outsider dynamic. Therefore, while an insider-outsider dynamic is not necessarily envisaged as requisite to developing a successful hotel business in the FSM in all instances, a sustained focus on the IOCP process was deemed relevant and important by both the practitioners and researcher.

To ensure clarity, subjects were also asked to elaborate on several sub-category properties as part of Study 2. For example, subsequent to Study 1 the property “Outsiders don’t understand insiders’ forced irrationality” was coded as belonging to both the sub-categories *Adapting to What Is* and *Maintaining Social Order*. After gathering more elaborate insights from two of the interview subjects, this property was subsequently renamed “Outsiders don’t understand insiders’ apparent irrationality” and confirmed as part of the *Maintaining Sociocultural Order* sub-category. Similar questioning to ensure clarity and conceptual elaboration were directed at properties in the *Combining Specialized Assets* and *Valuing Relationships* sub-categories. At the completion of Study 2, the conceptual properties of *Combining Specialized Assets* were reduced from 19 to 17 properties; *Adapting to What Is* from 17 to 10 properties; *Maintaining Sociocultural Order* from 7 to 6 properties; and *Valuing*

*Relationships* from 16 to 10 properties. A table presenting these conceptual properties and their respective sub-category is included in Appendix 1. Thus, the results of Study 2 both confirmed the relevance of the theoretical framework developed in Study 1, as well as helped to augment this framework in terms of relevance, parsimony, and clarity.

### ***Theoretical coding***

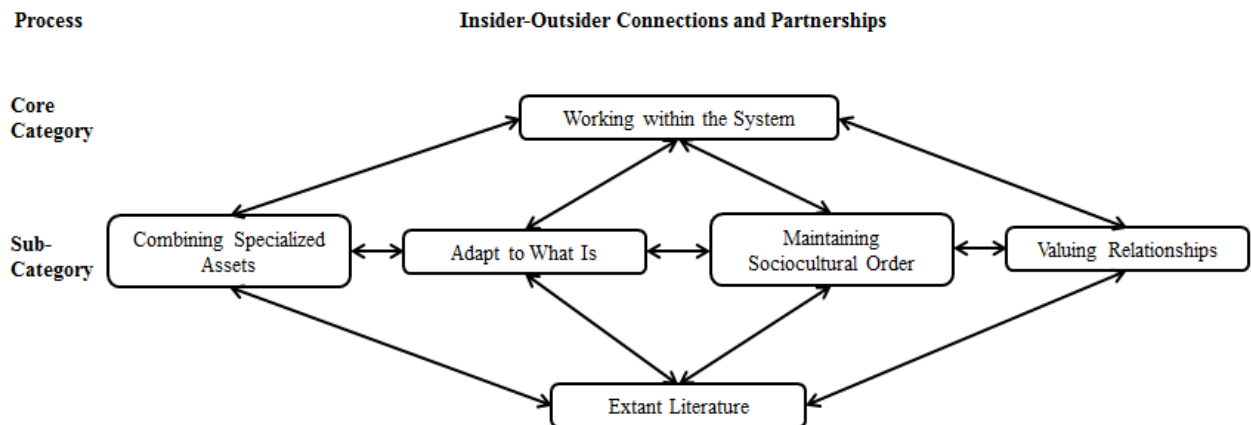
The following chapter (Chapter 4) is devoted to discussing the findings of the theoretical coding process (Holton, 2007). After the “empirical substance” (Glaser, 1978, p. 55) of the research has been developed through substantive coding (i.e., open and selective), theoretical coding relates the substantive codes with each other conceptually as part of organized theoretical framework. This includes the development of theoretical statements and systematically-related theoretical propositions (Glaser, 1978). Unlike substantive coding, theoretical coding is a more implicit process where “one talks substantively and thinks theoretically of the relationship between codes” (Glaser, 1978, p.72). A crucial component of theoretical coding is maintaining theoretical sensitivity, or the ability to understand and assign meaning to data in a way which effectively integrates extant knowledge. Maintaining theoretical sensitivity in theoretical coding involves reading across various literatures and juxtaposing and/or integrating insights where relevant to the grounded theory being developed (Glaser, 1978; Holston, 2007). This helps raise the theory to higher levels until a final form can be reached (Glaser, 2005).

As will be detailed in Chapter 4, the theoretical coding of the present study was centered on the IOCP process, using the core category of *Working within the System* and its four sub-categories to explain and understand this process. In weaving the substantive codes together into an integrated theory during theoretical coding, various streams of extant literature were drawn upon to aid conceptual elaboration. Theoretical sorting was also used to properly situate the

conceptual memos generated during the data collection and analysis into the theoretical outline. Figure 2 presents a model of the theoretical coding process of this research. The double-sided arrows represent constant comparison, whereby categories and extant knowledge are continuously compared with each other to generate theoretical insights throughout the coding process. The result of the theoretical coding is an alternative theoretical perspective on hotel business management which represents a departure from the status quo perspective typically advocated and utilized in the FSM and PICs like it. The theoretical coding and the resultant grounded theory are presented in detail next.

**Figure 2.**

Model of the theoretical coding process



## CHAPTER FOUR

### FINDINGS AND DISCUSSION

This chapter is dedicated to discussing the findings of the theoretical coding. The overarching IOCP process approach is discussed first, with special provision for how it represents a departure from the status quo approach often advocated for in the FSM. Next, the core category of *Working within the System* and its four sub-categories are discussed in detail. This chapter concludes with a summary of the grounded theory developed in this research.

#### **The IOCP Process Approach**

##### ***Introduction and overview***

The development of a productive private-sector is considered a cornerstone of economic growth by PICs and those external governments and organizations which support them. Private-sector businesses are championed on account of their potential to create new employment, to contribute tax revenue to local governments, and to generate economic activity that can decrease high levels of dependence on external development aid. As such, influential external entities like international financial institutions and the governments of aid-providing nations with interests in the economic development of PICs spend considerable effort promoting private-sector growth in countries like the FSM. These efforts almost always include focus on creating the kinds of institutional environments considered favorable to successful private-sector investments and the advancement of market-based economic development.

Attracting external capital through foreign direct investment (FDI) is commonly proposed as a key component to attaining increased levels of private-sector business investment in PICs (Duncan et al., 2014). FDI can be defined as entry by an individual or group from one economy into a foreign economy to establish a business enterprise in a way involving a lasting interest in



ownership and management control (Chang & Rosenzweig, 2001). In the present research, hotel business arrangements involving foreigners to the FSM (outsiders) and local FSM citizens (insiders) were found to be a common denominator to many of the more successful and longest-tenured hotel businesses in the country. However, viewing these insider-outsider business arrangements from a TCE meta-theoretical perspective of how individuals form workable business arrangements within the realities of an institutional environment led to theoretical insights on an alternative to the status quo approach to FDI promoted by the FSM government and its supporting entities.

This status quo approach relies on the assumptions of the neoclassical approach to contracting. Some of these assumptions are that business arrangements between outside investors and local individuals can work as long as they are supported by formal business contracts that carefully specify what each party may and may not do, what each party is and is not responsible for, the processes by which disputes are to be resolved, the consequences of contractual breach, and so on (Poppo & Zenger, 2002). However, it was found that the status quo approach is not a viable one in the FSM for reasons detailed below. Rather, it was found that utilizing the more nuanced and contextually-aware IOCP process approach has been central to the design and maintenance of the workable insider-outsider hotel businesses in the FSM. In fact, there are no examples of existing hotel business that have used the status quo approach in the FSM, as all have since failed or were never able to fully materialize. As such, advancing theoretical perspectives on the IOCP process approach can be used to help explain what has worked, and to predict what has a good probability of working given the constraints of the business context in the FSM and PICs like it. The IOCP process approach and its place in the broader economic development context are developed next. The status quo approach to FDI in

the FSM is discussed first. The IOCP process approach is subsequently detailed, and its contrasts with the status quo approach to FDI delineated.

### ***FDI in the FSM: The status quo approach***

FDI is often considered a core component of developing a productive private-sector in developing economies around the world. As Javorcik (2004, p. 605) states, “policy makers in many developing and transition economies place attracting foreign direct investment (FDI) high on their agenda, expecting FDI inflows to bring much-needed capital, new technologies, marketing techniques, and management skills.” Such is the case in the FSM, where the role of FDI is featured prominently in the country’s strategic development plan (Federated States of Micronesia Economic Summit, 2004). As touched upon in previous chapters, this plan and its updated development framework (Federated States of Micronesia Development Partners Forum, 2012) were created by the FSM with support from large external entities for the purposes of outlining the strategic plan for sustained economic growth, business development, and increased levels of economic self-sufficiency in the country.

It is important to note here that due to the forces of globalization and pressures from external organizations that “enforce similar policies across diverse countries” (Dolowitz & Marsh, 2000, p.7), policymakers in the FSM and PICs like it are both implicitly and explicitly influenced by standardized business and economic development models imposed from the outside (De Jong et al.,2002). This phenomenon is often referred to as “policy transfer”, or the process by which knowledge and programs, administrative arrangements, institutions, attitudes, and ideas from one system are used to develop planning and policy strategy in another (Dolowitz & Marsh, 2000). In PICs like the FSM, heavy reliance on external development aid and technical assistance facilitates the adoption of externally legitimated economic strategies and

business development ideologies (Haggard, 1989). Thus, large financial institutions (e.g., World Bank, International Monetary Fund, Asian Development Bank, etc.) and the governments of developed nations (e.g., Australia, China, Japan, New Zealand, the U.K., the U.S., etc.) exert “hierarchical influence” (Peck 2011, p. 773) on PICs by self-styling themselves as the “conduits for policies of good governance” regarding business and economic development planning (Larmour, 2007, p. 117).

Most policies advanced by influential external entities in PICs are based on the neoliberal theoretical perspective. Neoliberalism posits that free markets in which rational and utility-maximizing individuals can choose amongst the best business opportunities is fundamental to facilitating productive economic exchange. This approach is similar to the neoclassical perspective touched upon above. From the neoliberal perspective, economic considerations always take precedence, and the creation of a viable economy is fostered via free enterprise and open markets. Accordingly, the neoliberal approach argues that governments in developing countries seeking to promote economic growth must open their economies by eliminating institutional barriers to FDI (Bargh, 2001; Vousden, 1997). From the perspective of the external entities that provide technical assistance regarding business and economic development in PICs, the assumption is that “neoliberal policy prescriptions can work in the Pacific, regardless of their origin and their basis in conditions alien to the Pacific” (Bargh, 2001, p. 253). As McMillan (2002, p. 225) points out, “assertions about economic matters that are based more on preconceptions than on the specifics of the situation are still regrettably common.”

Cheshire (2010) argues that one result of this external influence espousing the neoliberal/neoclassical theoretical perspective in PICs is an imbalanced, if not misguided, focus on a top-down approach to fostering private-sector business development. This top-

down approach emphasizes the reform of formal institutions to improve ease of doing business in PICs, and to thus help pave the way for increased levels of successful FDI in private-sector business ventures (Cheshire, 2010). In other words, this approach is largely characterized by an emphasis on the rules-in-form (i.e., formal, written laws) supported by formal institutions (Ostrom, 2005). The Asian Development Bank (ADB) has been particularly active in advocating for this kind of approach in PICs (Cheshire, 2010). Headquartered in the Philippines, the ADB is a large and influential financial institution which espouses the alleviation of poverty through private-sector driven economic development, and to this end provides loans, grants, strategic development advice, and technical assistance to the FSM and other PICs (Asian Development Bank, 2014a). Since 1990, the FSM has received over \$110 million in assistance from the ADB, much of which has centered on institutional reform and private-sector business development as necessary antecedents of increased economic development and self-sufficiency in the country (Asian Development Bank, 2014).

Accordingly, the ADB assisted in crafting the FSM's strategic development plan in which institutional reforms to promote enhanced FDI opportunities are featured prominently as a component of the broader economic development scheme (Federated States of Micronesia Economic Summit, 2004; Federated States of Micronesia Development Partners Forum, 2012). For example, the plan suggests that "the potential for private sector development sufficient to support a growing economy" (Federated States of Micronesia Economic Summit, 2004, p. 38) is reliant upon creating an institutional environment to attract "serious foreign investors who are looking for the best business environments that will ensure an adequate and relatively low-risk return on their investments" (Federated States of Micronesia Economic Summit, 2004, p. 42).

The plan further states that streamlining FDI through liberalization of a revisioned regulatory environment is needed for sending a “strong signal to the private sector that they are welcome in the FSM” (Federated States of Micronesia Economic Summit, 2004, p. 13).

Because tourism is singled-out in the FSM’s plan as the industry with the greatest potential for driving sustained economic growth, the importance of attracting FDI to develop tourism-related businesses like hotels is further emphasized. For instance, the plan states that “development of hotel capacity - new or refurbished - is the area within tourism most likely to attract foreign investment,” and that “attracting foreign capital to the hotel sector in the FSM will be integral to the future expansion of tourism” (Federated States of Micronesia Economic Summit, 2004, p. 231). Fundamental to all this, according to the plan, is improving the ease of doing business climate for foreign hotel investors via institutional reform. As the plan states, “the climate for and attitude towards foreign investment will be key in expanding the nation's hotel capacity when the time comes to do so” (Federated States of Micronesia Economic Summit, 2004, p. 231).

However, the results of this study suggest the status quo approach toward promoting FDI and fostering an institutional environment conducive toward it is inadequate in several fundamental respects. First, while both formal and informal institutions provide the rules of the game that not only structure economic interactions in business, but that can reduce transaction costs by providing the structure for facilitating interactions between parties (Hoskisson et al, 2000), the status quo approach focuses only on the role of formal institutions. In other words, the status quo approach places the emphasis on *rules-in-form* (i.e., formal, written laws) supported by formal institutions while ignoring the all-important *rules-in-use* (i.e., informal, unwritten laws) supported by informal institutions (Ostrom, 2005). Such an approach assumes

that “unless there are institutions in the Pacific Islands such as clear, enforceable land tenure laws, consistent enforcement of contracts by the courts and secured lending, the region will not be able to attract the investment needed to develop its private sector” (Cheshire, 2010, p. 1). However, it is important to point out that “successful investments are being made in the region despite its weak institutions” (Cheshire, 2010, p. 1). This suggests that what is needed is to “look beyond a particular set of policies and formal institutions” (Cheshire, 2010, p. 1) by placing more focus on the important rules-in-use supported by informal institutions which support successful private-sector investments in the FSM and PICs like it. As Ostrom (2005) points out, rules-in-use may actually be in direct contradiction to rules-in-form. In such situations it becomes important to focus less on the rules of the game, and more on the actual play of the game.

Second, while the status quo approach advocates for the kinds of institutional reforms that can improve ease of doing business and thus attract FDI, this approach ignores the substantial resistance and barriers to actually implementing such reforms. As Duncan et al. (2014, p. 16) state, external organizations providing business and economic development assistance to PICs “have not understood the lack of interest in open markets, secure property rights, and impartial enforcement of contracts and have not given sufficient attention to how to progress economic reform in such circumstances.” On one hand, it is often the case that the local officials charged with administering top-down institutional reform in PICs like the FSM lack incentive to do so, in that there is some benefit to be gained by these individuals from preserving the status quo (Cheshire, 2010; Duncan et al., 2014). In addition, institutions which foster redistributive economic activity are often valued over those which promote productive economic activity in PICs like the FSM, meaning that leveraging institutions to foster important

relationships and social obligations frequently takes priority in these environments (Cheshire, 2010). Thus, sociocultural processes and values, which are extremely strong and not easily changed in the FSM and other PICs, construct substantial barriers to the kinds of institutional reforms advocated for in the status quo approach which assumes that externally-legitimated strategies for successful private-sector business development should be used irrespective of the sociocultural reality. As Cheshire (2001, p. 3) states, because the status quo approach “effectively ignores the all-pervasive influence of local culture, it is analogous to teaching people to run through a river as if it were dry land.”

Lastly, the results of this study suggest that the status quo approach to successful FDI in the FSM hotel industry is misguided in that places the onus of institutional reform and business practice adaptation solely on the FSM side. The FSM’s strategic development plan is filled with statements to this effect (Federated States of Micronesia Economic Summit, 2004). For example, the plan asserts that bold reform is needed in order “to make significant improvements in incomes of Micronesians over the next 20 years,” including substantial “sacrifice at the outset in order to bolster investment levels and to create a truly attractive and competitive environment of investment” (Federated States of Micronesia Economic Summit, 2004, p. vi). No mention is made regarding the importance of outsiders (i.e., foreign investors) understanding, recognizing, and respecting local practices, or of outsiders’ ability and/or willingness to adapt to the environment in the FSM. From the status quo perspective, the implication is that the FSM and its people must reform and adapt their ways in a manner which caters to outside investors, rather than vice versa. As such, this can be thought of as expecting a river to change its current to accommodate the direction a paddler’s boat happens to be pointing.

Recent events in the FSM suggest that not only does the status quo approach to FDI in hotel businesses not produce positive results, but that this approach may actually be detrimental to future private-sector investment and business development in the country. Case in point is the recent failed attempt by a large, China-based company to develop a resort hotel in the FSM state of Yap. Based on multiple interviews with knowledgeable individuals in Yap carried out in Study 1, this company's attempted entry was based on invitations from the Yap government to foreign investors using the status quo approach outlined above. As one interviewee stated:

*We were the ones that went and advertised FDI and promoted the FSM for FDI. So an outside group from China came in and chose Yap thinking that, "Okay well you invited FDI, so it must be okay to go ahead and pursue opportunities." They didn't anticipate any problems...Had they taken a different approach, it may have worked.*

A detailed account of the problems surrounding the botched entry by the China-based company into Yap is beyond the scope of the present study. However, the well-publicized controversy created by entering via the status quo approach to FDI was so vitriolic that some in Yap fear the debacle will leave a lasting scar on the foreign investment climate in Yap for years to come.

According to one local interviewee with direct knowledge of the project:

*The [Chinese company] controversy could spell disaster for us...In fact, a recent investment group from Korea with a very good proposal for a business project heard about what happened with [the China company] and got spooked...They left and never came back... So moving forward, foreign investment is going to be a big challenge.*

As this incident and various other failed hotel investment projects in the FSM and PICs like it illustrate, relying on the status quo approach based on the rules-in-form machinery of state law "may yield outcomes that are worse for all parties" (Dixit, 2004, p. 10) than arrangements which both recognize and effectively leverage rules-in-use. Therefore, what has been needed is an alternative theoretical perspective that first recognizes that the market-oriented prescriptions



for business and economic development advocated by external organizations do not work in PICs like the FSM, and then subsequently delineates reality-based theoretical insights on what has actually worked in these environments.

### ***The IOCP process: An alternative approach***

Utilizing TCE as the meta-theoretical lens for this research helped to produce an alternative to the status quo approach to FDI peddled in PICs (with minimal results), and which the FSM has adopted in its own strategic development plan (with basically no results). While the present findings corroborate the importance of outsider investment and involvement as an important aspect of hotel businesses in the FSM, the data provide strong support for the idea that a more nuanced and specialized approach is required. As one interview subject commented:

*[The FSM] is not an environment for the traditional kind of business arrangements. FDI just pumping money in is not going to work... We may invite people in, but that doesn't mean they are part of the family yet.*

This alternative theoretical perspective is characterized by the IOCP process approach, the core category of *Working within the System*, and its four sub-categories. As opposed to the approach which advances domination by foreign capital and interests as a condition for successful private-sector hotel projects, the IOCP process approach is defined here as *an integrated form of hotel business organization that recognizes, values, and utilizes specialized insider-outsider competencies and context-specific normative systems in transaction cost economizing ways*. The IOCP process approach posits that when the right insider and outsider entrepreneurs come together to form the right integrated arrangement through the right processes, the notoriously high transaction costs associated with private-sector hotel business projects in the FSM can be significantly reduced. Thus, the probability of laying the groundwork for a successful hotel business venture is increased.

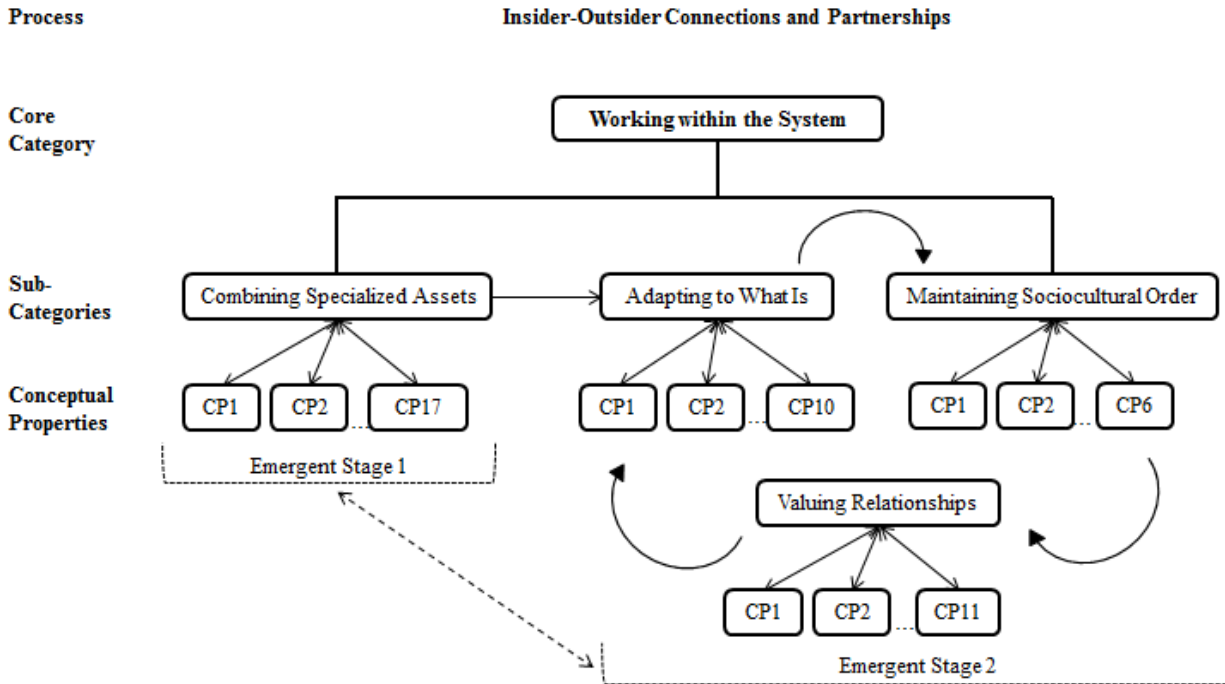
Proposition 1: Utilizing the IOCP process approach in insider-outsider hotel business projects will significantly lower transaction costs compared to using the status quo approach to FDI.

Proposition 2: Insider-outsider hotel projects utilizing the IOCP process approach will exhibit greater long-term viability than hotel projects using the status quo approach to FDI.

The theoretical framework of the IOCP process approach is presented in Figure 3. As is illustrated, the IOCP process is characterized by two emergent stages. In contrast to *in vivo* stages which are generally perceivable by those involved, these stages are considered purely heuristic in that they are generally not perceivable by those involved, but instead were delineated for theoretical reasons (Glaser, 1978). As opposed to representing causality as in factor models of quantitative research, the double-sided arrows between conceptual properties and sub-categories represent conceptual relationships developed through constant comparison. The first stage of the IOCP process is characterized by *Combining Specialized Assets*. The second stage is characterized by *Adapting to What is, Maintaining Sociocultural Order, and Valuing Relationships*. The solid single-sided arrows between sub-categories in the second stage approximate the temporal sequence of *Working within the System* in the IOCP process. However, these arrows are arched to indicate how these conceptual sub-categories loop back on each other rather than exist as a pure, linear process. The double-sided dashed arrow also indicates that *Combining Specialized Assets* does not stop after the first emergent stage. Additional details on this theoretical framework, including the triggering mechanisms (Sarker et al., 2013) for transition between stages are provided in the subsequent discussion of this chapter.

**Figure 3.**

Theoretical framework of the IOCP process approach



*Core category: Working within the System*

The FSM presents a challenging environment for hotel business entrepreneurs both on account of the languid state of tourism, and on account of the complexities of navigating the business context in a country where sociocultural goals generally take precedence over economic goals (Cheshire, 2010). The need for foreign entrants (outsiders) to partner with local individuals (insiders) that understand how to navigate the idiosyncrasies of the institutional environment is increased in these situations (Meyer et al., 2009). This in turn fosters a business and investment context where unless the appropriate steps are taken to promote harmonious arrangements between transacting insider-outsider parties, the potential for breakdowns and malfunctions in such arrangements will be high. In other words, the institutional environment for much needed insider-outsider private-sector business arrangements in the FSM is

characterized by an inherent potential for high transaction costs. In that TCE “provides a basis for exploring why the parties might join together and what problems and issues each party might encounter in dealing with the other” (Zacharakis, 1997, p. 23), its usefulness as the meta-theoretical lens for this research was reinforced.

However, as Dixit (2004, p. 4) states, “it is not always necessary to create replicas of Western-style state legal institutions from scratch; it may be possible to work with such alternative institutions as are available, and build on them.” For resource constrained hotel entrepreneurs operating in a context where the costs of trying to utilize formal institutions to enforce things like property rights and contract law in support of their business are prohibitive at best, the question then shifts toward understanding what alternative institutions must be utilized and in what ways (Zacharakis, 1997). These alternative institutions which insider-outsider parties have utilized to design and maintain workable (i.e., transaction cost economizing) hotel business arrangements in the FSM became the focus of this study as the data collection and analysis progressed. The idea of *Working within the System* was identified as the core conceptual category of sustaining these arrangements via the IOCP process approach. In short, *Working within the System* involves a hotel business’s ability to utilize context-specific normative systems to economize transaction costs and support the long-term viability of the business. Normative systems consist of what is preferred or considered appropriate in a society, and how things are to be done in a way that is consistent with those values (Bruton et al., 2010; Scott, 2007). Thus, normative systems help to establish the rules-in-use to which individuals and/or firms must conform to effectively navigate a given business context, and thereby can act as guidelines to entrepreneurial activity (Bruton et al., 2010).

Understanding the concept of *Working within the System* in the IOCP process approach provides a solution to the flaws of the status quo approach identified previously. Rather than focusing on the rules-in-form (i.e., formal, written laws) supported by formal institutions, the concept of *Working within the System* focuses on the ways in which rules-in-use (i.e., informal, unwritten laws) supported by informal institutions can be effectively leveraged to economize transaction costs in insider-outsider business arrangements. Next, as opposed to discounting the challenges to institutional reform, the core category *Working within the System* both acknowledges and accepts such challenges, and in doing so provides a more realistic theoretical perspective on the insider-outsider hotel business arrangements that must be fostered in the absence of reform. Finally, rather than placing the onus of adaptation solely on the FSM side, the idea of *Working within the System* provides a more balanced approach whereby the obligation of adaptation to the normative system is, by necessity, shifted more toward outsider investors. These issues and more are discussed in greater detail in the subsequent sections outlining the four sub-categories to *Working within the System* and their various conceptual properties. These sub-categories are: *Combining Specialized Assets, Adapting to What Is, Maintaining Sociocultural Order, and Valuing Relationships*.

#### *Sub-category 1: Combining Specialized Assets*

As illustrated in Figure 3, the presence of specialized and complimentary human assets was identified as the first emergent stage of *Working within the System* in the IOCP process approach. The results indicate that for an insider-outsider hotel business arrangement in the FSM to not only work, but work in a way which economizes transaction costs through increased levels of integration, both sides must first possess specialized and complementary competency assets that can be utilized for the benefit of the business. Without this, a potential insider-

outsider business arrangement will be unable to transition to the second emergent stage of the IOCP process. This finding aligns with previous research which implies that for the archetypally resource-constrained entrepreneur attempting to operate in a challenging international environment like the FSM, the ability to leverage the combined resources of capable outsiders and knowledgeable insiders is crucial (Jarillo, 1989; Vesper, 1990; Zacharakis, 1997). Thus, at the onset it is clear that given the presence of specialized and complementary knowledge and skills, contractual arrangements between insiders and outsiders will be an inevitable aspect of hotel business in the FSM and PICs like it.

**Proposition 3:** The presence of insiders and outsiders with specialized and complimentary assets is a necessary condition for transitioning to the second stage of the IOCP process.

To best understand the importance of the right combination of the right insider-outsider assets, it is first important to understand the cognitive bounds which characterize insiders and outsider hotel entrepreneurs in the FSM. Here, the TCE concept of bounded rationality is utilized as a lens for understanding the limits on cognitive ability, knowledge, available information, skill, and predictive capacity of both insider and outsiders in the FSM. These bounds take on great significance in FSM hotel businesses because the kinds of knowledge, information, and skill required to design and maintain a workable business are so different that they are seldom contained in a single individual. To illustrate, this research found strong support for the idea that outsiders interested in starting a hotel business in the FSM are subject to severe bounds in knowledge and predictive capacity regarding the sociocultural nuances needed to successfully do business in this environment. This idea was recurrently captured in the conceptual property of the *Combining Specialized Assets* sub-category called “Outsiders don’t understand sociocultural nuances needed to do business in FSM.”

For instance, many outsiders approach the business environment in the FSM from a rules-in-form perspective, and thus focus their energy and resources toward the formal institutions of business and legal contracting. While rules-in-form and legal contracting have a role in insider-outsider hotel business arrangements, the subjects of this research continuously helped to elucidate the all-important rules-in-use critical to the long-term viability of a hotel business in the FSM. The sociocultural context in the FSM is one where the initial process of getting into business and effectively laying the groundwork for a business well-poised to navigate the informal institutional context is tedious, nuanced, and complex. For an outsider, the time, energy, and resources required to acquire this information on their own is at best prohibitive, and in reality essentially impossible for most. Thus, partnering with an insider who can offer specialized sociocultural knowledge and skills becomes essential for outsiders. As one insider subject stated:

*To get everybody on board with the business in the beginning, you have to use the local way... Meaning then that [outsiders] have to have the right local person with the right connections and understanding of local protocols involved in the business.*

Along the same lines, another reputable hotel operator and outsider commented that:

*I can't imagine any [outsider] trying to come in and do it on their own, it's not going to work. You have to find some way to fit in with local culture and learn how to do things and keep you from doing stupid things.*

Proposition 4: Insider-outsider hotel business arrangements characterized by higher sociocultural assets will exhibit greater long-term viability than hotel projects with lower sociocultural assets, *ceteris paribus*.

Not only are the costs associated with learning the sociocultural nuances of the informal institutional environment prohibitive for outsiders, they initially lack knowledge on reliable insiders they can do business with and trust when trying to locate such individuals on the open market. Basic cross-cultural differences create situations where outsiders' also lack knowledge

on how to effectively build such trust with insiders. This in turn creates the threat of opportunism, whereby outsiders perceive they can't trust anyone when choosing partners on the open market and subsequently developing contractual business arrangements with them. These notions were captured in the conceptual properties called "Outsiders lack knowledge on insiders they can trust when choosing on open market" and "Outsiders perceive they can't trust anyone when choosing on open market." All of this translates into significant potential transaction costs for the business.

Proposition 5: Selecting insider business partners on the open market is directly related to outsiders' perceived lack of trust.

Proposition 6: Selecting insider business partners on the open market is directly related to outsiders' perceived threat of insider opportunism.

Proposition 7: Selecting insider business partners on the open market is directly related to increased potential transaction costs for insider-outsider hotel business arrangements.

Insiders are also subject to severe bounds on knowledge and ability that factor into the IOCP process. The findings indicate that in many cases, insiders with an interest in getting into the hotel industry in the FSM lack knowledge on how to access capital and materials, ability to access potential guests markets, knowledge of service standards, and skill regarding the technical aspects of operating a hotel business. These concepts were captured in the conceptual properties called "Insiders often lack access to capital and materials", "Insiders lack knowledge of how to access tourist market" and "Insiders lack technical knowledge on running hotel." As one long-time hotel operator and insider stated:

*Many local people have all the land and cultural knowledge needed to do business, but don't have the capital and technical knowledge.*



As such, insiders often want and/or need the involvement of an outsider who can provide the complimentary skills to fill in these knowledge gaps. However, as with outsiders, insiders also lack knowledge of where to invest and who to invest with when making such decisions on the open market. In addition, insiders often lack full understanding and trust in outsiders' true intentions. This in turn creates the threat of opportunism, whereby insiders perceive they can't trust outsiders when operating on the open market. As one successful hotel operator and outsider stated:

*The way things are, local Micronesians wanting to get into the hotel business with an outsider don't know how to invest or where to invest, and he probably feels he can't believe most people anyway. So the net result is no development of the kinds of hotels that tourists will really want to stay at.*

Proposition 8: Selecting outsider business partners on the open market is directly related to insiders' perceived lack of trust.

Proposition 9: Selecting outsider business partners on the open market is directly related to insiders' perceived threat of insider opportunism.

Proposition 10: Selecting outsider business partners on the open market is directly related to increased potential transaction costs for insider-outsider hotel business arrangements.

The various bounds on knowledge, ability, and skill that characterize potential insider and outsider hotel investors and entrepreneurs in the FSM highlight the critical importance of integrating the right specialized insider-outsider competencies via transaction cost economizing processes. Insiders can possess specialized assets in the form of sociocultural skills that can be used to navigate the idiosyncrasies of the informal institutional environment. This finding is in line with Peng and Shekshnia's (2001) argument regarding the importance of informal institutions embodied in social networks and channel connections in overcoming the constraints created by inefficient and/or ineffective formal institutions, particularly in service industries of

developing economies. Moreover, insiders can get outsiders to greater appreciate sociocultural situations. Without an integrated arrangement with an insider with such assets, outsiders will find it virtually impossible to acquire such skills and competencies on their own, thus severely impairing the ability to design and maintain a workable hotel business model in the FSM.

For their part, the outsiders in this study were frequently found to possess specialized assets in the form of technical knowledge on running a hotel, how to access potential guest markets, and ability to access any necessary capital and materials. Whereas insiders can get outsiders to greater appreciate sociocultural situations, outsiders can get insiders to greater appreciate business situations. As one subject stated:

*The outsider brings in the technical knowledge, professionalism, and method of doing business...But they have to defer to local cultural issues that may conflict with their view of a professional operation...There are things going on behind the scenes that the outsider is totally oblivious to. They are in someone else's environment and they have to understand that.*

Thus, a key component needing to be present at the first stage of the IOCP process approach is the right insider-outsider parties with the right combination of assets which atone for the circumscribed knowledge, skills, and abilities of the other.

Proposition 11: Insider sociocultural assets are an essential component of a workable hotel business model.

Proposition 12: Outsider operational and marketing assets are an essential component of a workable hotel business model.

Proposition 14: The combination of specialized and complimentary insider-outsider assets is an essential component of a workable hotel business model.

Proposition 15: The significant costs of acquiring the non-possessed asset (sociocultural skills for outsiders; operational and marketing skills for insiders) necessitate integrated insider-outsider business arrangements.

It is important to emphasize here how the findings of the sub-category *Combining Specialized Assets* represent a departure from the status quo approach to fostering private-sector business investment and FDI outlined previously. First, this sub-category illustrates the critical importance of a more subtle and conscientious approach to outsider involvement in the hotel industry of PICs like the FSM. Specifically, by utilizing TCE as meta-theoretical lens, this sub-category specifies the limitations regarding the knowledge, skills, information, and abilities that characterize both insiders and outsiders. Thus, by highlighting the kinds of information asymmetries between parties that have been recognized as basis for more integrated and transaction cost economizing arrangements (Buckley & Casson, 1976; Casson, 1997; Meyer et al., 2009), this sub-category provides an improved practical and theoretical basis for outsider involvement (i.e., FDI) in the hotel industry in the first place. Consequently, this helps shift the attention toward the transactions between insiders and outsiders and the arrangements required for economizing the associated transaction costs.

In addition, while contextually-relevant resources have been found to be required for foreign entrants into developing economies (Delios & Beamish, 1999; Meyer et al., 2009), the focus of both the status quo approach and the strategic management literature has placed most of the emphasis on the resources and assets to be transferred by outside investors (Anderson & Gatignon, 1986; Kogut & Zander, 2003). As such, there is a dearth of knowledge on exactly what important resources outsider investors can acquire from insider business partners (Meyer et al., 2009). The status quo approach seems to suggest that outside investors possess all the skills, competencies, and assets needed to create a workable hotel business model in the FSM. However, the *Combining Specialized Assets* sub-category stresses the importance of the frequently underappreciated and undervalued assets that insiders contribute to insider-outsider

business arrangements. This idea is captured in the conceptual property “Understanding and valuing insider assets.” As one insider commented:

*It's easier for people to see the things like number of containers being off-loaded by a foreigner than to see the intangible things that insiders can take care of. But the intangible component is important because without it, the tangible materials cannot stand for long.*

The potential for the exchange of intangible assets (i.e., tacit knowledge) should necessitate more integrated arrangements to economize transaction costs (Meyer et al., 2009). As such, an outsider who does not recognize, understand, and value the intangible sociocultural assets that insiders contribute to the business will face barriers to creating the more integrated kinds of arrangements needed for the IOCP process to progress to the next stage. Commenting on the lack of recognition of important insider assets, one successful hotel operator and insider stated:

*In general, many [outsiders] come in with an “I know better than you” frame of mind, and use an “I’m smarter than you” mentality. It’s pretty demeaning and it creates resistance right away.*

To illustrate further, one insider interviewed for this research recounted the story of his encounter with an outside investor attempting to develop a new hotel on the island. Understanding this outsider would need the sociocultural competencies of a reputable insider for the hotel business to even get off the ground, he approached the individual about a possible partnership. In response, the outsider discounted both the notion that this local individual had anything of value to contribute to the business, and also of a need for an insider with such skills in the first place. Not surprisingly, the hotel never materialized and the outsider investor is no longer in the FSM. As one interviewee stated:

*Having a person in the business with the right social and political skills is essential, and a mistake that a lot of foreign investors make out here is to ignore or undervalue*

*the role of this kind of person...If [an outsider] is going to do business here, they have to show respect to [the insiders'] knowledge, and if [the outsider] thinks they know more than [insiders] do, [the outsider] is sadly mistaken.*

Along these same lines, another successful insider hotel operator put it this way:

*Outsiders assume they are bringing in more so expect 70-30 type arrangements. But locals don't see it that way because they are bringing a lot to the partnership too.*

The results of this sub-category also suggest that not only do the intangible sociocultural assets of insiders go unrecognized in the status quo approach, but the essential tangible assets insiders provide are also undervalued. In this study, the most frequently cited example of this was in regard to land, which according to FSM law can only be owned by FSM citizens. Thus, outside investors' dealings with insiders around land use for hotels becomes nearly unavoidable, and are frequently replete with complexity. As such, reform of traditional land tenure laws is frequently touted by organizations like the ADB as necessary to improving ease of doing business and thereby attracting increased levels of FDI in the FSM. However, not only do sociocultural constraints render such reform unrealistic (Duncan et al., 2014), but successful insider-outsider business ventures are happening in spite of such reform (Cheshire, 2010). The present research suggests that helping to minimize insider-outsider transaction costs around tangible land assets starts with outsiders recognizing the proper value of such assets. As one hotel operator and insider stated:

*Many outsiders come in [to the FSM], see a piece of land that would work for their business, and attach only money value to it... But land here is assessed not only in terms of financial value, but some land here has 'voice' ...Meaning that land here determines your role in society, not your financial wealth. You are who you are because of your land and where you come from...So most locals would rather be land rich and cash poor than vice versa.*

As such, outsiders who use Western metrics to appraise a parcel of land will have difficulty progressing out of the initial stage of the IOCP process. Not only will the outsider find

it difficult to develop the kind of integrated arrangement with an insider needed in the FSM, but underestimating the value of land to the business with increase transaction costs throughout the life of the business. According to one interviewee:

*Outsiders may be bringing in \$1 million, but I have land, and you can't build your hotel on air. You may have money, but my land is just as important as your money to the project. If I become your partner and give you land and I get a rotten deal out of it, there's gonna be mistrust and animosity.*

Thus, to reduce this threat of opportunism stemming from tangible asset specificity, it becomes imperative for the outside investor to approach the business arrangement with the proper perspective regarding the value of land in Micronesian society, as well and understanding of the intangible assets that the right insider can contribute to the long-term viability of the business.

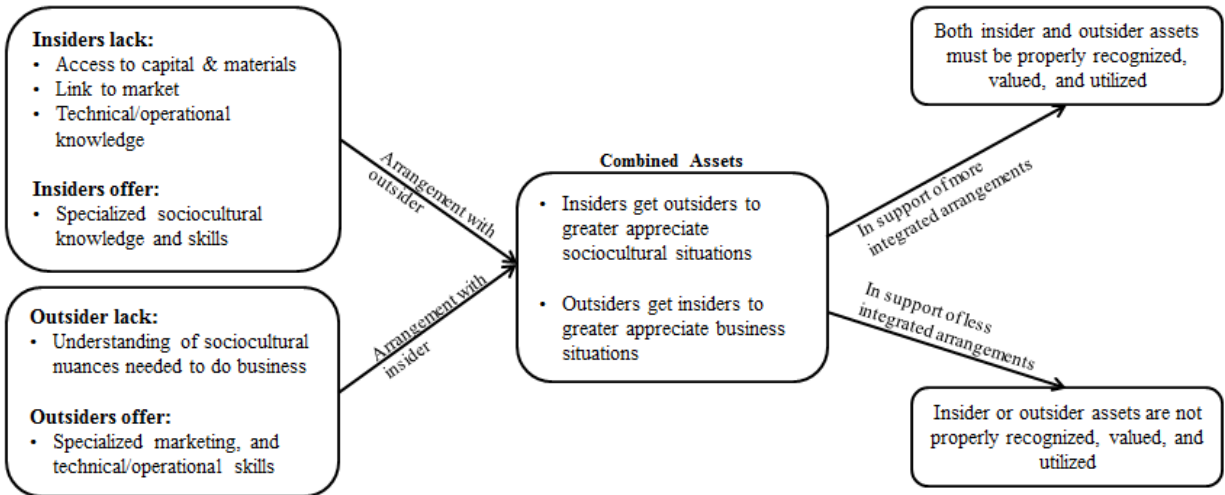
Proposition 16: Insider assets are equally or more important to the design and maintenance of a workable hotel business model than outsider assets.

Proposition 17: Proper valuation of both insider and outsider assets is a crucial initial component of moving toward the more integrated and transaction costs economizing arrangements characteristic of the IOCP process approach.

In addition to the overarching conceptual model of the IOCP process approach presented in Figure 3, a process model was developed for each sub-category of the core category of *Working within the System*. Figure 4 presents a conceptual process model for the *Combining Specialized Assets* sub-category.

**Figure 4.**

Conceptual process model: *Combining Specialized Assets* sub-category



*Sub-category 2: Adapting to What Is*

Utilizing the private-ordering approach of TCE proved efficacious in helping to flesh out what was deemed by the interview subjects as a critical initial component of the second emergent stage to the IOCP process approach. The *Adapting to What Is* sub-category parlays off of the notion that institutions are slow to change (Bruton et al., 2010; Scott, 1995). Accordingly, the findings suggest that the potential of the right combination of the right insider-outsider specialized assets to be integrated in ways which economize on transaction costs and contribute to a workable hotel business model can be realized only when able to adapt to the institutional reality in the FSM, rather than vice versa. As discussed, a priori provision for the private-ordering concept helps orient the focus toward how business arrangements are governed by transacting parties based on practical purpose, as opposed to legal rules and the courts (Williamson, 1989). In other words, this helps shift the focus away from the rules-in-form of the

formal institutional environment, and toward how rules-in-use are leveraged to develop successful arrangements within the realities of the business context in the FSM.

As in the sub-category *Combining Specialized Assets*, the notion of bounded knowledge and predictive capacity emerged in various conceptual properties of the *Adapting to What Is* sub-category. One form of circumscribed knowledge affecting outsiders was captured in the frequently occurring conceptual properties entitled “Outsiders’ confidence in legal system naïve”; “Legal system not trusted to adequately resolve all business disputes”; and “Formal laws lack meaning/Locals don’t play by written rules.” Early on in the data collection process, one prominent hotel operator and outsider stressed the importance of acknowledging how informal institutions shape the business environment in the FSM:

*Put a [traditional leader] up against a judge in court and see who’s strongest. The [traditional leader] is the strongest because people will support him instead of the laws created by government. The [traditional leader] has most of the power.*

When this issue was pursued in subsequent interviews, another interviewee who is an insider commented:

*You know a piece of paper doesn’t mean anything to us. We don’t play by the written rules. Doing business here for locals is like fishing for sea turtles...There are laws about fishing for turtles, but nobody really pays attention. If we see someone has killed a turtle out of season, we pay more attention to who the person is and their standing to determine the consequences more than anything related to the actual law.*

As can be seen, the ability and willingness for outsiders to recognize the ways things are in reality (i.e., rules-in-use) and adapt rather than simply rely on what is written (i.e., rules-in-form) is a vital initial component to working within the system in the IOCP process approach.

As one hotel operator and outsider commented:

*I’ve found that legal recourse here is not effective. Even if you make a strong hold contract with the local person you are dealing with, they can always find ways to get*



*out of it. So you gotta keep up the good relations and adjust or you will fight the system, and you will lose.*

Another successful outsider echoed this sentiment in recounting the story of a foreign investor's failed attempt to rely on the legal system in his dealings with his insider business partner. According to this subject, even when the legal system does work in the favor of an outside investor, there are still insurmountable social mechanisms at play outside the courtroom. As he stated:

*The outsider took the issue to court and won the judgment regarding the business. But the local people in the community then started pressuring [the outsider] to get out and he ended up leaving even though he had legal right to be there. What I say to that is it's hard to beat someone on their home court...The local aspect will never lose the upper hand in business.*

This subject went on to comment that:

*The greater burden to make it work rests with the outsider. When an outsider gets sideways with local people, the locals have a variety of ways to force you out and abandon your project.*

As Ahlstrom et al. (2000, p. 5) suggest, individuals from “developed economies tend to take for granted the universal existence of institutions that support and legitimize private enterprise, such as clear property rights, contract laws, and numerous commercial conventions.”

As such, the present results from the FSM indicate that in the absence of efficient and/or effective formal institutions, transaction costs will be increased for an outsider investor who chooses to over rely on these institutions when dealing with an insider in a hotel business arrangement. Additionally, an outsider's overreliance on formal institutions often creates barriers to the more integrated kinds of arrangements needed for the IOCP process to progress.

This finding is in line with previous research suggesting that overreliance on formal contracting

may serve as a signal of distrust and actually undermine the ability to develop business partnerships (Ghoshal & Moran, 1996).

Proposition 18: An outsider's ability to recognize the importance of rules-in-use is a requisite component of the business's ability to work within the system in transaction costs economizing ways.

Proposition 19: As the efficiency/effectiveness of formal institutions decrease, transaction costs will increase for outsider investors choosing to over rely on these institutions when developing a business arrangement with an insider.

Proposition 20: There is a negative relationship between outsiders' overreliance on formal institutions when developing a business arrangement with an insider and achieving the transaction cost economizing integration of the IOCP process approach.

Proposition 21: An outsider's inability to adapt causes increased transaction costs in insider-outsider hotel businesses by constructing barriers to the more integrated business arrangements characteristic of the IOCP process approach.

The results of this sub-category indicate several other forms of bounded knowledge that frequently characterize outsiders' dealings with insiders in hotel businesses, and which can also create transaction costs by constructing barriers to the more integrated arrangements of the IOCP process approach. For example, the conceptual properties "Outsiders' preconceived notions about what insiders want/need won't work" and "Outsiders have unrealistic visions" indicate that often outsiders mistakenly approach business arrangements with initial ideas that are false. As the other conceptual properties of this sub-category called "Traditional (Western) business arrangements won't work" and "Alternative approach to FDI" indicate, such preconceived notions are often inappropriate at best, and damaging to the IOCP process at worst. As one outsider commented:

*One has to listen to what locals have to say about what it is you are doing. You have to listen to what locals want and need. When outsiders come in and say "Here's*

*what you need”, it won’t work. It’s a difference between what you think local people need and what they actually want.*

Another successful outsider offered the following:

*When you are going into a business with someone out here, you have to sit down and ask them what they want. Sometimes outsiders ask people, then when the local is slow to respond, says “Oh well you need this this and this.” You need to ask the question and shut up. But it’s a challenge to understand what local people want and expect. If you breeze right by it and think you have a deal, you’re gonna suffer for it.*

Proposition 22: Outsiders’ preconceived notions about what insiders want/need constructs barriers to the more integrated business arrangements characteristic of the IOCP process approach.

The findings indicate another important aspect of successful insider-outsider arrangements is outsiders’ ability to understand and accept the business reality in the FSM regarding the pace at which business must move. However, most outsiders are characterized by knowledge constraints in this area. This idea was captured in the conceptual property called “Outsiders assume insiders share same business pace.” If outsiders approach the business with unrealistic (i.e., Western) ideas about pace, then this can have negative consequences which increase the transaction costs of doing business. As one experienced and successful outsider commented:

*I’ve seen [outsiders] come and go...Lots of stubborn, business minded people you know...They had a rigid schedule of when and how things should be done...And I can see the frustration in their face...If [outsiders] would come to me, I could tell them how it is... Which is, if you’re going to do business out here, you can’t operate like you would in Detroit or New York City.*

Another offered this telling statement:

*Outsiders come in with idealistic visions of how things are going to get done and on what time frame. Things don’t happen that way here. You have to learn to adjust and fight your battles. Otherwise, [outsiders] just come in, get super frustrated they can’t get anything done, and then they leave.*

Proposition 23: An outsider's inability to adapt to the pace at which business moves constructs barriers to the more integrated business arrangements characteristic of the IOCP process approach.

As discussed above, the status quo approach to outsider investment in the FSM hotel industry promoted by the FSM with assistance from organizations like the ADB is misguided in that it neglects important rules-in-use, discounts the challenges to institutional reform, and places the onus of adaptation solely on the FSM side. To summarize, the sub-category *Adapting to What Is* provides theoretical insights into how the IOCP process represents a more appropriate approach. First, the findings of this sub-category shift the focus away from the role of the legal system and formal laws in facilitating successful insider-outsider transactions, and toward the all-important rules-in-use that must be utilized to economize transaction costs for insider-outsider business arrangements. Also, as opposed to emphasizing how formal institutions must be reformed to facilitate business development, the findings highlight how resistant these systems are to change. Thus, the focus is subsequently shifted toward the adaptations that must be made to support successful insider-outsider business arrangements within the realities of the institutional context. Finally, as opposed to the approach which places the onus of reform on the FSM side, the findings of this sub-category shift the burden of adaptation to the foreign investors in the FSM. As one insider summarized:

*It all comes back to the [outsider's] willingness to change. Most likely the local aspect will not change at all. Can you change and adapt as an outsider and take incremental steps forward?...You can make little changes here and there over time, but you cannot expect to change the ways things work here as an outsider investor.*

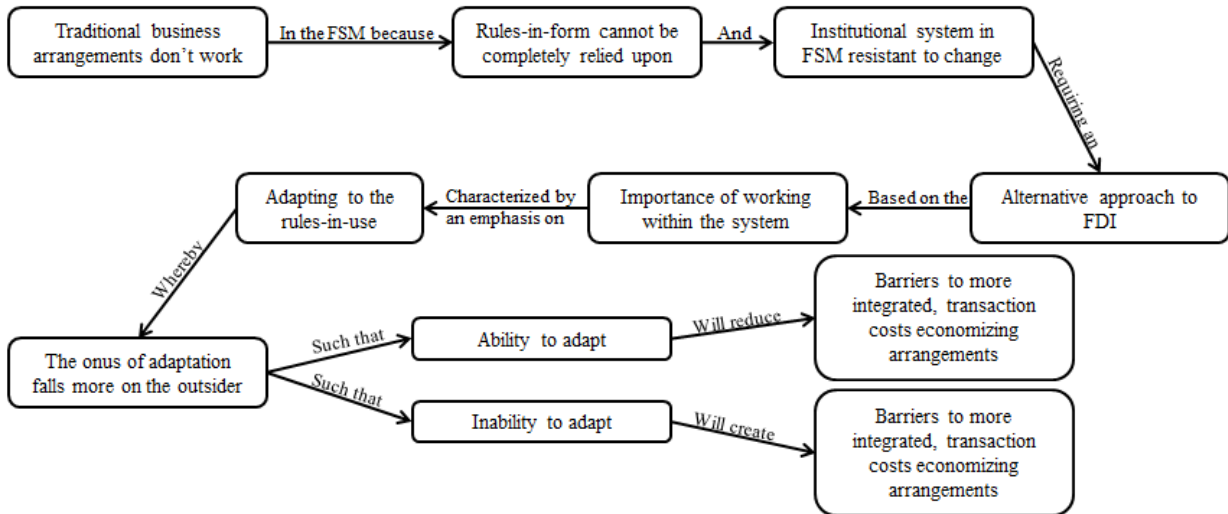
Proposition 24: Adapting to the rules-in-use will decrease transaction costs in insider-outsider partnerships by reducing barriers to the more integrated business arrangements characteristic of the IOCP process approach.

Proposition 25: The onus of adaptation is greater for the outsider than the insider in insider-outsider hotel business arrangements.

Figure 5 presents a conceptual process model for the *Adapting to What Is* sub-category.

**Figure 5.**

Conceptual process model: *Adapting to What Is* sub-category



### *Sub-category 3: Maintaining Sociocultural Order*

The findings of this research indicate that in order to understand the design and maintenance of a workable hotel business model in the FSM, it becomes essential to not only analyze arrangements between individuals, but to expand the analysis to arrangements between the business and those informal institutions which support the sociocultural order (i.e., the surrounding community). Thus, an important aspect of *Working within the System* in the IOCP process approach is that there are not only potential transaction costs in the arrangement between a FSM hotel business and the sociocultural order manifested through the surrounding community, but that these transaction costs must be economized for the business to be viable in the long-term. The results indicate that in insider-outsider hotel business arrangements in the FSM, this is primarily accomplished through *Maintaining the Sociocultural Order*, which involves advancing the business in ways considered appropriate to the local society. This

concept was further captured in the conceptual property called “Business must align with culture to keep the peace.” For instance, one insider commented that:

*[Local] people don't like things that have a great impact on the culture. That's what happened with previous hotel projects that didn't work. Culture is the way to keep the peace here on the island. Too much Western way and that peace won't be there.*

Another insider stated that:

*It's very important that [outsiders] who come here to do business respect the culture and people. Things work a lot better that way. There's a limit to how much [insiders] are willing to bend and change.*

Another succinctly put it this way:

*Cultural issues you cannot change. You have to build that into the business model.*

Proposition 26: There are significant potential transaction costs between insider-outsider hotel businesses and the informal institutions which support the sociocultural order.

Proposition 27: Maintaining the sociocultural order will reduce transaction costs for insider-outsider hotel business arrangements by reducing barriers to the more integrated business arrangements characteristic of the IOCP process approach.

The findings indicate that a major component of abiding by the sociocultural order and aligning the business model with it is not merely about getting things done, but getting them done in the right ways. This idea was captured in the conceptual property called “Going through appropriate channels key to long-term viability.” As with other sociocultural-related knowledge discussed in the previous sub-categories, the findings here also revealed that outsiders lack knowledge on navigating these channels, further reinforcing the value of insider-outsider arrangements. As Hanlon (1998, p. 6) points out, efforts to transpose outside conventions on places like the FSM where “beliefs and practices are informed by very different and localized ideologies” often end in inaction and frustration. As such, the findings of this study revealed the importance of following local conventions regarding the channels through which businesses need

to move, and uncovered many instances of how not going through the appropriate channels derailed prospective hotel projects. For instance, one insider subject conveyed the story of a failed hotel project by an outsider investor, commenting that:

*I am meeting with a group of foreign investors next week whose original hotel project they planned here fell through. It fell through because of a social issue...The approach they went through was not right.*

In a separate story of a hotel project that failed to get off the ground, another insider explained that:

*Two different cultures were colliding, and with different values. The [outsiders] had different ideas about how things should be done, even how to talk to people. They would approach local people in a way that was offensive. For example, when you want to approach a local about business you can't just approach them directly. It's a show of disrespect. Outsiders use a pretty direct approach which can offend us.*

Similar stories about projects that failed to materialize due to not going through the right channels in the right way were conveyed by both insiders and outsiders throughout the course of this research.

Proposition 28: There is a direct relationship between a business's ability to go through the appropriate channels and its ability to maintain the sociocultural order.

Proposition 29: Specialized insider knowledge regarding going through the appropriate channels is key to the hotel business's ability to maintain the sociocultural order.

Another important knowledge constraint that factors in to the *Maintaining Sociocultural Order* sub-category is illuminated in the conceptual property called "Outsiders don't understand insiders' apparent irrationality." The data repeatedly conveyed the notion that maintaining the sociocultural order in ways which contribute to the design and maintenance of a workable insider-outsider hotel business model inevitably involves certain actions that may be deemed irrational from the business perspective characterizing most outsiders. Various Pacific Island

scholars (Cheshire, 2001; Fairbairn, 1988; Hezel, 2012; Peoples, 1985) have suggested that island societies are characterized by systems of reciprocity and communal giving that entrepreneurs must come to terms with. As such, good business practice in the FSM involves recognizing this system of reciprocity and structuring arrangements which may involve certain levels of communal giving. As the long-time scholar on Micronesian issues Francis X. Hezel (2013, p. 55) points out, “some of the decisions that are made by island businessmen – decisions that baffle Western economists and business advisers - only make sense when viewed” from a perspective which takes the sociocultural corollaries of such decisions into account. This idea was captured in the conceptual property called “Build in some loss: Social considerations can trump financial considerations.” As one successful hotel operator and outsider stated:

*In the FSM, if you put business before social and cultural stuff, people will accept it, but not really accept it. You have to make certain kinds of concessions related to culture to last out here.*

Another outsider commented that:

*Most local people here have good intentions and want to do the right thing, but when asked to make a decision between favoring the business or the local community and family, they will always fall on local side even if it seems irrational in a business sense.*

This individual went on to state that:

*If I am not losing a little bit of money once in a while, then I'm not doing things right. You have to understand that you have to build some loss into your business model and make up for it in other ways.*

It is important to note here that while there are often financial costs associated with what outsiders may deem the irrational business decisions of insiders, the findings indicate such financial costs can be off-set through ultimately reducing transaction costs, thus contributing to the long-term viability of the business. As such, the “long-term, net positive payoff may best be



considered in terms of investment rather than cost” (Martinez & Dacin, 1999, p. 83). As with other aspects of the IOCP process approach, an insider with specialized knowledge assets regarding where, when, and how these concessions regarding sociocultural issues are to be made is highly valuable, as outside investors lack this knowledge and the costs of accumulating it are prohibitive. As one insider commented:

*You have to have, for outsiders, a layer of local individuals that is your channel to the community. There is no way an outsider can really perform that function and really understand what’s happening. You need a local liaison at the top layer of the business.*

Therefore, to reduce transaction costs between the business and the informal institutions which maintain the sociocultural order, insider-outsider hotel businesses will benefit through more integrated arrangements whereby the insider plays a crucial role in understanding the sociocultural corollaries of business decisions. As one long-time hotel operator and insider commented:

*Businesses with foreign investors can’t be harsh, they have to be part of the community...If they are just about making money, I cannot image how they will be able to make a successful business. Sometimes things will not make good sense financially, but you have to look at the bigger, long-term picture regarding community and family stuff...So you have to have someone making good business decisions, but also have to have someone who knows the right thing to do.*

Proposition 30: Understanding the sociocultural corollaries of business decisions which maintain the sociocultural order will help facilitate increased levels of integration between the business and the informal institutions which maintain the sociocultural order.

Proposition 31: Increased levels of integration between the business and the informal institutions which maintain the sociocultural order will help reduce transaction costs, thereby contributing to the long-term viability of the business.

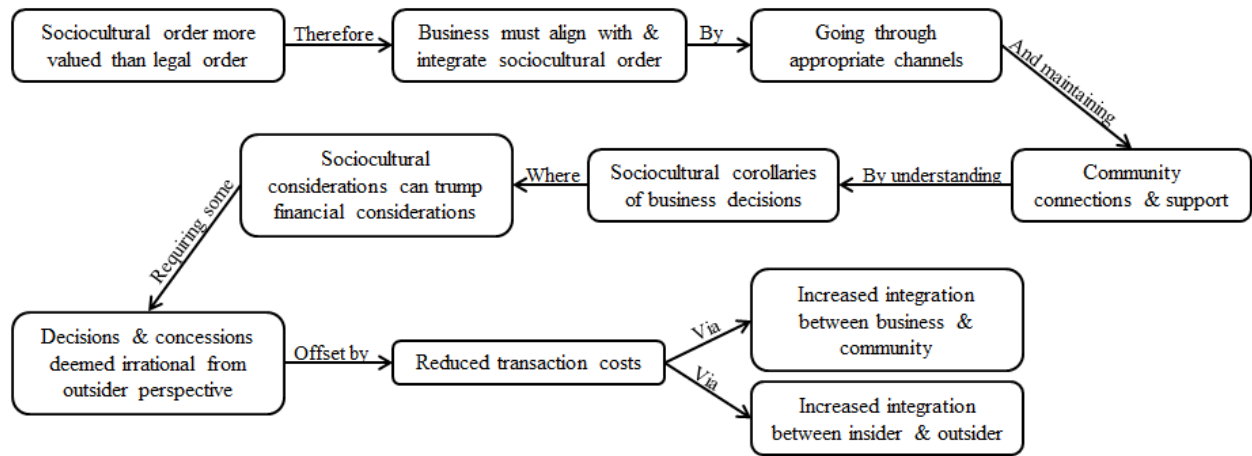
To summarize, the *Maintaining Sociocultural Order* sub-category builds upon previous sub-categories by further explaining how recognizing and valuing important rules-in-use

regarding the sociocultural realities a hotel business must navigate contributes to a workable insider-outsider hotel business in the FSM. These findings also build upon the notion that transactions between parties are embedded within the sociocultural values of normative systems, and must be treated accordingly (Granovetter, 1985). In the FSM, it is often the case that an insider-outsider hotel business's ability to maintain the sociocultural order involves financial outlays that seem less than rational from a Western business perspective. In an environment where communities are so central and informal institutions so strong, the social capital gained through such concessions will outweigh the financial capital expended to obtain it when carried out in a reasonable manner. As Hezel (2013, p. 56) asserts, neither business decisions nor "in fact, the entire island economy – can be understood unless this principle is taken into account."

While a hotel's ability to realize financial profit in the challenging business environment of the FSM is both necessary and possible, the business must also recognize it is operating in a socioculturally mandated redistributive economy (Cheshire, 2010; Petersen, 1986). In other words, as opposed to operating as a purely commercial enterprise of profit and loss, the business must recognize its role in reinforcing the sociocultural aspects of the local redistributive economy where relationships and the interests of the community mean so much (Petersen, 1986; Hezel, 2012). This important aspect of the IOCP process approach provides a more context-conscious perspective than the status quo approach where economic considerations take precedence. Whereby the status quo approach is only concerned with sociocultural matters inasmuch as they are of relevance to the economy, the IOCP process approach acknowledges that sustainable economic activity can best be understood by its ability to maintain the sociocultural order. Figure 6 presents a conceptual process model for the *Maintaining Sociocultural Order* sub-category.

**Figure 6.**

Conceptual process model: *Maintaining Sociocultural Order* sub-category



*Sub-category 4: Valuing Relationships*

As the previous sub-categories have delineated, the FSM is an environment where formal institutions are weak, informal institutions are strong, and the sociocultural order is as/more valued than the legal order. As such, the legal system cannot be completely relied upon to enforce the terms of formal contracts between transacting parties, and thus the focus for governing viable hotel business arrangements shifts from rules-in-form to rules-in use. As Macneil (1980, p. 58) states, “whatever are the norms of that society must become at least partially the norms of the contracts occurring within it.” The *Valuing Relationships* sub-category builds off the previous sub-categories by highlighting the important rules-in-use expressly pertaining to the relationships which support viable insider-outsider hotel business arrangements in the FSM. More specifically, the findings underscore the importance of the relational contract to the design and maintenance of a workable hotel business model via the IOCP process approach. This idea was captured in the conceptual property of the *Valuing Relationships* sub-category called “Relationship contract power as/more important than legal contract power”.

Business arrangements utilizing relationally-governed exchange utilize social rather than legal processes to delineate and enforce the terms of the arrangement (Poppo & Zenger, 2002; Zaheer & Venkatraman, 1995). While the present research did not provide support for the idea that relational contracts can be used as a pure substitute for legal contracts (Adler, 2001; Gulati, 1995) in the FSM, the findings did support the idea that a relational contract needs to be present for an insider-outsider hotel business to be workable in the long-term. In other words, relational and formal contracts in the FSM serve as compliments rather than substitutes. This is commensurate with McMillan and Woodruff (1999), who found that in developing economies lacking effective formal institutions, written contracts that provide no legal benefit are still used by exchange parties to provide some degree of clarity to the arrangement. In the present study, this idea was captured in the conceptual property “Relationship requisite to business.” A strong and complimentary insider-outsider relational contract can economize transaction costs through increased trust and decreased threat of opportunism, reduced monitoring and adaptation costs, and greater long-term viability via the elimination of time restrictions (Dyer & Singh, 1998). As one interviewee put it:

*Doing business out here has less to do with what's in a piece of paper and more to do with how you treat the people you're doing business with.*

Proposition 32: Relational contracts are as/more important than legal contracts in insider-outsider hotel business arrangements.

The use of TCE as the meta-theoretical lens to the grounded theory development of this research helped to elucidate some attributes and conditions of relational contracting as pertains to the IOCP process approach. For example, the ease of doing business in the FSM is judged to be low due to the languid formal institutional environment, thereby creating a situation where uncertainty regarding business investments is virtually institutionalized. According to TCE

theory (Williamson, 1975; 1983), open market transactions are unequipped to handle arrangements for which the uncertainty attribute is high, thereby pushing parties toward more hierarchical forms to economize on transaction costs. The present findings illuminate a more nuanced version of this concept given the unique backdrop against which business takes place in the FSM. Specifically, the findings indicate that under conditions of uncertainty, transaction costs can be economized in FSM hotel businesses through the relational contracting component of the IOCP process approach. In other words, Williamson (1985, 1991) discusses integration through hybrids and hierarchies to economize on transaction costs stemming from uncertainty, however this alone is insufficient given the institutional environment in the FSM. Therefore, the present study highlights the *relational integration* that needs to be achieved through the relational contracts in economizing transaction costs via the IOCP process approach.

Proposition 33: Relational integration can economize transaction costs stemming from uncertainty in insider-outsider hotel business arrangements.

While there are costs associated with relational contracting, it is proposed here that these can be off-set through the greater probability of long-term viability which the relationship component contributes substantially to in PICs like the FSM. Many interview subjects of this research recounted incidents of hotel projects which failed due to the lack of the relational contract component. For example, in describing the recent failed attempt of a foreign investment group to develop a hotel in the FSM, one insider interviewee was asked whether the lack of a relational contract played a role. This individual commented that:

*You have the stuff about the relational component right exactly. And had the [foreign investment] group known that in the beginning, they could have used that and tried to build those relationships. But it didn't happen that way, and they didn't anticipate that it would go so wrong.*

Another experienced insider businessman recounted the failed hotel business arrangement between him and an outsider. In this case, the outsider offered specialized assets regarding knowledge of marketing and access to a potentially lucrative guest market. The insider was a recognized traditional leader offering specialized assets regarding knowledge of navigating the sociocultural and political system of the island. However, their arrangement was based only on a legal contract and not backed by a relationship. In other words, a major aspect of the IOCP process approach was not present in this insider-outsider arrangement. Instead, this insider-outsider arrangement was based on the neoclassical contracting ideals of the status quo approach which assumes well-delineated legal contracts are all that should be needed for such arrangements to work. However, when a contentious disagreement arose between the insider and outsider, the institutional environment rendered the terms of the legal contract unenforceable, and because there was no relational contract to back it up the potentially profitable arrangement dissolved. The outsider was subsequently driven off of the island, leaving the insider with a hotel and a bank loan but without the specialized knowledge of the outsider (i.e., unique access to the guest market). As one outsider subject stated:

*What happens to a lot of people who don't build a relationship with their partner out here is that they get the business license and get the building up and then the problems start. And it's their fault.*

Proposition 34: Relational contracts are needed to support the terms of legal contracts in insider-outsider hotel business arrangements.

Given the importance of relational contracting, the question then shifts toward understanding how insider-outsider relational contracts are developed and maintained in the FSM. First, the importance of strong relationships means high levels of outsider involvement in the business is critical. This idea was repeatedly captured in the conceptual property of the *Valuing Relationships* sub-category called "Absentee ownership doesn't work." Developing a

viable insider-outsider hotel business in the FSM takes more than business acumen combined with an injection of foreign capital. As one successful hotel operator and outsider stated:

*All the money and all the technical skills don't get you where you need to be out here. You've got to hold hands with your local partner. Any outsider who thinks they can use money and make the deal and then go home and collect the money, it's a recipe for disaster.*

Along these same lines, another subject commented that:

*I've seen [outsiders] come in and put their time in and be successful. But when people come in here and just start throwing money around, [insiders] will get interested but as soon as it stops flowing, the business will break down fairly quickly unless there is a good relationship there.*

In addition to maintaining a near constant physical presence and high levels of involvement in the business, the findings provided strong support for the idea that much of the onus for fostering potential relationships falls on the actions of the outsider. This idea was captured in the conceptual property called “Insiders more willing to build relationships with outsiders who put in time, show patience, give to respect to system.” In his paper on private-sector development in PICs, Cheshire (2010) also relayed this notion in an anecdote about the Hawaii-based hotel company Outrigger, who deliberately uses a relational approach when developing hotel properties in PICs. As for outside investors or hotel companies that don't use this approach, one hotel operator and insider commented that:

*If a big company came here and didn't want to open themselves to people and the community, it would breed a kind of mistrust. Then local people would go against them and do everything possible to destroy their operation. But if they become a real partner, then community would take care of them.*

This individual went on to state that:

*Building business relationships with people out here is all based on respect and sensitivity to [local] ways of doing things. If [outsiders] show respect in word and*

*action, people really appreciate that. That's the basis of everything here. It starts with this and builds up to good things.*

Two other frequently reoccurring and related concepts of the *Valuing Relationships* sub-category are the role of trust and the perception of fairness to the IOCP process approach. Trust can be defined as “one party’s confidence that the other party in the exchange relationship will not exploit its vulnerabilities” (Dyer & Chu, 2003, p. 58). This confidence stems from making good faith efforts to live up to commitments, and not taking advantage of the exchange partner even when the opportunity presents itself. All of these are based on mechanisms outside of that found in formal legal contracts (Dyer & Chu, 2003; Mayer et al., 1995). As discussed in the sub-category *Combining Specialized Assets*, both insiders and outsiders feel the threat of opportunism when trying to select potential hotel business partners on the open market. Thus, the ability to establish and maintain trust is a crucial component of the relational contracting needed to move toward more integrated and transaction cost economizing arrangements characteristic of the IOCP process approach. This is in line with Dyer and Chu’s (2003) findings that trust as a governance mechanism between parties can not only economize transaction costs, but can also create value in exchange relationships through information sharing.

When attempting to establish trust, outsiders must first understand some of the historical forces that are often working against them in the FSM. Many subjects, both insider and outsider, conveyed the idea of an intrinsic barrier constructed by insiders regarding willingness to trust outside investors. As one insider commented:

*Foreign investors have a reputation among locals that is hard to break down. It's hard to convince local people that you are different from other outsiders.*

Another insider commented that:

*Out here trust is hard to gain and easy to lose. Once [an outsider] does something to undermine [their] trustworthiness, [they] are done. Reputation is huge out here.*



The findings suggest several ways outsiders can work to overcome this inherent sense of distrust. The first relates back to the previously discussed concept of willingness to adapt to sociocultural norms regarding time. Many subjects commented that while there are ample investment opportunities in the FSM, outsider investors cannot expect to come in and rely upon evidence of their technical skills and financial resources to establish trust with potential partners in a short amount of time. As one insider stated:

*It takes time to build trust with outsiders. There's a sense of distrust that has to be overcome. Have to see you are willing to put time in.*

Additionally, the findings suggest that many of the successful insider-outsider hotel business arrangements exhibiting signs of long-term viability in the FSM are characterized by trust which was established through socialization processes. This was captured in the conceptual property called “Establish trust through genuine socialization”. As Hezel (2013) points out, socialization processes are a constant of Micronesian society, and outsiders are not exempt from these. Thus, the first step to establishing trust with insiders is allowing them to plot you on the social map of their society, thereby providing some basis for interpersonal connection. As Hezel (2013, p. 15) states, “being plotted on the social map is a prerequisite for any meaningful exchange with island people.”

Proposition 35: Establishing trust through the norms of context-specific socialization processes is positively related to developing a strong relational contract.

Proposition 36: Relational contracts can economize transaction costs in insider-outsider hotel business arrangements which use legal contracts as a governance mechanism through (1) increased trust, (2) decreased threat of opportunism, and (3) reduced monitoring costs.

Fairness is also a key to establishing and maintaining a strong relational contract in the IOCP process approach. Both insider and outsider subjects recounted instances where insiders’

perceived lack of outsider fairness acted as substantial stressors to the relational contract, thus leading to irreparable problems in the business arrangement. One root cause of the perceived lack of outsider fairness relates back to outsiders' tendency to view business through a Western business lens, thereby causing them to undervalue that which insiders bring to the arrangement. On account of this undervaluation, mistakes regarding structuring the terms of the arrangement can and do occur. In particular, several subjects pointed out that outsiders often mistakenly attempt to structure the arrangement disproportionately to their benefit. As one insider and hotel operator stated:

*Things cannot be one-sided, they have to be fair. If things are one-sided, sooner or later there's going to be problems. But if it is well-intended and well-crafted, there shouldn't be a problem provided the two parties are able to manage their relationship. It's not really the money that totally motivates people here. There's more to it. If the money comes that's okay, if there's very little money that's also okay, but it has to be win-win. [Local people] are sensitive to being taken advantage of. [Local] people may not fully understand what is written, but they can figure out what's good and not good over time.*

Another aspect of accommodating the sociocultural norms regarding fairness and reciprocity in the FSM is an outsider's ex-post willingness to deviate from the terms of the written contract in order to feed the relationship with the insider partner and foster an atmosphere of fairness. During the course of the data collection of this study, both insiders and outsiders described instances regarding their own hotel business and/or the hotel business of others in the FSM where an outsiders' willingness to occasionally deviate from the terms of the written contract was needed in order to strengthen the relational contract with the insider. While such deviation may involve some financial cost, the results suggest that these costs can be offset by strengthening the relational contract and thereby contributing to the long-term viability of the business, ceteris paribus. As one subject stated:

*[Outsiders] can't bring their belief system and sense of fairness in here and expect people to go along with it and expect it to work.*

The findings suggest two ways in which deviation from the written contract can contribute to the relational contract, which are termed *proactive adjustment* and *active non-enforcement*. *Proactive adjustment* involves one transacting party's (always the outsider in the present study) willingness to continuously assess the perceived fairness of the terms of the written contract to the other transacting party (always the insider in the present study). Modifications can then be made when and where perceived necessary to accommodate an ongoing sense of fairness. Throughout the course of this research, many subjects focused on the plight of one particular hotel where the insider-outsider partnership broke down after many successful years due in part to the insiders' perceived lack of fairness combined with the outsiders' unwillingness to engage in proactive adjustment. In this case, the insiders perceived that the terms of the written contract dating back many years no longer represented fair market value for their assets, as thus the arrangement was now disproportionately inequitable in favor of the outsiders. Because the outside partners took no proactive steps to iteratively adjust the terms of the written contract throughout the life of the business, this caused irrevocable damage to the relational contract that eventually caused the once-successful hotel business to dissolve. As one insider commented on the situation:

*[The outsiders] could have prevented the fiasco by simply bringing [the insiders] together and making a renewed deal that is more fair in today's economy.*

This individual elaborated, saying that:

*[Outsiders] need to understand the economic well-being of [insiders]. If you and I made an arrangement today, then 50 years down the line the price of everything is rising and the insider is still getting the same price, the question now is what is the social responsibility of the outsider? [The outsider] needs to say "Look, we made this arrangement in the past but we realize that now days the price is too low. So*

*hey lets increase the price to be fair.” That would really shock the insider in a good way that their outsider partner also looking out for them.*

On the other hand, *active non-enforcement* involves one transacting party’s (always the outsider in the present study) willingness to occasionally overlook certain terms of the written contract with the other transacting party (always the insider in the present study) in order to foster a healthy relational contract in the long-term. One successful hotel operator and outsider recounted the story of how upon reviewing the written contract with their insider business partner, his son pointed out several terms of the written contractual arrangement which the outsiders could leverage for their own financial benefit. As he stated:

*I told [my son] that although some things in the legal contract could be enforced for our financial benefit, I know that if I sought to enforce some things it would not be good in long run in terms of our relationship with [the local partner]. You have to know when to let certain things go.*

This example reinforces the idea that using a Western business perspective based largely on financial benefit and the letter of the written contract is often not appropriate for use in the FSM. However, many outsiders lack the ability to recognize and/or accept this aspect of doing business in the FSM.

Proposition 37: Outsiders’ willingness to engage in proactive adjustment is positively related to insiders’ perception of fairness.

Proposition 38: Outsiders’ willingness to engage in active non-enforcement is positively related to insiders’ perception of fairness.

Proposition 39: Perception of fairness in insider-outsider business arrangements is positively related to developing a strong relational contract.

Finally, using TCE as meta-theoretical lens helped to elucidate insights into how the insider-outsider relational component, when viewed at least in part as an asset, needs to be governed in transaction cost economizing ways. Specifically, the findings suggest that

understanding insider-outsider relational contracts in FSM hotel businesses from an asset specificity perspective can help points towards ways to reduce the potential for the kinds of ex-post governance problems that have historically led to the demise of otherwise successful insider-outsider hotel businesses in the FSM. This idea was captured in the conceptual properties of the *Valuing Relationships* sub-category called “Low relational asset specificity” and “Must continually feed the relationship.” According to TCE theory, asset specificity increases as the ability to deploy an asset for alternative uses decreases. This relates to the IOCP process in that if the insider-outsider relational component has value outside of the actual business arrangement, then this can result in less contractual complexity between the parties in the long-term. For example, if an outsider takes steps to ensure the relational contract is developed not only with the insider partner, but with the insider’s dependents and even the larger community, this will reduce ex post governance problems like the threat of opportunistic behavior. While there are costs associated with developing and maintaining such a dense network of social ties (Larson, 1992), these efforts will contribute to the long-term viability of the hotel business arrangement in the FSM.

One area where this is of particular importance is in regard to legal contracts for land use in the hotel business. Using a case frequently cited by the subjects of this research to illustrate, consider the example of an outsider investor who develops a strong relationship with an insider landowner, and the two agree on a written contract regarding the hotel business and the land upon which it will be built. While the relationship between insider and outsider remains strong as the business progresses, insufficient effort is made by the outsider to develop a strong relational contract with the insider’s dependents. In addition, as the business becomes more financially successful, no proactive adjustments are made to feed the relationship. When the

written contract for the business has expired and is up for renegotiation, the insider has since passed away and his land has been passed down to his dependents. Because of the lack of a relationship between the outsider and the dependents, coupled with a perceived lack of fairness stemming from the lack of proactive adjustments in the original written contract, a great deal of contractual complexity has been introduced and no agreement on a new written contract can be reached. As a result, the long-time and otherwise successful hotel ceases operations, which many subjects stated has had adverse effects on the tourism industry on the island. As one subject commented:

*If [outsiders] don't cultivate social relationships with the community around [them], but if [they] develop relationships with only the elder partner and ignore the relationship with dependents, [they] can get into trouble in business here in the long run. [They] have to understand that the [insider] business partner may not always be around.*

Another subject stated that:

*The [outsider's] local partners wouldn't budge on the lease renewal despite the long term gain they could have received...Kind of an irrational decision to the Western view...But it goes back to custom and culture and family...The [outsider's] friends and key social contacts were really old or dead. They didn't have many places to turn for help.*

Proposition 40: If the insider-outsider relational asset component has value outside of the actual business arrangement, then this will result in less contractual complexity between the parties in the long-term.

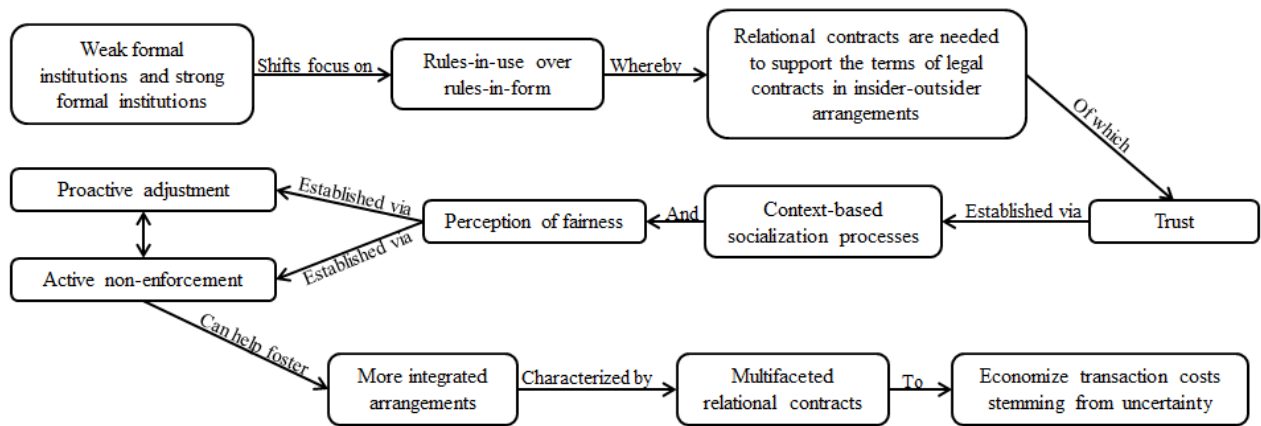
Proposition 41: The costs of developing and maintaining multifaceted relational contracts will be offset by the benefits via greater probability of the long-term viability of the business.

In summary, the *Valuing Relationships* sub-category highlights the idea that in a business context where social processes and relationships carry so much significance, and where formal institutions for enforcing legal contracts cannot be relied upon, insider-outsider arrangements

around hotel businesses must be based on more than the rules-in-form of legal contracts. Moreover, not all aspects of insider-outsider arrangements can be detailed via legal contracts, and in this context the relationship between parties itself becomes a kind of contract (Zacharakis, 1997). This underscores the importance of developing competencies in relationship management to compensate for weak formal institutions and economize transaction costs (Hoskisson, et al., 2000). While this idea has received some support in the literature (Meyer et al., 2009; Peng & Heath, 1996), the specifics of what makes relational-based aspects of business arrangements work in an emerging economy like the FSM have been less understood. Figure 7 presents a conceptual process model for the *Valuing Relationships* sub-category.

**Figure 7.**

Conceptual process model: *Valuing Relationships* sub-category



### The IOCP Process Theory: A Summary

Through a total of 48 interviews with hotel operators and other relevant individuals in the FSM, this research used the substantive and theoretical coding processes of GTM to systematically develop a parsimonious, yet conceptually dense grounded theory which uses TCE as the meta-theoretical lens for understanding how to design and maintain a workable hotel

business in the FSM. The grounded theoretical framework identifies the IOCP process approach as a cogent theoretical and practical alternative to the status quo approach to hotel business management and development typically advocated for in the FSM and PICs like it. As opposed to the status quo approach which is predicated on institutional reform to facilitate successful business development and increased levels of FDI, the IOCP process approach provides theoretical insights on how insider-outsider hotel businesses can effectively work within the constraints of the institutional environment. Therefore, the IOCP process approach is defined as an integrated form of hotel business organization that recognizes, values, and utilizes specialized insider-outsider competencies and context-specific normative systems in transaction cost economizing ways. This approach is delineated in theoretical terms through the core concept of *Working within the System* and its four sub-concepts: *Combining Specialized Assets*, *Adapting to What is*, *Maintaining Sociocultural Order*, and *Valuing Relationships*.

The *Combining Specialized Assets* sub-category asserts that the IOCP process cannot progress without the presence of both insiders and outsiders with specialized and complementary assets which can be leveraged for the benefit of the business. Outsiders can ideally compensate for that which insiders often lack (i.e., access to tourist markets, access to capital and materials, technical/operational skills, understanding of service standards), and insiders compensate for that which outsiders almost always lack (i.e., tangible resources like land and intangible resources like knowledge of how to navigate the sociocultural environment). In order to be properly utilized for the benefit of the business, the transacting insider-outsider parties must properly recognize and value the complimentary assets possessed by the other party. The *Adapting to What is* subcategory builds upon these ideas by arguing that the potential for the right combination of the right insider-outsider specialized assets to be integrated in ways which economize on transaction



costs can be realized only when that arrangement is able to adapt to the normative institutions in the FSM, rather than vice versa. Furthermore, the onus for recognizing and valuing the pervasive rules-in-use, and willingness to adapt to the business context falls mostly on the outsider. Transaction costs will be increased for an outsider who chooses to over rely on the rules-in-form of formal institutions when contracting with an insider in a hotel business arrangement.

The *Maintaining Sociocultural Order* sub-category builds upon the previous sub-categories by advancing the idea that adaptation alone is not enough for an insider-outsider hotel business to exhibit long-term viability. In a business environment where sociocultural institutions are so central, a hotel business must navigate the institutional context in a way which takes the sociocultural corollaries of its business decisions into account in order to economize transaction costs through more integrated arrangements. Finally, the *Valuing Relationships* sub-category underscores the importance of strong relational contracts to insider-outsider hotel business arrangements in the FSM. In situations where the specialized and complimentary assets of insider-outsider parties can be combined in transaction cost economizing ways which can both adapt to the institutional reality and maintain the sociocultural order, the success of the arrangement is dependent upon a strong relational contract between the parties to compliment the written contractual arrangement.

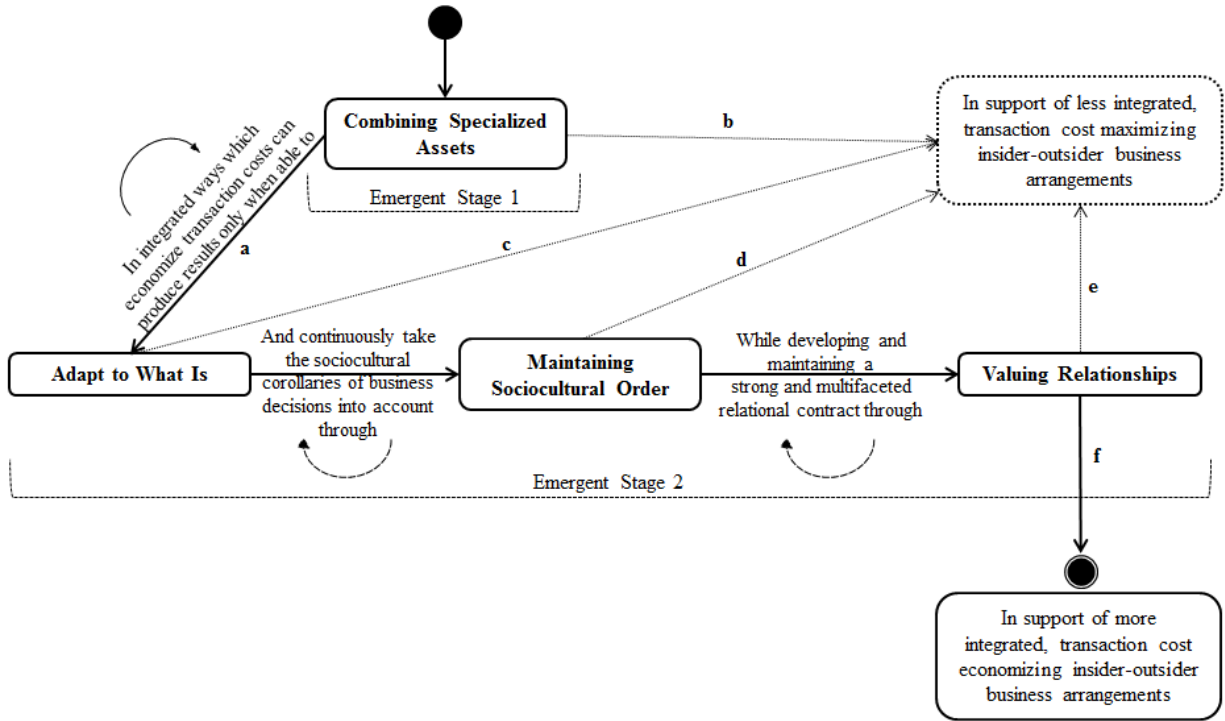
Figure 8 presents a theoretical model for *Working within the System* in the IOCP process approach. This is the same theoretical model as provided in Figure 3, but with additional detail to provide further clarity. The IOCP process begins with the first emergent stage of *Combining Specialized Assets*, after which the three other sub-categories combine to form the second emergent stage. This process is illustrated by solid arrows, with narrative added. However,

rather than existing as a pure linear process, the data indicate the second stage sub-categories loop back on each other throughout the IOCP process, as is indicated by the arched, dashed arrows. For example, developing a strong relational contract is not envisaged to occur in isolation from the other Stage 2 sub-categories, but rather occurs as part of an iterative process of adaptation to rules-in-use institutions and sociocultural maintenance.

Also, the ability to leverage specialized assets does not stop after the first stage of the IOCP process, but rather is needed throughout the life of the business as indicated by the dashed arrow arching back to the *Combining Specialized Assets* sub-category. For example, in the discussion of the *Maintaining Sociocultural Order* sub-category, understanding the sociocultural corollaries of business decisions is most often best determined by the specialized knowledge of insiders. So while *Combining Specialized Assets* is the first emergent stage, the complementary knowledge and skills of both insiders and outsiders are utilized throughout the second stage of the IOCP process approach. Various mechanisms that trigger transitions between stages and conditions (Sarker et al., 2013) are also delineated through the lowercase letters a – f in Figure 8. A summary of these trigger mechanisms is provided in Table 6.

**Figure 8.**

Theoretical process model: *Working within the System* in the IOCP process approach



**Table 6.**

Summary of trigger mechanisms in IOCP process model

<b>Transition label</b>	<b>Triggers</b>
<b>a</b>	<ul style="list-style-type: none"><li>- Presence of specialized and complementary insider and outsider assets</li><li>- Both insider and outsider assets are properly recognized and valued</li></ul>
<b>b</b>	<ul style="list-style-type: none"><li>- Lack of specialized and complementary insider and outsider assets</li><li>- Both insider and outsider assets not properly recognized and valued</li></ul>
<b>c</b>	<ul style="list-style-type: none"><li>- Outsiders don't adapt to business pace in FSM</li><li>- Outsiders have unrealistic preconceived ideas about business in FSM</li><li>- Outsiders rely too much on rules-in-form supported by formal institutions</li></ul>
<b>d</b>	<ul style="list-style-type: none"><li>- Business goes through wrong channels</li><li>- Financial considerations trump sociocultural considerations</li><li>- Sociocultural corollaries of business decisions not considered</li></ul>
<b>e</b>	<ul style="list-style-type: none"><li>- Absentee ownership style</li><li>- No relational contract</li><li>- Lack of trust</li><li>- Lack of fairness</li><li>- High relational asset specificity</li></ul>
<b>f</b>	<ul style="list-style-type: none"><li>- Effectively <i>Working within the System</i> in the IOCP process by <i>Combining Specialized Assets, Adapting to What is, Maintaining Sociocultural Order, and Valuing Relationships</i></li></ul>

## CHAPTER FIVE

### CONCLUSION

The previous chapter detailed a nuanced theoretical perspective to designing and maintaining a workable hotel business model in the FSM which stands in contrast to the status quo approach often advanced in PICs. This was accomplished via a combination of leveraging practitioner expertise and incorporating insights from a meta-theoretical perspective aimed at understanding how enterprising individuals form successful arrangements within the contextual realities of a given environment. This concluding chapter proposes some implications of this grounded theory investigation for both managers and researchers, as well as some directions for future research. Some potential limitations of this research are then discussed.

#### Overview

This study set out to develop a grounded theory on how to design and maintain a workable hotel business model in a Pacific Island country that itself does not have a workable tourism business model, and where ease of doing business is low. The FSM was used as the setting for this study, and provided a virtually ideal context for investigating this central research question. GTM was the method used for this research, and TCE was utilized as the guiding meta-theoretical lens. The results identified hotel business arrangements involving local FSM citizens (insiders) and foreigners to the FSM (outsiders) to be a common denominator to the more successful and longest-tenured hotel businesses in the FSM. Utilizing the systematic coding processes of GTM to probe deeper into these arrangements, while simultaneously juxtaposing the findings against the status quo approach to FDI articulated in the FSM's strategic development plan led to an alternative theoretical perspective on managing successful insider-outsider hotel businesses in this context. This is dubbed the IOCP process approach, and is

anchored by the core conceptual category of *Working within the System* and its four categories and their conceptual properties. This grounded theoretical perspective is proposed as an efficacious alternative to the status quo approach to business management in the FSM and PICs like it which neglects important rules-in-use, discounts the challenges to institutional reform, and places the onus of adaptation solely on the FSM side.

As Baumol et al. (2007) argue, it is unrealistic to base the hopes for increased private-sector business development and FDI in developing economies on the expectation that these countries will be able to seamlessly embrace all the tenets of entrepreneurial capitalism, of which efficient and effective formal institutions are central. As such, it seems clear that entering the business context in the FSM and PICs like it with the hopes of using an unmodified global business strategy (Peng, 2006; Schlie & Yip, 2000) cannot be expected to provide a sufficient pathway for long-term success. In PICs, the problems associated with FDI based on the principles of the status quo approach are compounded by the considerable differences between the “continental” (i.e., Western) and “island” (i.e., Pacific) consciousness of insiders and outsiders (Liu et al., 1987; Farrell, 1979). This difference is so stark that some have described it as occurring on not only cultural, but even physiological levels (Farrell, 1979).

Accordingly, what has been needed is an alternative theoretical perspective on private-sector business and FDI which advances understanding on how to actually navigate the realities of the existing institutional systems impacting business in developing economies rather than ignoring them or hoping they will change (Cuervo-Cazurra & Genc, 2008). However, this is easier said than done, and one problem facing both researchers and managers has been the inability to recognize, understand, and account for the informal and often implicit rules-in-use impacting business (Ostrom, 2005). While the tangible buildings made of iron and concrete

which house formal law are important, a disproportionate emphasis on their role can lead to recommendations based on “naïve ideas” (Ostrom, 2005, p. 827) about which institutions actually facilitate successful business and economic activity.

Moreover, foreign entrepreneurs looking to do business in international settings like the FSM must first understand the transaction costs associated with conducting business in such challenging environments in order to subsequently overcome them. As Zacharakis (1997) states, any outsider entrepreneur who fails to sufficiently address these transaction costs are inviting trouble for themselves and their business. Thus, combining provision for informal rules-in-use with TCE prescriptions can help provide a more realistic basis for structuring successful insider-outsider business arrangements in countries like the FSM. The present research took strides to address these issues and more through the theoretical developments of the IOCP process approach. Accordingly, the grounded theoretical insights of this dissertation are believed to have implications for both managers and researchers in the FSM and PICs like it.

### **For Managers**

The development of a grounded theory in this area was dependent upon gleaning the insights of knowledgeable and experienced practitioners. True to the tenets of engaged scholarship (Van de Ven, 2007), the data collection site of this study will be regarded as a knowledge transfer site subsequent to completion. Joint interpretation of the results between the researcher and relevant stakeholders will represent an opportunity to advance knowledge for improving or reinforcing existing management practices. In addition to those explicitly discussed in the previous chapter, additional managerial implications of this research discussed in the present chapter relate to: (1) approaching the business, (2) the role of the on-island agent in

connecting insiders and outsiders, (3) recognizing and utilizing normative systems, (4) education and training, and (5) business and economic development organizations.

### *Approaching the business*

This research has direct implications for hotel entrepreneurs in PICs like the FSM through the potential for facilitating more judicious decision-making regarding how to initially approach a prospective hotel business arrangement. This initial approach is especially important given the tedious nature of doing business in an environment where formal institutions are weak, informal institutions are strong, and where standardized prescriptions regarding business management and development are not generally relevant. The ability to parlay a more conscientious initial approach into a greater probability of designing and maintaining a viable long-term hotel business model is particularly important for outsider investors. As has been demonstrated by the bevy of failed hotel projects in the FSM, outsider investors who are unaware of the nuanced slant to doing business, and who do not approach the business via the principles of the IOCP process approach will find it prohibitively difficult to achieve the transaction cost economizing arrangements requisite to viability in such contexts.

That said, approaching insider-outsider hotel business arrangements with an understanding of the IOCP process approach and its related concepts is also important for insiders in PICs. This is true for insiders as hotel entrepreneurs, as well as insiders as business and economic development policy-makers. For insiders as entrepreneurs, one particularly important aspect of the IOCP process approach needing to be understood when approaching insider-outsider hotel business arrangements is in regard to *Combining Specialized Assets*. The findings and discussion of this research focus largely on a renewed appreciation on the part of outsiders for the frequently unrecognized/undervalued assets insiders bring to hotel business



arrangements. However, this is not to say that it is not also important for insiders to recognize and value the crucial assets outsiders bring to the arrangement. To reiterate, both insider and outsider subjects of this study frequently conveyed the idea that outsiders can ideally compensate for that which insiders often lack, namely access to guest markets, access to capital and materials, technical/operational knowledge, knowledge of hotel service standards, and an overall ability to get insiders to greater appreciate business situations. These assets are needed throughout the life of the insider-outsider business, and should be treated as such in the IOCP process approach. For instance, in PICs like the FSM it is crucial to recognize that the hotel business is much more than just the physical facility, and many insider-outsider hotel business arrangements can only generate revenue if the outsider can continually utilize their knowledge on accessing the guest market to achieve higher occupancy. Thus, insiders as hotel entrepreneurs must initially approach business arrangements with outsiders with an appreciation for these skills.

For insiders as business and economic development policy-makers, this research suggests the status quo approach to FDI in hotel businesses is not only an inappropriate initial approach, but that it may actually be detrimental to future private-sector investment and business development in the country. Rather than adopting the ideology pushed by external organizations that standardized prescriptions regarding business and economic development should work regardless of the contextual reality, local policy-makers in the FSM would be well-served by basing invitations for outsider investment on the principles of the IOCP process approach. When asked about this, one interviewee of this research with a wealth of expertise on private-sector business development in the FSM offered the following:

*You have to have a system in place that uses a practical, down to earth approach [for inviting in FDI] ...To make it work, you have to help [outside investors]*

*understand the system here, give them a pitch, and let them come out and see it. I would go out and recruit these [outside investors] and really get them in and work them in.*

In other words, to give outside investment in hotel businesses a greater probability of actually working, local policy-makers need to use a reality-based approach to help potential investors first understand the system, and then work within the system in ways that support success. The IOCP process approach and its related concepts represent a step in the right direction toward this end, and can be utilized by the FSM and other PICs as a conceptual foundation for revitalized policy in this area. The implications of the IOCP process approach for business and economic development policy are expanded upon next.

#### *Connecting insiders and outsiders: The role of an on-island agent*

The status quo approach to fostering outside investment in the FSM relies on the assumptions of the neoclassical approach to contracting. Some of these assumptions are that business arrangements between outsiders and insiders can work as long as they are supported by formal business contracts that carefully specify what each party may and may not do, what each party is and is not responsible for, the processes by which disputes are to be resolved, the consequences of contractual breach, and so on (Poppo & Zenger, 2002). However, as the findings of this research contend, relying on rules-in-form institutions to enforce such arrangements is not a viable option in the FSM. Thus, in order to legitimize their business activities and secure both resources and support from the sociocultural environment (Bruton et al., 2010), a more nuanced approach in which the right individuals must come together through the right processes. The status quo approach is also founded on the tenets of neoliberal economic theory, which advocates for an open economy and liberalized trade. However, market economies are predicated on transactions between parties that do not know each other (Duncan et

al., 2014), which must then be governed by fully enforceable legal contracts. As the present research points out, these arrangements are characterized by very high transaction costs and are not a viable approach in the FSM.

Others have noted that one of the most important components to economic development is how well the economy helps investors come together (Khanna & Palepu, 1997). Fostering business arrangements between the right individuals will help economize transaction costs by reducing search and information costs, as well as the costs associated with developing and monitoring the typical safeguards needed in formal contracts (Zacharakis 1997). However, calling for outside investment and assuming that reliable insiders and outsiders will somehow just find each other is not a viable approach in the FSM and PICs like it. As McMillan and Woodruff note (1999), locating reliable trading partners can consume a large amount of managers' time in developing economies. The substantial barriers to insider-outsider investors and entrepreneurs locating each other on the open market necessitate the use of an on-island agent to connect these individuals. This agent could be either an individual or an organization. The role of the on-island agent would be to screen potential outside investors to ensure they were both reliable and had the right specialized and complementary assets (i.e., link to guest market, technical/operational knowledge, etc.), and if warranted then connect them with reliable insiders with the right specialized and complementary assets (i.e., land, sociocultural skills, etc.). In addition to acting as conduits of information, these agents would then utilize the principles of the IOCP process approach to advise potential insider-outsider parties on how their business arrangement can increase its chance of laying the right foundation for long-term viability.

Some of the most prominent examples of successful trade in the Pacific have been characterized by the use of knowledgeable on-island agents that mediated mutually-beneficial

arrangements between insiders and outsiders (Cheshire, 2010). Despite the fact that this model sustained over a century of successful Pacific trade across various industries, it is hardly ever invoked in present-day private-sector business development strategy in general, and in regard to hotel businesses in particular (Cheshire, 2010). It is worth noting that several of the successful insider-outsider hotel business arrangements examined as part of this research were originally connected via the use of a knowledgeable on-island agent. In all cases, this process happened fortuitously as opposed as part of a systematic business development program.

Given the emphasis on tourism and hospitality business to the FSM's economic future, institutionalizing the use of on-island agents to connect insider-outsider hotel investors and initiate the IOCP process should be considered by policy-makers, economic development strategists, and any organization interested in small business development. Among other advantages, this practice could help to overcome the ease of doing business constraints often thought to hinder business development projects in the FSM and PICs like it. To ensure its relevance, the idea of connecting insiders and outsiders via the use of an on-island agent was presented to several well-respected hotel business owners as part of Study 2 of this research. All subjects confirmed the need for such an alternative approach in the FSM, suggesting that this more systematic and conscientious approach could help reduce the amount of failed projects that are causing detriment to the foreign investment landscape in the country. Thus, one interesting topic for future research in this area could be a focused analysis on the processes specifically related to how on-island agents effectively connect insiders and outsiders.

#### *Recognizing and utilizing normative systems*

One overarching conceptual theme of this research is the importance of recognizing and utilizing the right normative systems in FSM hotel businesses to ensure viability. To reiterate,

normative systems serve as guidelines for entrepreneurial activity by establishing what the rules-in-use are and how things are to be done in a way that is consistent with those values. This includes special provision for the social obligations associated with effectively doing business (Bruton et al., 2010; Scott, 2007). In this study, the core category of *Working within the System* and its sub-categories highlight the importance of an insider-outsider business arrangement's ability to leverage (as opposed to ignore or reform) the right normative systems to economize transaction costs via the more integrated forms characteristic of the IOCP process approach.

According to institutional theory, organizations seek to achieve a fit between how things are done in the organization and the normative system of what is preferred or considered appropriate in a society (Bruton et al., 2010; Martinez & Dacin, 1999; Scott, 2007). However, the ground rules of normative systems vary greatly between countries (Bruton et al., 2010). As such, it is important that both outside investors and state-level approaches to foster outside investment in private-sector hotel business account for this. Throughout the course of this research, both insider and outsider interview subjects recounted examples of outsiders who attempted to get a business running in the FSM but failed, sometimes tragically. In almost all of these failed endeavors, the outsiders were basing their judgments about what is proper and how their business should be work in ways consistent with that on the values and norms of the *wrong normative system*.

It is therefore equally important that state-level approaches to foster successful outsider investment are structured around the normative system in the FSM. As discussed, the influence of external organizations like the ADB on business and economic development policy has led to the adoption of economic ideologies that are either not based on the normative system in the FSM, or which are predicated on their reform. However, in order to avoid such "fruitless, costly

attempts at reform” (Duncan et al., 2014, p. 4), there has been a need for a perspective which recognizes that it is unrealistic to remove the constraints the normative system in the FSM poses to business development. In that the IOCP process approach is rooted in the idea of working within these normative systems in support of a viable long-term business model, it represents a more pragmatic and realistic theoretical perspective for use by both outsider investors and policy-makers at the state level. While the present research identified various important aspects of working within the normative system in the FSM, additional research could seek delineate additional nuances on a state-by-state basis. Such research could benefit by collaboration between researchers in business, anthropology, and/or sociology.

#### *Education and training*

The theoretical insights of the IOCP process approach can be utilized for education and training purposes in the FSM and other PICs. The lack of properly trained personnel is the most frequently cited factor when programs and policies designed to facilitate productive economic activity in PICs fail (Larmour, 2005). In their analysis of trade and growth in small nations, Armstrong and Read (2002, p. 75) assert that “human capital formation has been identified as a key source of comparative advantage in small states such that investment in education, training and learning-by-doing can be expected to have important long-run growth and productivity effects.” Prasad (2008) similarly posits that a better-educated labor force can better contribute to the process of economic growth in PICs. Given the importance of a properly educated population to the advancement of increased economic activity and private-sector business development in PICs, the relevance of the materials used to facilitate such education and training should be of paramount importance.

However, in the decolonization processes of PICs post-WWII, the educational systems of the FSM and other PICs were designed in the image of their colonial overseers (Bray, 1993). Today, colleges in PICs continue to operate under heavy Western influence. As such, the business curricula of education and training organizations in the FSM and other PICs are almost always based on material developed in other (i.e., Western) contexts, and are thus designed to address business management issues in only those (i.e., Western) contexts in which they were developed. These education and training materials may therefore be limited in relevance and applicability to PICs. For example, Cheshire (2001) argues that the training materials used in Micronesia do not address the conflict between Western business ideas and sociocultural realities of island societies, even when the trainers themselves acknowledge that such conflicts exist. This holds true for the college-level hospitality and tourism management programs in PICs, which exhibit notable similarity on account of substantial Western influence and the use of standardized curricula (Craig-Smith, 2005).

Thus, the results of the present research regarding the IOCP process approach can help provide education and training organizations in the FSM and PICs like it with highly relevant, endemic management theory to augment entrepreneurship, business administration and/or hospitality business management programs. During the data collection of this research, one subject with working expertise of college-level hospitality business management programs in the FSM commented that these programs would ideally rely on materials that could teach students how to merge Western business concepts with local (i.e., Micronesian) ways of doing things. Given that this research uses TCE as meta-theoretical lens for developing a theory on hotel business management grounded in local practitioner expertise, it is believed that the IOCP process approach represents a step toward this educational ideal. Training individuals with more

relevant materials can translate into sounder managerial decision-making, a more favorable overall investment climate, higher satisfaction levels among customers, and higher profit-making potential over the long-term. Investigating these relationships represents an opportunity for future studies involving collaboration between business and education researchers.

### *Business and economic development organizations*

The grounded theoretical insights of this research have high potential for use by the various business and economic development organizations working in the Pacific. As discussed, such organizations often rely on externally legitimated ideas about business management and development in supporting the success of small businesses in the FSM and PICs like it. This occurs for two reasons. The first is on account of a misguided assumption that such ideas are relevant in PICs in the first place. As Cheshire (2001, p.3) suggests, “business developers and the materials they use assume that the capitalist business model works everywhere regardless of the cultural environment.” By ignoring the sociocultural realities in Micronesia, these organizations advise business people to walk over a river as if it were dry land, when what they should be doing is teaching people how to swim (Cheshire, 2001). The second stems from a lack of alternatives due to a dearth of internally generated and contextually relevant knowledge in this area. The result has been a failure to “provide the assistance that addresses the problems that will ultimately determine whether or not their clients sink and drown” (Cheshire, 2001, p.3).

Consequently, a natural synergy exists between the results of this research regarding the IOCP process approach and the objectives of development organizations seeking to support the success of small businesses in the FSM. Not only would utilizing the principles of the IOCP process approach allow development organizations to better serve their clientele and prevent wasted resources (i.e., time, money, effort), the quality of an island destination’s brand is partly



dependent upon the cumulative actions of its tourism-related businesses (Croes, 2006). Thus, the cumulative effect of utilizing a more relevant approach to enhance hotel business practices can parlay into enhanced visitor experiences through the development of the kinds of properties at which visitors actually want to stay. This can in turn lead to higher levels of attitudinal loyalty, positive word of mouth, and repeat purchases. Therefore, application of the grounded theoretical insights of this study to improve overall hotel business practices may provide a much needed boost to developing PICs looking for international brand recognition and increased tourism receipts.

The findings can likely extend to private-sector business communities in other struggling industries in the problem solving stage of the engaged scholarship approach (Van de Ven, 2007). Through additional interpretations, business and economic development organizations can utilize the theoretical insights of the IOCP process approach to support successful insider-outsider business arrangements in food/beverage services, retail and wholesale operations, a variety of professional services, agriculture, aquaculture, and other tertiary sectors. Given the link between successful business development and economic development (Acs et al., 1999; Drucker, 1995; Schumpeter, 1983), these processes could parlay into broader economic development implications for PICs like the FSM seeking increased levels of economic self-reliance. While the practicalities may be prohibitive, conducting comparative case study research using businesses guided by development organizations using the status quo approach versus those using the IOCP process approach represents an extremely useful avenue of future inquiry.

### **For Researchers**

Emerging economies like the FSM are characterized by unique sociocultural, political, institutional, and historical attributes. As such, these countries offer business researchers fertile

ground for both the development of novel theoretical insights into business phenomenon, as well as for the modification and expansion of established business theory (Bruton et al., 2008; Kiss et al., 2012). In broad terms, the theoretical developments elucidated via the IOCP process approach and its core and sub-categories addresses the recent call for more nuanced insights into how entrepreneurs in developing economies develop workable businesses in ways which overcome institutional and industry barriers, and use idiosyncratic business practices to navigate unique sociocultural and political environments (Kiss et al., 2012). The specific research implications of this study to be discussed relate to: (1) applications of TCE in the context of developing economies, (2) valuing insider assets, (3) provision for socioculturally-derived transaction costs in TCE research, (4) relational asset specificity, (5) the role of trust in Pacific Island business, and (6) the advancement of Pacific Island business management theory.

#### *TCE in developing economies*

TCE was originally conceived from a Eurocentric business perspective, and has since been mostly studied in the context of developed economies with relatively effective formal institutions and well-understood social norms (Hoskisson et al., 2000). However, economies characterized by relatively ineffective formal institutions and less understood social norms differ substantially on many levels from the context on which conventional business and economic theory is based (Dixit, 2004). As such, less is known regarding the governance of transaction cost economizing business arrangements in developing economies (Hoskisson et al., 2000; Promsivapallop, et al., 2015). Some studies suggest that entrepreneurs in places characterized by “institutional voids” (Khanna & Palepu, 1997) regarding things like legal enforcement of contracts and property rights must utilize alternative governance structures and contractual arrangements to develop workable business models (Bruton et al., 2010). Hoskisson et al. (2000)

argue that the high transaction costs of developing economies will necessitate a greater propensity for hierarchical organizational forms compared to developed economies. However, nuanced theoretical insights on these alternative governance structures and contractual arrangements in emerging economies have been lacking (Kiss et al., 2012). Because the circumstances of emerging countries vary, what has been needed is country-specific analysis by researchers with in-depth knowledge of a place (Duncan et al., 2014).

Furthermore, it is true that entrepreneurs are both constrained and enabled by their institutional environment (Bruton et al., 2010; Scott, 2007). However, most of the focus in PICs has been on institutions as constraints, and subsequently how to eliminate such institutional constraints in ways considered conducive to private-sector business development and FDI. This reform-centric approach which ignores the ways entrepreneurs and investors can effectively work within these perceived institutional constraints is on par with the pattern of research on small island states fixated on constraints rather than pragmatic solutions (Duncan et al., 2014; Scheyvens & Momsen, 2008). As such, there has been a shortage of research devoted to developing theoretical insights into how business arrangements in emerging economies can leverage existing institutions within a given industry structure in transaction cost economizing ways (Manev & Manolova, 2010).

By combining the use of GTM with TCE as meta-theoretical lens, the present study contributes to the literature on TCE in emerging economies in several ways. First, this research helps address the need for linking the study of transaction costs to the broader institutional frameworks in which business arrangements take place. As opposed to TCE research which focuses more on micro-level institutional variables while treating the more macro-level institutions as “background” (La Porta et al., 1999; Peng et al., 2008), this study helps advance

TCE research by connecting firm-level strategic processes with the more macro-level institutional frameworks in which transactions take place and business arrangements are formed (Peng et al., 2008). Second, in addition to bringing macro-level institutional variables to the front where they belong in studies of developing economies like the FSM, the present study advances the niche stream of research which assumes a priori that a developing economy's formal institutions are ineffective and inefficient, thus making the quality of rules-in-form institutions less of an issue (Dixit, 2004). Not only are rules-in-use brought to the foreground, this research develops theoretical insights into how idiosyncratic rules-in-use can be leveraged in support of transaction cost economizing business arrangements via the IOCP process approach. As such, the present study answers the call for additional detailed research using a more institution-based focus for business strategy-related research in developing economies (Peng et al., 2008).

Also, as Peng et al. (2008) suggest, research relating to business strategy in developing economies has the potential to generate fruitful new avenues of inquiry for the future. While the body of research relating to business strategy in developing economies has expanded, the “coverage of countries and regions has been uneven” (Wright et al., 2005, p. 26). As such, there has been a need to broaden the research agenda to include provision for theoretical and empirical developments in the countries and regions that to date have received little research attention (Hoskisson et al., 2000). The same is true for strategy-related research on hotels, where much of the focus in the East Asia-Pacific region has concentrated on more developed locations (Han, 2012; Lo, 2012; Yeung & Lau, 2005; Wang et al., 2012). Thus, the present theory development research using the FSM is envisaged as a contribution to the literature on business strategy in

developing economies in general, and hotel business strategy in the more neglected areas of the East Asia-Pacific region in particular.

In addition to an uneven distribution of research in terms of geographic coverage, research in this area has also been uneven in terms of the breadth of sectors studied (Wright et al., 2005). For example, research on service sectors in developing economies have been relatively neglected (Wright et al., 2005). For PICs like the FSM where the significant constraints to developing manufacturing-based economies have become salient over the past several decades, the greatest potential for generating economic activity has been increasingly assigned to service sectors like hospitality and tourism. Therefore, the present research on hotel business management in the FSM represents a conceptual foundation for additional research on this important service sector for PICs.

Finally, theoretical research relating to organizations and institutions in developing economies has lagged behind empirical and descriptive research in this area (Dixit, 2004). Moreover, the theoretical work regarding organizations and institutions in economies like the FSM “must go beyond general schemata, and develop more detailed models of the specific situations and problems” (Dixit, 2004, p. 21) of concern to study in this area. Ideally, developing research designs which utilize both empirical data and qualitative analysis may be the most useful in helping to generate relevant and reliable insights on business strategy in developing economies (Hoskisson et al., 2000). As such, a perceived strength of the present research is that it helps answer this need through the use of GTM. GTM is considered as one of the most prominent qualitative research methods (Bryant & Charmaz, 2007), and also is empirical in that GTM involves the systematic acquisition of data resulting in individual data points (Glaser &

Strauss, 1967). Thus, future studies aimed at developing theoretical insights into business phenomena can glean insights from the research design of the present study.

### *Valuation of insider assets*

Much of the focus in research and practice in developing economies is on the assets that outsiders can bring in to these contexts to spur business activity. For example, in their study on how TCE, resource-based view theory, and institutional theory can be combined to provide theoretical insights on private-sector business in developing economies, Hoskisson et al. (2000) argue that additional research is needed on the role of foreign investors as financial and managerial resource providers in FDI ventures in such contexts. In the present research, the importance of the specialized knowledge and skills outsiders bring to insider-outsider hotel business arrangements was underscored in the sub-category *Combining Specialized Assets*. Specifically, it was found that outsiders contribute much-needed assets regarding links to different tourist markets, access to materials and financial capital, and operational know-how on the technical aspects of running a hotel business. The fact that insiders often lack these assets creates the impetus for more integrated and transaction cost economizing arrangements characteristic of the IOCP process approach.

However, in contrast to the typical approach of placing an imbalanced emphasis on the assets that outsiders bring to private-sector business ventures in places like the FSM, the present findings illuminate a more balanced theoretical approach which properly identifies, values, and utilizes the tangible and intangible assets that insiders bring to these arrangements. For researchers in this area, this points toward a number of avenues for further analysis on the role of insiders as providers of the essential sociocultural and land resources in hotel businesses in PICs. For instance, a topic deserving additional exploration is regarding what one insider subject in the

present study referred to as the “social marketing” responsibilities that insiders carry out as part of the IOCP process. In the marketing literature, social marketing is defined as an organized process of marketing a cause or idea with social implications in a way that will influence the public acceptability of that cause or idea (Kolter & Zaltman, 1971; Kotler, 2011).

One extension of the social marketing concept is community-based social marketing, or the idea that the processes of influencing the acceptability of a socially beneficial cause or idea are “most effective when they are carried out at the community level and involve direct contact with people” (McKenzie-Mohr, 2011). The present research found that insiders’ knowledge assets regarding their ability to influence the community acceptability of the insider-outsider hotel business via community-based social marketing were a key component of the IOCP process approach. This idea offers a potential extension to the social marketing concept by suggesting that not only do a community’s acceptance of an organization’s product outcomes need to be targeted, but that the business arrangement itself needs to be marketed to the community as a socially beneficial idea by a skilled insider. As one insider in the present study who actually used the term “social marketing” commented:

*In our business, I had to do a lot of the “social marketing” ...going to the grassroots level to get people to buy into the idea of a hotel in the village. [Here] there is a clan mentality, where everyone has to be on board with the idea. If one person isn’t on board then it won’t work.*

To further delineate how this extension of social marketing can be combined with TCE for understanding exactly how an insider’s effective social marketing can reduce transaction costs between the community and the business, several issues require additional analysis. First, it is important to understand what makes for an effective social marketer in the first place. Research in this area could help to develop a profile for the ideal type of insider that can help reduce transaction costs in the IOCP process approach via community-based social marketing

skills. This will likely include provision for social psychological, leadership, traditional rank, political, and/or communal ordering variables. The findings of this research would be important to business and economic development organizations seeking to connect the right insiders and outsiders. In addition to investigations at the individual level, future efforts could focus on providing more fine-grained theoretical developments on the processes insiders go through during the community-based social marketing aspects of the IOCP process approach. Such research could likely use an ethnography approach, and in doing so achieve the kind of blending of insights from various disciplines (i.e., anthropology, sociology, social psychology, culture studies, business and economics, etc.) often thought as requisite to advancing theoretical developments on research in this area (Franklin & Crang, 2001).

#### *Socioculturally derived transaction costs*

TCE theory specifies that transacting parties will structure business arrangements in ways which economize the costs associated with such exchange. However, the factors driving levels of integration in business arrangements should be based on more than mere economic concerns (Martinez & Dacin, 1999). One critique of TCE has been that it has not adequately accounted for the transaction costs stemming from sociocultural-level phenomena, and thus how sociocultural phenomena can influence optimum business arrangements from a TCE perspective (Martinez & Dacin, 1999). As Dacin (1997) argues, rules-in-use stemming from informal institutions and sociocultural factors can influence business arrangements and thus need to be considered in organizational research. To realize a more holistic approach to TCE theorizing, studies must also include sociocultural factors stemming from informal institutions which influence transaction cost economizing integration in business arrangements between parties.



As such, the present findings contribute to the strengthening of TCE theorizing by incorporating provision for socioculturally derived transaction costs in insider-outsider hotel business arrangements. Moreover, as opposed to simply acknowledging sociocultural factors in PICs as potential sources of dysfunction (and therefore transaction costs), the present study elevates the analysis a step beyond previous research by developing a theoretical perspective on how these costs can be economized via the IOCP process approach. In other words, rather than dwelling on sociocultural factors in the FSM as constraints in private-sector business arrangements, this research explains how transacting parties can effectively work within the system to leverage these sociocultural factors in ways which support transaction cost economizing business arrangements through the IOCP process approach.

The present findings also contribute to the body of knowledge on how sociocultural factors can influence the potentially inefficient and/or “irrational” decisions (Jones et al., 1993; Martinez & Dacin, 1999) parties must sometimes make in support of a successful hotel business model in the FSM and other PICs. As Martinez and Dacin (1999, p. 82) state, “certain actions may be blatantly inefficient on the face of it, but ultimately utilitarian and rational underneath.” The results indicate that maintaining the sociocultural order in ways which contribute to the design and maintenance of a workable hotel business model via the IOCP process inevitably involves certain actions that may be deemed irrational from the business perspective characterizing most outsiders. While there are often financial costs associated with this apparent irrationality, such financial costs can be off-set through ultimately reducing transaction costs, thus contributing to the long-term viability of the business. Put simply, the reduced efficiency associated with these “irrational” decisions can be compensated by increased effectiveness over the long-term. One critical topic for future research is a focused analysis on what the optimal

balance is regarding the financial concessions associated with these “irrational” decisions, and how entrepreneurs in PICs effectively strike this balance.

### *Relational asset specificity*

Previous research on TCE has discussed various types of asset specificity. While Williamson (1983) initially identified the site, physical, human, and dedicated asset specificity dimensions, subsequent research built upon TCE theory by elucidating the concepts of procedural, time, brand name capital, spatial, temporal, and family-based asset specificity (Verbeke & Kano, 2010; Williamson, 1985; Zaheer & Venkatraman, 1994). Despite these significant contributions regarding asset specificity, some ambiguity still remains regarding this complex concept, and therefore it has yet to be completely developed (David & Han, 2004; De Vita et al., 2011; Geyskens et al., 2006). As such, the findings of this study regarding the *relational asset specificity* component of the IOCP process represent a contribution to TCE research, as it is believed that this concept has not been articulated to date in previous literature.

Some suggest that one shortcoming of the asset specificity concept is its loose and sometimes varying definitions and operationalization (De Vita et al., 2011). However, this perceived limitation of the asset specificity concept parlayed into a strength when combined with the use of GTM in the present research. As explained, assets are specific when they are highly specialized and have little value outside of the specific business arrangement between transacting parties (Walker & Weber, 1984; Williamson, 1983). Using this basic definition as a conceptual platform helped the researcher to interpret the data in the GTM data collection and analysis process in a way which led to the unique relational asset specificity concept. To reiterate, relational asset specificity is the idea that a valuable component of the IOCP process is the existence of a relational contract between insider and outsider. In this sense, the relationship is

an asset to the hotel business arrangement. When this relational asset has little value outside of the specific business arrangement between insider and outsiders in the FSM, this can often lead to ex post governance problems and contractual complexity, particularly in regard to land use arrangements for the hotel business. Accordingly, to achieve greater probability of a hotel business model exhibiting long-term viability, the relational asset has to extend beyond the individual parties to dependents as well. This will in turn help economize transaction costs throughout the life of the business.

This finding regarding relational asset specificity is in the same family of ideas as previous work done on reputation asset specificity (Rindova & Martins, 2012), and thus can be viewed as an extension of research in this area. According to Rindova and Martins (2012, p. 25), “the more firms target a particular stakeholder group, and the more they focus their investments on signaling information to this stakeholder group, the higher the level of specificity that their reputational assets are likely to have.” However, whereas Rindova and Martin (2012) posit that highly specific reputation assets will increase exchange efficiency and the level of attractiveness of exchange partners, the present findings from the FSM suggest that highly specific relational assets which only involve select insider individuals will increase the likelihood for ex post governance problems. Thus, high relational asset specificity is a source of potential transaction costs, and must be economized by developing the multifaceted relational contracts characteristic of the more integrated arrangements of the IOCP process approach. That said, additional studies are needed to further understand the complex processes by which hotel investors, particularly outsiders, develop and maintain the kinds of multifaceted relationships necessary for reducing the contractual complexity of their business arrangement over the long-term in PICs like the

FSM. This too could involve a blended approach involving researchers in business, anthropology, and/or sociology.

### *The role of trust in Pacific Island business*

The present findings also highlight the need for additional investigations regarding the role of trust in Pacific Island hotels and other private-sector businesses. Given the emphasis on outsider investment in PICs, this is particularly true for insider-outsider business arrangements. According to the *Combining Specialized Assets* sub-category, a perceived lack of trust characterizes both insiders and outsiders when these parties attempt to locate each other on the open market. The findings of the *Valuing Relationships* suggest ways in which insider-outsider trust can be established in the FSM, such as through generating increased perceptions of fairness through proactive adjustment and active non-enforcement, and by utilizing the normative socialization processes in the FSM. Thus, trust in FSM business serves as both a transaction cost economizing and value creation mechanism in the IOCP process approach via reducing the threat of opportunism, reducing the need for monitoring costs, increasing information sharing behavior, etc.

However, as previous research points out (Rousseau et al., 1998; Zaheer & Venkatraman, 1995), the notion of trust is a multi-faceted concept that is assigned a variety of meanings. Due to the unique nature of the private-sector business environment in the FSM, it is therefore unclear exactly which kinds of trust both insiders and outsiders rely upon when dealing with the other. This necessitates a need for additional research on which combinations of trust need to be fostered and effectively leveraged toward transaction cost economizing and valuing creation outcomes as part of the IOCP process approach. For instance, there are some disparities in how trust is viewed between disciplines (Rousseau, et al., 1998). In economics and TCE, Williamson

(1985) treats trust as a subclass of risk whereby expected net gains and expected net losses are evaluated in a calculative way between transacting parties. In psychology, trust is assessed in more interpersonal ways which consider individual attributes and internal cognitions (Rotter, 1967; Rousseau, et al., 1998). In sociology, trust is often treated as more of a social phenomenon embedded in personal relationships and social networks (Lewis & Weigert, 1985; Granovetter, 1985; Rousseau, et al., 1998). There have also been various dimensions of trust identified within disciplines. In sociology, for example, distinctions have been made between characteristic-based trust (formed in groups and based on human characteristics), process-based trust (formed during exchanges), and institutional-based trust (embedded in social phenomenon) (Zaheer & Venkatraman, 1995; Zucker, 1986). The psychology literature conceptualizes trust as multidimensional, with distinct cognitive (knowledge), affective (emotional), and behavioral (action) dimensions (Lewis & Weigert, 1985).

In addition, there are cross-cultural differences in trust propensities and behaviors. For example, Yuki et al., (2005) studied trust behaviors in Western and Eastern cultures, finding that individuals from Western cultures exhibited a depersonalized form of trust based on in-group and out-group membership. Conversely, those from Eastern cultures tended to trust based for relationship-based and social network-based processes. The islands of Micronesia exhibit idiosyncratic sociocultural characteristics, and have been subject to substantial levels of both Western and Eastern influence (Crocombe, 2007; Hanlon, 1998). While various accounts of the social systems and cultural practices in various Micronesian islands have been offered (Caughey, 1977; Hezel, 2013; Labby, 1976; Lingenfelter, 1975; Peoples, 1985; Peterson, 1982; Riesenber, 1968), there is a dearth of research on trust behaviors in the FSM and PICs like it. As such, there is a need for future research on how trust is formed and maintained in the FSM, the specific trust

behaviors of individuals, and also on the business outcomes of trust in Micronesian society. Given the important role of trust to the IOCP process approach, this kind of research should help promote improved, transaction cost economizing insider-outsider hotel business arrangements in the FSM and other PICs.

### *Pacific Island business theory*

While it has been recognized that a unique approach to business management and development is required in PICs (Saffu, 2003; Solomona & Davis, 2012), there remains a paucity of systematic research in the area. Endemic theories which account for the nuances and contextual factors related to the design and maintenance of a workable business model in these challenging environments are thus required. To this end, the grounded theory of this research regarding the IOCP process approach and *Working within the System* is envisaged as a key step toward helping to bridge the gap between theoretically uninformed business management practice, and practically uninformed business management theory in PICs. More specific details on how the present findings help both address some perceived shortcomings of previous business research in PICs, and suggest avenues for additional study are detailed next.

First, previous research relating to business management in PICs has typically resulted in descriptions of very broad success factors as opposed to developing actual management theory (Hailey, 1987; Solomana & Davis, 2012; Yusuf, 1995). While descriptive findings can help illuminate that which researchers observe in their data, it falls short of explaining why conceptual patterns are observed in data and how they might be expected to predict certain outcomes (Sutton & Staw, 1995). In other words, it leaves the “basic questions of cause and effect implicit or unexamined” (Dixit, 2004, p. 21). Thus, the development of a grounded theory complete with systematically related propositions provide a relevant theoretical perspective for

understanding hotel business management in PICs, while simultaneously placing a sharper focus on the individual concepts relevant to business in this area. That said, the theoretical propositions of this research are just that. How these propositions hold up under additional empirical scrutiny and/or in the conditions in other PICs is yet to be understood. This represents an important area of future research.

Second, previous research relating to business management in PICs has not focused on service industry businesses in general, and the lodging sector in particular. This is surprising given the importance of the service sector to the economic development formula of PICs, and also given the emphasis placed on tourism and tourism-related business to the long-term economic growth strategy of countries like the FSM. Therefore, the grounded theory of this research provides a much needed theoretical contribution to the literature on the nuanced business management approaches required for service sector businesses in PICs. More generally, this research also helps address the need for new service industry management theories, as most research in this area utilize theories developed in the context of manufacturing. Despite these perceived contributions, additional research is also needed to understand how the present findings can possibly extend to other service business sectors like food/beverage services, retail and wholesale operations, professional services, and other tertiary sectors. Because theory is socially constructed (DiMaggio, 1995), this research's contribution to management science discourse in the Pacific region will largely depend on the extent to which those in the Pacific academic community engage with the theoretical insights developed in this study.

Lastly, previous research relating to business management in PICs has made a priori distinctions between indigenous and non-indigenous businesses (Fairbairn, 1988; Saffu, 2003;

Solomona & Davis, 2012; Yusuf, 1998). While valuable in its own right, it is thought that the present research advances research in this area by avoiding such a priori categorization of indigenous and non-indigenous businesspeople. Specifically, approaching the data collection without such pre-conceived characterizations broadened the analytical plane, allowing the researcher to identify the ways in which indigenous (insider) and non-indigenous (outsider) individuals successfully come together in business via the IOCP process approach. While the present study focuses on how insiders and outsider come together to form workable business arrangements, future research should focus more on the operational aspects of the business. As several subjects of this research suggested, one particularly important operational topic deserving attention is in regard to the optimal mix of Western and local management practices required to operate a successful insider-outsider hotel business. Another is how these businesses must account for both economic and sociocultural considerations from an operational point of view. Future studies in these areas could help provide a more complete picture on how to design and maintain a workable hotel business in PICs like the FSM.

### **Limitations**

The implications of this research should be considered in conjunction with its limitations. The performance metrics that can be used to assess business performance can range from survival, growth, profitability, to initial public offerings (Shane, 2003). However, this study focused only on understanding how hotel businesses organize those critical success factors in ways which promote survival. Accordingly, there is much that needs to be learned about how to design and maintain a workable hotel business model in PICs which supports goals of growth and profitability. This represents an opportunity for future research. Also, an ideal study on this topic would use more of a mixed methods approach whereby statistical data was incorporated



into the analysis. However, given the substantial challenges to acquiring reliable quantitative data in PICs like the FSM (Hezel, 2012), this approach was not an available option for this study. Should the collection and availability of reliable statistical data improve in PICs like the FSM in the future, using this data to corroborate the findings via a mixed methods approach would be optimal. This also represents an opportunity for future research.

An issue that all GTM researchers must confront relates to the scope of a grounded theory. Depending on the topic of analysis, the research questions being addressed, and the theoretical sensitivity of the researcher, GTM can be utilized to develop grounded theory that is either circumscribed by time and space (i.e., substantive), or which can explain phenomena irrespective of context (i.e., formal) (Glaser & Strauss, 1967). Given that the present research was conducted in only one country, the theoretical developments are conceptualized as a substantive theoretical contribution. How these findings can be generalized to understand hotel business management in other PICs is yet to be determined. However, while the use of only one country may be a limitation, it is also true that the FSM as a country is entirely a political construction stemming from a history of colonialism and occupation. As seasoned travelers in the FSM understand, each of the four FSM states (Yap, Chuuk, Pohnpei, and Kosrae) are remarkably different from each other from a sociocultural standpoint. While grouped together to form a country called the FSM, the differences between the states are so stark that each could easily be considered its own separate country. In that the findings of this research were generated based on data collection and analysis in all four of these very different FSM states, there is reason to believe that the core tenets of the IOCP process and *Working within the System* can be applied to other PICs. This too represents an opportunity for future research.

Lastly, in addressing the central research question of this study, the analysis and results focused on insider-outsider arrangements only. While such arrangements were observed as a common denominator of many of the most successful and longest tenured hotel businesses in the FSM, it is not to say that there are no other business models that can be effectively used in this context. For example, there are examples of hotel businesses in the FSM which are not characterized by an insider-outsider arrangement, but which have continued to survive. While the separate issue of how these entirely locally owned enterprises are made to work is not addressed in the present findings, it represents an excellent topic for future theory development research. As Davidson and Sahli (2015) suggest, the advantages and disadvantages of hotel businesses involving a foreign investor and those that are involve pure local ownership are likely very complex. Ideally, the findings of such research should be combined with the insights developed regarding the IOCP process approach to provide for a more holistic understanding of how to design and maintain a workable hotel business model in the FSM and PICs like it.

## REFERENCES

- Abeyratne, R. (1999). Management of the environmental impact of tourism and air transport on small island developing states. *Journal of Air Transport Management*, 5(1), 1–37.
- Acs, Z. J., Carlsson, B., & Karlsson, C. (1999). *Entrepreneurship, small and medium-sized enterprises, and the macroeconomy*. Cambridge: Cambridge University Press.
- Adler P. (2001). Market, hierarchy, and trust: The knowledge economy and the future of capitalism. *Organization Science*, 12(2), 214–234.
- Ahlstrom, D., Bruton, G. D., & Lui, S. Y. (2000). Navigating China's changing economy: Strategies for private firms. *Business Horizons*, 43, 5–15.
- Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction costs analysis and propositions. *Journal of International Business Studies*, 17(4), 1–26.
- Armstrong, H. W., & Read, R. (2000). Comparing the economic performance of dependent territories and sovereign microstates. *Economic Development and Cultural Change*, 48(2), 285–306.
- Armstrong, H. W., & Read, R. (2002). The importance of being unimportant: The political economy of trade and growth in small states. In S. Mansoob Murshed (Ed.), *Issues in positive political economy*, (pp. 71–88). New York: Routledge.
- Armstrong, H. W., & Read, R. (2006). Geographical 'handicaps' and small states: Some implications for the Pacific from a global perspective. *Asia Pacific Viewpoint*, 47(1), 79–92.
- Asian Development Bank (2012). *Key indicators for Asia and the Pacific 2012*. Mandaluyong City: Asian Development Bank.
- Asian Development Bank (2014). Fact Sheet. Retrieved September 4, 2014 from <<http://www.adb.org/publications/federated-states-micronesia-fact-sheet>>
- Asian Development Bank (2014a). Key Facts. Retrieved September 4, 2014, from <<http://www.adb.org/about/key-facts>>
- Baldacchino, G. (2000) An exceptional success: The case of an export-oriented, locally-owned, small-scale manufacturing firm in a small island country. *The Journal of Pacific Studies*, 23(1), 27–47.
- Ballantyne, R., Packer, J., & Axelsen, M. (2009). Trends in tourism research. *Annals of Tourism Research*, 36(1), 149–152.

- Bargh, M. (2001). Romance and resistance in the Pacific: Neoliberalism and indigenous resistance in the Pacific. *Revue Juridique Polynésienne*, 1(118), 251–274.
- Bascom, W. (1965). Ponape: A Pacific economy in transition. *Anthropological Records*, 22, 1–156.
- Baumol, W. J. Litan, R. E., & Schramm, C. J. (2007). *Good capitalism, bad capitalism, and the economics of growth and prosperity*. New Haven: Yale University Press.
- Becker, P. H. (1983). Common pitfalls in published grounded theory research. *Qualitative Health Research*, 3, 254–260.
- Benzing, C., Chu, H. M., & Kara, O. (2009). Entrepreneurs in Turkey: A factor analysis of motivations, success factors, and problems. *Journal of Small Business Management*, 47(1), 58–91.
- Bieger, T., & Wittmer, A. (2006) Air transport and tourism—Perspectives and challenges for destinations, airlines and governments. *Journal of Air Transport Management*, 12(1), 40–46.
- Bray, M. (1993). Education and the vestiges of colonialism: Self-determination, neocolonialism and dependency in the south pacific. *Comparative Education*, 29(3), 333–348.
- Brotherton, B., & Wood R. C. (2008). Editorial introduction. In B. Brotherton & R. C. Wood (Eds.), *The SAGE handbook of hospitality management* (pp. 1–34). Thousand Oaks: SAGE Publications.
- Bruton, G. D., Ahlstrom, D., & Li, H-L. (2010). Institutional theory and entrepreneurship: Where are we now and where do we need to move in the future? *Entrepreneurship Theory and Practice*, 34(6), 421–440.
- Bruton, G. D., Ahlstrom, D., & Obloj, K. (2008). Entrepreneurship in emerging economies: Where are we today and where should the research go in the future. *Entrepreneurship Theory and Practice*, 32(1), 1–14.
- Bryant, A., & Charmaz, K. (Eds.) (2007). *The SAGE handbook of grounded theory*. Los Angeles: SAGE Publications.
- Buckley, P. J. (1987). Tourism: An economic transactions analysis. *Tourism Management*, 8(3), 190–194.
- Buckley, P. J., & Casson, M. C. (1976). *The future of the multinational enterprise*. London: Macmillan.

- Cahn, M. (2008). Indigenous entrepreneurship, culture and micro-enterprise in the Pacific Islands: Case studies from Samoa. *Entrepreneurship & Regional Development*, 20(1), 1–18.
- Campling, L. (2006) A critical political economy of the small island developing states concept: South–South cooperation for island citizens? *Journal of Developing Societies*, 22(3), 235–285.
- Carlile, L. (2000). Niche or mass market? The regional context of tourism in Palau. *The Contemporary Pacific*, 12(2), 415–436.
- Casson, M. C. (1997). *Information and organization: A new perspective on the theory of the firm*. Oxford: Clarendon.
- Caughey, J. L. (1977). *Fa'a'nakkar cultural values in a Micronesian society*. Philadelphia: University of Pennsylvania.
- Chang, S. J., & Rosenzweig, P. M. (2001). The choice of entry mode in sequential foreign direct investment. *Strategic Management Journal*, 22(8), 747–776.
- Charmaz, K. (2006). *Constructing grounded theory: A practical guide through qualitative analysis*. Thousand Oaks: Sage.
- Cheshire, C. L. (2001). Family and business in Micronesia. *Micronesian Counselor*, 37, 1–19.
- Cheshire, C. L. (2010). Swimming with the tide. *Micronesian Counselor*, 81, 1–10.
- Cheshire, C. L. (2013). *Tourism Development in the Pacific*. Unpublished manuscript.
- Choy, D. L. (1984). Tourism development: The case of American Samoa. *Annals of Tourism Research*, 11, 573–590.
- Choy, D. L. (1992). Life cycle models for Pacific Island destinations. *Journal of Travel Research*, 30(3), 26–31.
- Churchill, N. C., & Lewis, V. L. (1983). The five stages of small business growth. *Harvard Business Review*, 61(3), 30–50.
- Coase, R. H. (1998). The new institutional economics. *American Economic Review*, 88(2), 72–74.
- Connell, J. (1991). The new Micronesia: Pitfalls and problems of dependent development. *Pacific Studies*, 14(2), 87–120.
- Connell, J. (2007). Islands, idylls and the detours of development. *Singapore Journal of Tropical Geography*, 28(2), 116–135.

- Connell, J. (2007a). The best island on the globe: Constantly constructing tourism on Niue. *Australian Geographer*, 38(1), 1–13.
- Connell, J., & Lowe, A. (1997). Generating grounded theory from qualitative data: The application of inductive methods in tourism and hospitality management research. *Progress in Hospitality and Tourism Research*, 3(2), 165–173.
- Covin, J. G., & Slevin, D. P. (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal*, 10, 75–87.
- Craig-Smith, S. J. (2005). Tourism education in Oceania. In C. Cooper & C. M. Hall, (Eds.), *Oceania: A tourism handbook* (pp. 362–379). Clevedon: Channel View Publications.
- Creswell, J. (1998). *Qualitative inquiry and research design: Choosing among five traditions*. Thousand Oaks: SAGE Publications.
- Crocombe, R. G. (2001). *The South Pacific*. Suva, Fiji: University of the South Pacific.
- Crocombe, R. G. (2007). *Asia in the Pacific Islands: Replacing the west*. Suva: IPS Publications.
- Croes, R. R. (2006). A paradigm shift to a new strategy for small island economies: Embracing demand side economics for value enhancement and long term economic stability. *Tourism Management*, 27(3), 453–465.
- Cuervo-Cazurra, A., & Genc, M. (2008). Transforming disadvantages into advantages: Developing-country MNEs in the least developed countries. *Journal of International Business Studies*, 39(6), 957–979.
- Curry, G. 1999 Markets, social embeddedness and pre-capitalist societies: The case of village trade stores in Papua New Guinea, *Geoforum*, 30, 255–298.
- Dacin, M.T. (1997). Isomorphism in context: The power and prescription of institutional norms. *Academy of Management Journal*, 40(1), 46–81.
- David R. J., & Han S. K. (2004). A systematic assessment of the empirical support for transaction cost economics. *Strategic Management Journal*, 25(1), 39–58.
- Davidson, L., & Sahli, M. (2015). Foreign direct investment in tourism, poverty alleviation, and sustainable development: A review of the Gambian hotel sector. *Journal of Sustainable Tourism*, 23(2), 167–187.
- Davies, R. E. (1984). *Continental Airlines: The first fifty years, 1934–1984*. Woodlands: Pioneer Publications.

- De Jong, M., Lalenis, K., & Mamadough, V. (2002). *The theory and practice of institutional transplantation: Experiences with the transfer of policy institutions*. Dordrecht: Kluwer Academic Publishers.
- Delios, A., & Beamish, P. (1999). Ownership strategies of Japanese firms: Transactional, institutional, and experience influences. *Strategic Management Journal*, 20(10), 915–933.
- Department of the Interior, Office of Insular Affairs (2012). *Federated States of Micronesia – Fiscal year 2012 economic review*. Washington: DOI-OIA.
- De Vita, G., Tekaya, A., & Wang, C. L. (2011). The many faces of asset specificity: A critical review of key theoretical perspectives. *International Journal of Management Reviews*, 13, 329–348.
- DiMaggio, P. J. (1995). Comments on "what theory is not". *Administrative Science Quarterly*, 40(3), 391–397.
- Dixit, A. K. (2004). *Lawlessness and economics*. Princeton: Princeton University Press.
- Dolowitz, D., & Marsh, D. (2000). Learning from abroad: The role of policy transfer in contemporary policy-making. *Governance*, 13(1), 5–24.
- Drucker, P. F. (1995). *Managing in a time of great change*. New York: Truman Talley Books/Dutton.
- Duncan, R., Codippily, H., Duituturaga, E., & Bulatale, R. (2014). *Identifying binding constraints in Pacific Island economies*. Honolulu: East-West Center.
- Dyer, J. H. (1997). Effective interfirm collaboration: How firms minimize transaction costs and maximize transaction value. *Strategic Management Journal*, 18(7), 535–556.
- Dyer, J. H., & Chu, W. (2003). The role of trustworthiness in reducing transaction costs and improving performance: Empirical evidence from the United States, Japan, and Korea. *Organization Science*, 14(1), 57–68.
- Dyer J. H., & Singh, H. (1998). The relational view: Cooperative strategy and sources of interorganizational competitive advantage. *Academy of Management Review*, 23(4), 660– 679.
- Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of management review*, 14(4), 532–550.
- Elliott, N. & Lazenbatt, A. (2005). How to recognize a ‘quality’ grounded theory research study. *Australian Journal of Advanced Nursing*, 22(3), 48–52.

- Fairbairn, T. (1988). *Island entrepreneurs: Problems and performances in the Pacific*. Honolulu: Pacific Islands Development Program, East-West Center.
- Fagence, M. (1996). Planning issues in Pacific tourism. In C. M. Hall & S. J. Page (Eds.), *Tourism in the Pacific: Issues and cases* (pp. 91–108). London: International Thomson Business Press.
- Farrell, B. H. (1979). Tourism's human conflicts: Cases from the Pacific. *Annals of Tourism Research*, 6(2), 122–136.
- Farrell, B. H. (1985). South Pacific tourism in the mid-1980s. *Tourism Management*, 6(1), 55–60.
- Farrell, B. H., & Twining-Ward, L. (2004). Reconceptualizing tourism. *Annals of Tourism Research*, 31(2), 274–295.
- Federated States of Micronesia Development Partners Forum (2012). *Federated States of Micronesia development framework: Looking to the future*. Palikir: FSM Department of Economic Affairs.
- Federated States of Micronesia Economic Summit. (2004). *Federated States of Micronesia's strategic development plan (2004-2023): The next 20 years: Achieving economic growth and self-reliance*. Palikir: FSM Department of Economic Affairs.
- Federated States of Micronesia SBOC (2008). *Federated States of Micronesia Statistical Yearbook*. Palikir: FSM National Government.
- Fendt, J., & Sachs, W. (2008). Grounded theory method in management research: Users' perspectives. *Organizational Research Methods*, 11(3), 430–455.
- Fontana, A., and Frey, J. H. (2000). The interview: From structured questions to negotiated Text. In N. K. Denzin & Y. Lincoln (Eds.), *Handbook of Qualitative Research*, (pp. 645–672). Thousand Oaks: Sage.
- Forsyth, P., & King, J. (1996). Cooperation, competition, and financial performance in South Pacific aviation, In G. C. Hufbauer & C. Findlay (Eds.), *Flying High: Liberalizing civil aviation in the Asia Pacific* (pp. 99–116). Washington, DC: Institute for International Economics.
- Franklin, A., & Crang, M. (2001). The trouble with tourism and travel theory? *Tourist Studies*, 1(1), 5–22.
- Galunic, D. C., Rodan, S. (1998). Resource combinations in the firm: Knowledge structures and the potential for Schumpeterian innovation. *Strategic Management Journal*, 19(12), 1193–1201.



- Geyskens, I., Steenkamp, J. B. E. M., & Kumar, N. (2006). Make, buy, or ally: A transaction cost theory meta-analysis. *Academy of Management Journal*, 49, 519–543.
- Ghoshal, S. (2005). Bad management theories are destroying good management practices. *Academy of Management Learning & Education*, 4(1), 75–91.
- Ghoshal S., & Moran P. (1996). Bad for practice: A critique of the transaction cost theory. *Academy of Management Review*, 21(1), 13–47.
- Glaser, B. G. (1978). *Theoretical sensitivity: Advances in methodology of grounded theory*. Mill Valley: Sociological Press.
- Glaser, B. G. (1992). *Emergence vs. forcing: Basics of grounded theory analysis*. Mill Valley: Sociology Press.
- Glaser, B. G. (1998). *Doing grounded theory: Issues and discussions*. Mill Valley: Sociology Press.
- Glaser, B. G. (2005). *The grounded theory perspective III. Theoretical coding*. Mill Valley: Sociology Press.
- Glaser, B. G., & Holton, J. (2005). Basic social processes. *Grounded Theory Review: An International Journal*, 4(3). 1–27.
- Glaser, B. G., & Strauss, A. L. (1967). *The discovery of grounded theory: Strategies for qualitative research*. New York: Aldine Publishing Company.
- Gordon, J. (1988). *The mandatory structure of corporate law*. Unpublished manuscript.
- Goulding, C. (1998). Grounded theory: The missing methodology on the interpretivist agenda. *Qualitative Market Research: An International Journal*, 1(1), 50–57.
- Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91, 481–510.
- Greenwald, A. G., Pratkanis, A. R., Leippe, M. R., & Baumgardner M. H. (1986). Under what conditions does theory obstruct research progress? *Psychological Review*, 93(2), 216–229.
- Grönroos, C (1990). *Service management and marketing — managing the moments of truth in service competition*. Lexington: Lexington Books.
- Guam Visitors Bureau (2014). *Guam tourism 2020 plan*. Tumon, Guam Visitors Bureau.
- Guest, G., Bunce, A., & Johnson, L. (2006). How many interviews are enough?: An experiment with data saturation and variability. *Field Methods*, 18(1), 59–82.

- Gulati R. (1995). Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances. *Academy of Management Journal*, 38(1), 85–112.
- Gynnild, A. (2014). The strength of a solution seeking approach. *Grounded Theory Review: An International Journal*, 13(2).
- Haggard, S. (1989). The East Asian NICs in comparative perspective. *The Annals of the American Academy of Political and Social Science*, 505, 129–41.
- Hailey, J. M. (1987). *Prospects and pitfalls for islands managers: Management research in developing Pacific Islands*. Honolulu: Pacific Islands Development Program, East-West Center.
- Halaweh, M. (2012). Application of grounded theory method in information systems research: Methodological and practical issues. *Review of Business Information Systems*, 16(1), 27–34.
- Hall, C. M., & Page, S. J. (1996). Introduction. In C. M. Hall & S. J. Page (Eds.), *Tourism in the Pacific: Issues and cases* (pp. 1–15). London: International Thomson Business Press.
- Hallberg, L. R-M. (2006). The “core category” of grounded theory: Making constant comparisons. *International Journal of Qualitative Studies on Health and Well-being*, 1, 141–148.
- Han, H. (2012). The relationship among corporate culture, strategic orientation, and financial performance. *Cornell Hospitality Quarterly* 53, 207–219.
- Hanlon, D. (1998). *Remaking Micronesia: Discourses over development in a Pacific territory, 1944–1982*. Honolulu: University of Hawaii Press.
- Harrington, A. (2005). *Modern social theory*. New York: Oxford University Press.
- Harrison, D. (2003). Themes in Pacific Island tourism, In D. Harrison (Ed.), *Pacific Island tourism* (pp. 1–23). New York: Cognizant Communication Corp.
- Hezel, F.X. (2012). Pacific Island nations: How viable are their economies? *Pacific Islands Policy*, 7, 1–33.
- Hezel, F.X. (2013). *Making sense of Micronesia: The logic of Pacific Island culture*. Honolulu: University of Hawaii Press.
- Hitt, M. A., Ahlstrom, D., Dacin, M. T., Levitas, E. L., & Svobodina, L. (2004). The institutional effects on strategic alliance partner selection in transition economies: China vs. Russia. *Organization Science*, 15, 173–185.

- Hitt, M. A., Ireland, R. D., & Hoskisson, R. E. (2009). *Strategic management concepts and cases: Competitiveness and globalization, 8<sup>th</sup> edition*. Mason: South-Western Cengage Learning.
- Holton, J. (2007). The coding process and its challenges. In A. Bryant & K. Charmaz (Eds.), *The SAGE handbook of grounded theory* (pp. 265–290). Los Angeles: SAGE Publications.
- Hoskisson, R. E., Eden, L., Chung, M. L., & Wright, M. (2000). Strategy in emerging economies. *Academy of Management Journal*, 43(3), 249–267.
- Jarillo, J. C. (1989). Entrepreneurship and growth: The strategic use of external resources. *Journal of Business Venturing*, 4(2), 133–147.
- Javorcik, B. S. (2004). Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages. *The American Economic Review*, 94(3), 605–627.
- Jones, B. D. (1999). Bounded rationality. *Annual Review of Political Science*, 2, 297–321.
- Jones, G. R., Kosnik, R. D., & George, J. M. (1993). Internalization and the firm's growth path: On the psychology of organizational contracting. In R. W. Woodman & W. A. Pasmore (Eds.), *Research in organizational change and development* (pp. 105–136). Greenwich: JAI Press.
- Kaplan A. (1964). *The conduct of inquiry*. San Francisco: Chandler.
- Kelley, L., & Penseyres, M. (1976). *Continental Airlines and the development of tourism in the Marianas: TTPI*. Manoa: University of Hawaii.
- Khanna, T., & Palepu, K. G. (1997). Why focused strategies may be wrong for emerging markets. *Harvard Business Review*, July/August, 41–51.
- Kiggundu, M., Jorgenson, J., & Hafsi, T. (1983). Administrative theory and practice in developing countries. *Administrative Science Quarterly*, 28(1), 66–84.
- Kilduff, M. (2006). Editor's comments: Publishing theory. *The Academy of Management Review*, 31(2), 252–255.
- Kiss, A. N., Danis, W. M., & Cavusgil, S. T. (2012). International entrepreneurship research in emerging economies: A critical review and research agenda. *Journal of Business Venturing*, 27(2), 266–290.
- Kiste, R. C. (1994). Pre-colonial times. In K. R. Howe, R. C. Kiste, & B. V. Lal (Eds.), *Tides of history: The Pacific Islands in the twentieth century* (pp. 3–28). Honolulu: University of Hawaii Press.

- Knapman, B. (1994). Economic development and dependency. In K. R. Howe, R. C. Kiste, & B. V. Lal (Eds.), *Tides of history: The Pacific Islands in the twentieth century* (pp. 325–349). Honolulu: University of Hawaii Press.
- Kogut, B., & Zander, I. (2003). Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies*, 34(6), 516–529.
- Kolter, P., & Zaltman, G. (1971). Social marketing: An approach to planned social change. *Journal of Marketing*, 35, 3–12.
- Kolter, P. (2011). Reinventing marketing to manage the environmental imperative. *Journal of Marketing*, 75, 132–135.
- Köseoglu, M. A., Topaloglu, C., Parnell, J. A., & Lester, D. L. (2013). Linkages among business strategy, uncertainty and performance in the hospitality industry: Evidence from an emerging economy. *International Journal of Hospitality Management*, 34, 81–91.
- Labby, D. (1976). *The demystification of Yap*. Chicago: University of Chicago Press.
- Lafferty, G., & van Fossen, A. (2001). Integrating the tourism industry: problems and strategies. *Tourism Management*, 22, 11–19.
- Lafontaine, F., & Slade, M. (2007). Vertical integration and firm boundaries: The evidence. *Journal of Economic Literature*, 45(3), 631–687.
- La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *Journal of Finance*, 54(2), 471–517.
- Larmour, P. (2005). *Foreign flowers: Institutional transfer and good governance in the Pacific Islands*. Honolulu: University of Hawai'i Press.
- Larmour, P. (2007). International action against corruption in the Pacific Islands: Policy transfer, coercion and effectiveness. *Asian Journal of Political Science*, 15(1), 1–16.
- LaRossa, R. (2005). Grounded theory methods and qualitative family research. *Journal of Marriage and Family*, 67(4), 837–857.
- Larson, A. (1992). Network dyads in entrepreneurial settings: A study of governance of exchange relationships. *Administrative Science Quarterly*, 37, 76–104.
- Layder, D. (1993). *New strategies in social research: An introduction and guide*. Cambridge: Polity.
- Lewis, J., & Weigert, A. (1985). Trust as a social reality. *Social Forces*, 63(4), 967–985.

- Lingenfelter, S. G. (1975). *Yap: Political leadership and culture change in an island society*. Honolulu: University of Hawaii Press.
- Liu, J. C., Sheldon, P. J., & Var, T. (1987). Resident perception of the environmental impacts of tourism, *Annals of Tourism Research*, 14, 17–37.
- Llewellyn, K. (1931). What price contract? An essay in perspective. *Yale Law Journal*, 40, 704–751.
- Lo, Y. (2012). Back to hotel strategic management 101: An examination of hotels' implementation of Porter's generic strategy in China. *Journal of International Management Studies* 7(1), 56–69.
- Lohtia, R., Brooks, C., Krapfel, E. (1994). What constitutes a transaction-specific asset? An examination of the dimensions and types. *Journal of Business Research*, 22, 261–270.
- Macneil, I. R. (1980). *The new social contract: An inquiry into modern contractual relations*. New Haven. Yale University Press.
- Manev, I. M., & Manolova, T. S. (2010). Entrepreneurship in transitional economies: Review and integration of two decades of research. *Journal of Developmental Entrepreneurship*, 15(1), 69–99.
- Marianas Visitors Authority (2012). *The Northern Mariana Islands tourism master plan for 2012-2016*. Saipan: Marianas Visitors Authority.
- Martinez, R. J., & Dacin, M. T. (1999). Efficiency motives and normative forces: Combining transactions costs and institutional logic. *Journal of Management*, 25(1), 75–96.
- Mason, M. (2010). Sample size and saturation in PhD studies using qualitative interviews. *Forum: Qualitative Social Research*, 11(3), Art. 8.
- Matthews, R. C. (1986). The economics of institutions and the sources of economic growth. *The Economic Journal*, 96(4), 903–918.
- Mayer, R. C., Davis, J. H., & Schoorman, F. D. (1995). An integrative model of organizational trust. *Academy of Management Review*, 20(3), 709–734.
- McKenzie-Mohr, D. (2011). *Fostering sustainable behavior: An introduction to community based social marketing*. Gabriola Island: New Society Publishers.
- McMillan, J. (2002). *Reinventing the bazaar: A natural history of markets*. New York: W.W. Norton & Company.
- McMillan, J., Woodruff, C. (1999). Dispute prevention without courts in Vietnam. *Journal of Law, Economics, and Organization*, 15(3), 637–658.

- Mehmetoglu, M., & Altinay, L. (2006). Examination of grounded theory analysis with an application to hospitality research. *International Journal of Hospitality Management*, 25(1), 12–33.
- Meyer, K. E., Estrin, S., Bhaumik, S., & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, 30(1), 61–80.
- Mihalic, T. (2002). Tourism and economic development issues. In R. Sharply, & D. J. Telfer (Eds.), *Tourism and development: Concepts and issues* (pp. 81–111). Clevedon, UK: Channel View Publications.
- Milgrom, P., & Roberts, J. (1992). *Economics, organization and management*. Englewood Cliffs: Prentice-Hall.
- Miller, D., & Friesen, P. H. (1983). Strategy-making and environment: The third link. *Strategic Management Journal*, 4, 221–235.
- Mintzberg, H. (1978). Patterns in strategy formation. *Management Science*, 24(9), 934–948.
- Mintzberg, H. (2005). Developing theory about the development of theory. In K. G. Smith & M. A. Hitt (Eds.), *Great minds in management: The process of theory development* (pp. 355–372). Oxford: Oxford University Press.
- Mohr, L. (1982). *Explaining organizational behavior*. San Francisco: Jossey-Bass.
- Morse, J. M. (1994). Designing funded qualitative research. In N. K. Denzin & Y. S. Lincoln (Eds.), *Handbook of qualitative research* ( pp.220–235). Thousand Oaks: Sage.
- Morse, J.M. (2000). Determining sample size. *Qualitative Health Research*, 10(1), 3–5.
- Murthy, B. (1994). *Measurement of the strategy construct in the lodging industry, and the strategy performance relationship*. Unpublished doctoral dissertation, Virginia Polytechnic Institute and State University, Blacksburg, Virginia.
- Nailon, P. (1982). Theory in hospitality management. *International Journal of Hospitality Management*, 1(3), 135–143.
- Nambisan, S. (2001). Why service businesses are not product businesses. *MIT Sloan Management Review*, 42, 72–81.
- Narayan, P. K., Narayan, S., Prasad, A., & Prasad, B. C. (2010). Tourism and economic growth: A panel data analysis for Pacific Island countries. *Tourism Economics*, 16(1), 169–183.
- Nevitt, B. (2005). *Consequences of good intentions: Exploring land rights in the Commonwealth of the Northern Mariana Islands*. Unpublished master's thesis, University of Hawaii, Manoa, Hawaii.

- North, D. C. (1990). *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press.
- Olsen, M. D., & Roper, A. (1998). Research in strategic management in the hospitality industry. *International Journal of Hospitality Management*, 17(2), 111–124.
- Ostrom, E. (1990). *Governing the commons: The evolution of institutions for collective action*. Cambridge: Cambridge University Press.
- Ostrom, E. (2005). Doing institutional analysis: Digging deeper than markets and hierarchies, In C. Menard & M. M. Shirley (Eds.), *Handbook of new institutional economics* (pp. 819–848). Netherlands: Springer.
- Parker, S. C. (2006). Entrepreneurs as producers, In S.C. Parker (Ed.), *The life cycle of entrepreneurial ventures* (pp. 337–360), New York: Springer Science.
- Patton, M. Q. (1980). *Qualitative evaluation methods*. Beverly Hills: Sage.
- Peck, J. (2011). Geographies of policy: From transfer-diffusion to mobility-mutation. *Progress in Human Geography*, 35(6), 773–797.
- Peng, M. W. (2006). *Global strategy*. Cincinnati: South-Western Thomson.
- Peng, M. W., & Heath, P. (1996). The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choices. *Academy of Management Review*, 21(2), 492–528.
- Peng, M. W., & Shekshnia, S. V. (2001). How entrepreneurs create wealth in transition economies. *Academy of Management Executive*, 15(1), 95–110.
- Peng, M. W., Wang, Y. L., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5), 920–936.
- Peoples, J. G. (1985). *Island in trust: Culture change and dependence in a Micronesia economy*. London: Westview Press.
- Peredo, M. & Anderson, R. (2006). Indigenous entrepreneurship research: Themes and variations, In C. S. Galbraith & C. H. Stiles (Eds.), *Developmental entrepreneurship: Adversity, risk and isolation* (pp. 253–273). Amsterdam: Elsevier JAI.
- Petersen, G. (1986). Redistribution in a Micronesian commercial economy. *Oceania*, 57(2), 83–98.
- Peterson, G. (1982). *One man cannot rule a thousand: Fission in a Ponapean chiefdom*. Ann Arbor: University of Michigan Press.

- Phillips, P., & Moutinho, L. (2014). Critical review of strategic planning research in hospitality and tourism. *Annals of Tourism Research*, 48, 96–120.
- Poole, M. S, Van de Ven, A. H., Dooley, K., & Holmes, M. E., (2000). *Organizational change and innovation processes: Theory and methods for research*. New York: Oxford University Press.
- Poppo, L., & Zenger, T. (2002). Do formal contracts and relational governance function as substitutes or complements? *Strategic Management Journal*, 23(8), 707–725.
- Porter, M.E. (1980). *Competitive strategy*. New York: Free Press.
- Porter, M. E. (1991). Toward a dynamic theory of strategy. *Strategic Management Journal*, 12, 95–117.
- Prasad, N. (2008). Growth and social development in the Pacific Island countries. *International Journal of Social Economics*, 35(12), 930–950.
- Prasad, A., & Prasad, P. (2002). The coming of age of interpretive organizational research. *Organizational Research*, 5(4), 4–11.
- Pritchard, A., & Morgan, N. (2007). De-centering tourism's intellectual universe, or traversing the dialogue between change and tradition. In I. Ateljevic, A. Pritchard & N. Morgan (Eds.), *The critical turn in tourism studies: Innovative research methodologies* (pp. 11–28). Amsterdam: Elsevier.
- Promsivapallop, P., Jones, P., & Roper, A. (2015). Factors influencing hotel outsourcing decisions in Thailand: Modifications to the transaction cost economics approach. *Journal of Hospitality and Tourism Research*, 39(1), 32 – 56.
- Raguraman, K. (1995). The role of air transportation in tourism development: A case study of the Philippines and Thailand. *Transportation Quarterly*, 49 (4), 113–124.
- Reichertz, J. (2007). Abduction: The logic of discovery of grounded theory. In A. Bryant & K. Charmaz (Eds.), *The SAGE handbook of grounded theory* (pp. 214–228). Los Angeles: SAGE Publications.
- Riesenberg, S. H. (1968). *The native policy of Ponape*. Washington, D.C.; Smithsonian Institution Press.
- Rindfleisch, A. & Heide, J. B. (1997). Transaction cost analysis: Past, present, and future applications. *Journal of Marketing*, 61(4), 30–54.



- Rindova, V. P., & Martins, L. L. (2012). Show me the money: A multidimensional perspective on reputation as an intangible asset. In M. L. Barnett & T. G. Pollock (Eds.), *The Oxford handbook of corporate reputation* (pp. 16–33). Oxford: Oxford University Press.
- Ritchie, J., Lewis, J., & Elam, G. (2003). Designing and selecting samples. In J. Ritchie & J. Lewis (Eds.), *Qualitative research practice. A guide for social science students and researchers* (pp.77–108) Thousand Oaks: SAGE Publications.
- Reve, T. (1990). The firm as the nexus of internal and external contracts. In M. Aoki, B. Gustafsson & O. E. Williamson (Eds.), *The firm as the nexus of treaties* (pp. 133–161). London: SAGE Publications.
- Reynolds, P., & Curtin, R. (2007). Panel study of entrepreneurial dynamics program rational and description. Working paper, University of Michigan, Ann Arbor.
- Rotter, J.B. (1967). A new scale for the measurement of interpersonal trust. *Journal of Personality*, 35(4), 615 – 665.
- Rousseau, D. M., Sitkin, S. B., Burt, R. S., & Camerer, C. (1998). Not so different after all: A cross-discipline view of trust. *Academy of Management Review*, 23(3), 393–404.
- Rudner, R. (1966). *Philosophy of social science*. Englewood Cliffs: Prentice Hall.
- Runkel, P. J., & Runkel, M. (1984). *A guide to usage for writers and students in the social sciences*. Totowa: Rowman & Allanheld.
- Saffu, K. (2003). The role and impact of culture on South Pacific island entrepreneurs. *International Journal of Entrepreneurial Behaviour & Research*, 9(2), 55–73.
- Sarker, S., Lau, F., & Sahay, S. (2000). Using an adapted grounded theory approach for inductive theory building about virtual team development. *The Data Base for Advances in Information Systems*, 32(1), 38–56.
- Sarker, S., Chakraborty, S., Tansuhaj, P.S., Mulder, M., & Dogerlioglu-Demir, K. (2013). The “Mail-order-bride” (MOB) phenomenon in the cyberworld: An interpretive investigation. *ACM Transactions on Management Information Systems*, 4(3), 10–36.
- Sarker, S., Xiao, X., & Beaulieu, T. (2013a). Qualitative studies in information systems: A critical review and some guiding principles. *MIS Quarterly*, 37(4), iii – xvii.
- Scheyvens, R., & Momsen, J. (2008). Tourism in small island states: From vulnerabilities to strengths. *Journal of Sustainable Tourism*, 16(5), 491–510.
- Schlie, E., & Yip, G. (2000). Regional follows global: Strategy mixes in the world automotive industry. *European Management Journal*, 18(4), 343–354.

- Schumpeter, J. A. (1983). *The theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle*. New Brunswick: Transaction Books.
- Scott, W.R. (1995). *Institutions and organizations*. Thousand Oaks: Sage Publications.
- Scott, W.R. (2007). *Institutions and organizations*. Thousand Oaks: Sage Publications.
- Shane, S. (2003). *A general theory of entrepreneurship: The individual-opportunity nexus*. Northampton: Edward Elgar Publishing, Inc.
- Shane, S., & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25(1), 217–226.
- Solomona, M., & Davis, R. (2012). Exploring entrepreneurship policy in a pacific context: The case of Tonga. *International Journal of Entrepreneurship and Small Business*, 16(2), 131–146.
- Song, H., Dwyer, L., ZhengCao, G. L. (2012). Tourism economics research: A review and assessment. *Annals of Tourism Research*, 39(3), 1653–1682.
- Stevenson, H. H., & Jarillo, J. C. (1990). A paradigm of entrepreneurship: Entrepreneurial management. *Strategic Management Journal*, 11(5), 17–27.
- Strauss, A., & Corbin, J. (1990). *Basics of qualitative research: Grounded theory procedures and techniques*. London: Sage.
- Suddaby, R. (2006). From the editors: What grounded theory is not. *The Academy of Management Journal*, 49(4), 633–642.
- Sundbo, J. (1994). Modulization of service production and a thesis of convergence between service and manufacturing organizations. *Scandinavian Journal of Management*, 10, 245–266.
- Susman, G. I., & Evered, R. D. (1978). An Assessment of the scientific merits of action research. *Administrative Science Quarterly*, 23(4), 582–603.
- Sutton, R. I., & Staw, B. M. (1995). What theory is not. *Administrative Science Quarterly*, 40(3), 371–384.
- Telser, L. G. (1980). A theory of self-enforcing agreements. *The Journal of Business*, 53(1), 27–44.
- Tsang, E. W. (2006). Behavioral assumptions and theory development: The case of transaction cost economics. *Strategic Management Journal*, 27(11), 999–1011.

- Turner, B. A. (1983). The use of grounded theory for the qualitative analysis of organizational behavior. *Journal of Management Studies*, 20(3), 333–348.
- UNWTO (2012). Tourism 2020 Vision. Retrieved October 29, 2012, from <<http://www.unwto.org/facts/menu.html>>.
- UNWTO (2014). *UNWTO tourism highlights*. UNWTO Publications.
- UNWTO (2014a). UNWTO world tourism barometer. *Asia-Pacific Newsletter*, 34, 4–5.
- Urquhart, C., Lehmann, H., & Meyers, M.D. (2010). Putting the ‘theory’ back into grounded theory: Guidelines for grounded theory studies in information systems. *Information Systems Journal*, 20(4), 357–381.
- Van de Ven, A. H. (2007). *Engaged scholarship: A guide for organizational and social research*. Oxford: Oxford University Press.
- Verbeke, A. & Kano, L. (2010). Transaction cost economics (TCE) and the family firm. *Entrepreneurship Theory and Practice*, 34, 1173–1182.
- Vesper, K.H. (1990). *New venture strategies*. Englewood Cliffs: Prentice Hall.
- Vousden, N. (1997). Labour productivity and growth in Pacific island economies: Some theoretical issues. *Pacific Policy Papers*, 31, 5–32.
- Walker, D., & Myrick, F. (2006). Grounded theory: An exploration of process and procedure. *Qualitative Health Research*, 16(4), 547–559.
- Walker, G., & Weber, D. (1984). A transaction cost approach to make-or-buy decisions. *Administrative Science Quarterly*, 29, 373–391.
- Walsham, G. (1995). Interpretive case studies in IS research: Nature and method. *European Journal of Information Systems*, 4, 74–81.
- Walsham, G. (2006). Doing interpretivist research. *European Journal of Information Systems*, 15(3), 320–330.
- Wang, C., Chen, K., Chen, S. (2012). Total quality management, market orientation and hotel performance: The moderating effects of external environmental factors. *International Journal of Hospitality Management*, 31(1), 119–129.
- Williamson, O. E. (1975). *Markets and hierarchies: Analysis and antitrust implications*. New York: Macmillan Publishing.
- Williamson, O. E. (1981). The economics of organization: The transaction cost approach. *American Journal of Sociology*, 87(3), 548–577.

- Williamson, O. E. (1983). Credible commitments: using hostages to support exchange. *American Economic Review*, 73(4), 519–538.
- Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York: The Free Press.
- Williamson, O. E. (1989). Transaction cost economics. In R. Schmalensee & R.D. Willig (Eds.), *Handbook of industrial organization* (pp. 136–178). New York: North-Holland.
- Williamson, O. E. (1990). The firm as the nexus of treaties: An introduction. In M. Aoki, B. Gustafsson & O.E. Williamson (Eds.), *The firm as the nexus of treaties* (pp. 1–25). London: SAGE Publications.
- Williamson, O. E. (1991). Comparative economic organization: The analysis of discrete structural alternatives. *Administrative Science Quarterly*, 36(2), 269–296.
- Williamson, O. E. (1991a). Strategizing, economizing, and economic organization. *Strategic Management Journal*, 12, 75–94.
- Williamson, O. E. (1995). The institutions and governance of economic development and reform. *World Bank Economic Review*, 8, 171–196.
- Williamson O. E. (1997). Hierarchies, markets and power in the economy: An economic perspective. In C. Menard (Ed.), *Transaction cost economics: Recent developments* (pp. 1–29). Brookfield: Edward Elgar.
- Williamson, O. E. (2000). The new institutional economics: Taking stock, looking ahead. *Journal of Economic Literature*, 38(3), 595–613.
- Williamson, O. E. (2010). Transaction cost economics: The natural progression. *American Economic Review*, 100(3), 673–690.
- Williamson, O. E. (2012). Transaction cost economics. What are the questions? Unpublished manuscript.
- Williamson and Masten (1999). Introduction. In O. E. Williamson & S. E. Masten (Eds.), *The economics of transaction costs* (pp. ix–xxii). Northampton: Edward Elgar Publishing.
- Winter, T. (2009). Asia tourism and the retreat of Anglo-Western centrism in tourism theory. *Current Issues in Tourism*, 12(1), 21–31.
- World Bank (2013). *Doing business 2014: Economy profile: Federated States of Micronesia*. Washington, D.C.: The World Bank and the International Finance Corporation.

- World Bank (2013b). *Doing business 2014: Understanding regulations for small and medium sized enterprises*. Washington, D.C.: The World Bank and the International Finance Corporation.
- World Bank (2014). Ease of doing business in the Federated States of Micronesia. Retrieved July 25, 2014, from < <http://www.doingbusiness.org/data/exploreeconomies/micronesia/>>.
- Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. (2005). Strategy research in emerging economies: Challenging the conventional wisdom. *Journal of Management Studies*, 42(1), 1–33.
- Yeung, P., Lau, C. (2005). Competitive actions and firm performance of hotels in Hong Kong. *International Journal of Hospitality Management*, 24, 611–633.
- Yuki, M., Maddux, W. W., Brewer, M. B., Takemura, K. (2005). Cross-cultural differences in relationship and group-based trust. *Personality and Social Psychology Bulletin*, 31(1), 48–62.
- Yusuf, A. (1995). Critical success factors for small business: Perceptions of South Pacific entrepreneurs, *Journal of Small Business Management*, 33(2), 68–73.
- Yusuf, A. (1998). Small business development and survival in the South Pacific: Barriers and strategic responses. *The Journal of Entrepreneurship*, 7(1), 49–65.
- Zacharakis, A. L. (1997). Entrepreneurial entry into foreign markets: A transaction cost perspective. *Entrepreneurship Theory and Practice*, 21(3), 23–39.
- Zaheer, A., & Venkatraman, N. (1994). Determinants of electronic integration in the insurance industry: An empirical test. *Management Science*, 40(5), 549–566.
- Zaheer, A., & Venkatraman, N. (1995). Relational governance as an interorganizational strategy: An empirical test of the role of trust in economic exchange. *Strategic Management Journal*, 16(5), 373–392.
- Zeithaml, V. A., Parasuraman, A., & Berry, L. L. (1985). Problems and Strategies in Services Marketing. *Journal of Marketing*, 49(2), 33–46.
- Zhang, Y., & Wildemuth, B. M. (2009). Unstructured interviews. In B. Wildemuth (Ed.), *Applications of social research methods to questions in information and library science* (pp.222–231). Westport: Libraries Unlimited.
- Zucker, L. G. (1986). Production of trust: Institutional sources of economic structure, 1840 – 1920. In B. M. Staw & L. L. Cummings (Eds.), *Research in Organizational Behavior* (pp. 52 –111). Greenwich: JAI Press.

APPENDIX 1: The four sub-categories of *Working within the System* and their conceptual properties

<b>Sub-Categories and Conceptual Properties</b>			
<b>Combining specialized assets</b>	<b>Adapting to what is</b>	<b>Maintaining sociocultural order</b>	<b>Valuing relationships</b>
-Insiders lack access to capital and materials	-System resistant to change	-Sociocultural order more valued than legal order	-Absentee ownership doesn't work
-Insiders lack knowledge of how to access tourist market	-Traditional (Western) business arrangements won't work	-Community support/orientation key to survival	-Relationship requisite to business
-Insiders lack technical knowledge on running hotel	-Alternative approach to FDI	-Business must align with culture to keep the peace	-Strong insider-outsider partnership key to on-going survival
-Insiders lack knowledge of where to invest when choosing on open market	-Outsiders assume insiders share same business pace	-Build in some loss: Social considerations can trump financial considerations	-Relationship contract power as/more important than legal contract power
-Insiders perceive they can't trust anyone when choosing on open market	-Outsiders have unrealistic visions	-Outsiders don't understand insiders' apparent irrationality	-Insiders/ communities have innate ability to run investors off
-Understanding and valuing insider assets	-Outsiders' confidence in legal system naïve	-Going through appropriate channels key to long-term viability	-Importance of insider/outside trust
-Insiders offer specialized sociocultural and political skills	-Outsiders' preconceived notions about what insiders want/need won't work		-Establish trust through genuine socialization
-Insider gets outsider to greater appreciate sociocultural situations	-Legal system not trusted to resolve all business disputes		-Insiders more willing to build relationships with outsiders who put in time, show patience, give to respect to system
-Outsiders lack knowledge of where to invest when choosing on open market	-Formal laws lack meaning/Locals don't play by written rules		-Must continually feed the relationship
-Outsiders lack knowledge on insiders they can trust when choosing on open market	-Outsider must recognize local culture and ways		-Low relational asset specificity
-Outsiders don't understand sociocultural nuances needed for business in FSM			
-Outsider don't understand value of insider assets			
-Outsiders perceive they can't trust anyone when choosing on open market			

-Outsider offers specialized experience and skills

-Outsiders can get insiders to greater appreciate business situations

-High human asset specificity/ Reliable insiders & outsiders key to success

-Combination of someone with good business skills and someone who understands local ways

---