

SPANISH HOTEL INTERNATIONAL EXPANSION: EVOLUTION AND TENDENCY. THE ROLE OF EASTERN EUROPE.

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The Governments of developing countries consider international investment as an engine of their economies. Explanations of foreign direct investment (FDI) are closely associated with internationalization, which is a result of globalization of international investment. Lately, Eastern Europe countries started to be often chosen by tourists and considering this, the multinationals jointed their clients outside their national markets. In this paper we are going to expose the determinants of the Spanish hotel internationalization and the role of Eastern Europe in this process.

*Key words: Spanish FDI, internationalization, Spanish hotel companies, Eastern Europe
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1.-Introduction

The Governments of developing countries consider international investment as an engine of their economies. Explanations of foreign direct investment (FDI) are closely associated with internationalization, which is an effect of the globalization of international investment. Service entry modes can be divided into non-equity entry modes (i.e. firm is transferring knowledge through contractual agreement) and equity entry modes (i.e. firm is transferring not just knowledge and capabilities, but also capital through FD, by its own or with some others firms). The second group is the one that gives the company more control, greater financial risk and higher resource commitment. Tourism activities can be internationalize beyond the FDI concept in many ways, but the most common are franchise, management and lease agreement, on one hand, and joint venture and wholly owned subsidiary (WOS), on the other hand.

The dynamic of the economic world and the patterns of the global competition determined the strategy of the companies, that are looking for internationalize these activities. One of the basic questions, and a critical decision of this process, that researchers and also managers have to face to, is: “*What strategy should use the multinational enterprise (MNE) to enter into a foreign market in its internationalization process?*”.

The main objective of this paper is to reveal the evolution and changes that the Spanish hotel sector is living from the beginning of 2000 until 2007, and to underline the role of the Eastern Europe because this region seems to enjoy highly competitive real estate prices, proximity to the origin markets, specially the German one, governmental facilities for FDI, progressive approach of tour-operators to these area, lower tax burden⁹⁸ and moderate country risk besides others advantages. Even if the FDI in the hotel industry is not that high, the WOS entry mode in the foreign markets it's still one of the favorite strategy of the Spanish chains, but not in Eastern Europe.

98 Corporate taxes in EU countries, compared with the Spanish one is lower, and in the case of Easter Europe countries is even lower. Romania for example is applying 16% approved by Law 343/2006, while EU average is 24.5%. In Spain this tax is superior of than in the majority of the Easter Europe countries, excepting Malta that applies 35%. Bulgaria, Cyprus, Latvia, Lithuania, Hungary, Poland and Romania approved a corporate taxes lower than 20%, but Turkey, Estonia, Slovenia, Czech Republic and Malta exceed 20%.

2.- Spanish hotel international expansion: evolution and tendency in the last decade

Latin America seems to be the top destination of the Spanish hotel companies with Mexico and Dominican Republic in the first two positions of the rooms offer associated with the Spanish hotel chains. Still Eastern Europe also is a very interesting touristic destination for the Spanish MNE's (Table 1).

Table 1: Destinations ranking of Spanish hotel offer (rooms)

Nr.	Country	2000	2007	Nr.	Country	2000	2007	Nr.	Country	2000	2007
1	Mexico	13,432	37,432	24	Cyprus	379	1,307	35	Romania	-	463
2	Dominican Rep.	22,892	35,537	25	Turkey	2,096	1,258	36	Czech Rep.	213	421
9	Bulgaria	787	6,118	31	Serbia	-	578	44	Poland	-	243
11	Croatia	5,821	4,694	34	Malta	-	470	50	Hungary	-	159

Source: Author's own elaboration.

Spanish hotel companies generally use management contract and WOS through FDI (specially in Latin America) at the time that US hotel companies⁹⁹ are using basically franchise and management contract. The Spanish hotel industry seems to be one of the hotel industries that most use wholly owned subsidiary. The question is *why?*. According to the literature, the Spanish hotel industry is situated in a first stage of this process, which seems to be a gradual one (Johanson and Valhne, 1977; Ramón, 2002).

After the incorporation of the new types of hotel business, like condo hotel, multi-property, fractional-property or vacation club, included into the concept of resort, the evolution of the international expansion of the hotel industry started a new stage of development. These new types permitted the higher synergies between hotel sectors and companies from others sectors like the real estate or construction. Actually, there are two tendencies: first, constructing new *resorts*, specially in the Latin-American region, given that the financial institutions, hand in hand with the hotel chains, and sometimes with the real estate companies, started to form hotel investment enterprises and second, there is a tendency of acquiring new city hotels.

Summing up, the hotel industry is characterized by a strong change of its products, and the Spanish one, like some others, nowadays, seems to consider the tourist not only as a simple consumer, but also as an investor. This way is much easier to finance a quick and rapid growth without assuming too many risks.

3.- Sample and methodology

Hotels industry as a soft service one is characterized by the possibility of separation between the capital investment and the management skills. This can explain the low level of the foreign properties and also the possibility of getting along the internationalization without considering FDI¹⁰⁰.

The analysis is based on data obtained from primary and secondary sources. Secondary data comes from a literature review of determinants of international expansion of MNEs, specially service firms, and from the annual reports Hostelmarket, of the hotels chains that develop their

99 Following Hotels Magazine (2008), the US companies along with the British IHG are the leaders of the world ranking. The first Spanish hotel chain, Sol Meliá, is situated in the 12th position and the second, NH Hotels, in the 14th.

100 There is a strong unbalanced relationship between the Spanish hotels FDI growth overseas and the quick growth of the hotels operated by the Spanish companies in the international market. Between 2000 and 2007, the annual growth rate of Spanish hotel FDI was near 1.34%, mine while, the annual hotels growth rate was 11.22% in terms of rooms and 11.73% in terms of hotels.

activities in Spain. Primary data proceed from the questionnaires applied to the 63 Spanish hotel firms that operated at least one hotel overseas during the period 2000/2007.

The dependent variable is EM=1 if it is franchise agreement¹⁰¹, EM=2 if it is management contract, EM=3 if it is leasing contract, EM=4 if it is joint venture and EM=5 if it is wholly owned subsidiary. The higher it is the value of the dependent variable, the greater control and investment involvement has the MNE, which suppose less flexibility for the parent firm in terms of variety in its international position.

There are a few studies that test the determinants of enterprise internationalization, but the majority proposes a cross section model. Due to the inexistence of a longitudinal section and to the abundance of cross section researches, we proposed a multinomial logistic regression model with panel data, so that an evolution and tendency can be underlined.

4.- Literature review and formulation of hypothesis

Trying to discover the factors that influence in the MNE decision of entry mode from the syncretic approach, we assumed that there are at list two types of determinants: country's specific factors and firm's specific factors.

Country's specific factors

One of the most important decisions in the internationalization process is the option for the entry mode into the foreign markets. If a MNE is thinking of entering into a foreign market, the managers of the firm should decide the level risk and the degree of control and resource commitment that they desire. That's why the MNE should consider not only its characteristics, but also the ones of the country where is going to start its activity. As there are several problems when entering in international markets, like the environmental uncertainty, that can be translated as economic and social uncertainty and as legal and political instability, Contractor and Kundu (1998a, 1998b, 1999) stipulates that *country risk, ceteris paribus*, should be consider as an important determinant of the entry mode decision.

In the previous literature we identified two tendencies. On one hand, there are studies that sustain that perceiving higher country risk is perceived suppose less resource commitment assumed by the firm (Gatignon and Anderson, 1988; Kim y Hwang, 1992; Agarwal y Ramaswamy, 1992; Contractor and Kundu, 1998b, 1999; Ramón, 2000, 2002; Pla and León, 2004; Quer *et al.*, 2007; Berbel *et al.*, 2007). On the other, Fladmoe-Lindquist and Jacque (1995) determined that a high level of political, economic and social volatility will imply a lower use of the franchise agreement in the service firms. This can be interpreted also as a direct relationship of country risk and entry mode.

Given that previous studies of internationalization of hotel industry proved empirically an inverse relationship of the target country risk and the entry mode and the above remarks, we consider the next hypothesis:

H1: Entry modes of the Spanish hotel chains will be inverse related to the target country risk.

*Cultural distance*¹⁰² refers to the possible differences that can exist between the origin country and the target country, in the way that the people understand certain behavior (Quer *et al.*, 2007). Actually, when the MNE decides to transfer work methods and try to create certain capabilities, it have to be considered the possibility of success in creating this capabilities in the target country. As Buckley and Casson (1998) underlined, cultural distance can be the sum of the learning, adaptation and trust-building costs, and as Pine *et al.* (2000), Xiao *et al.* (2008) and Heung *et al.*

101 It is considered as the less risky thinking of the resource commitment, the control and the financial risk.

102 Hofstede (1984) defined it as "the collective programming of the mind which distinguishes the members of one human group from another", in this sense the culture "includes systems of values; and values are among building blocks of culture".

(2008) reveals, the more cultural distance is perceived, the MNE rather higher degree of resource commitment¹⁰³.

We found studies that tested empirically a direct relationship between the cultural distance and the entry mode (Buckley and Casson, 1998; Barkema and Vermeulen, 1998; Contractor and Kundu, 1998a, 1998b; Ramón, 2000, 2002; Chang and Rosenzweig, 2001; Sánchez and Pla, 2006), an inverse relationship (Goodnow and Hansz, 1972; Gatignon and Anderson, 1988; Kogut and Singh, 1988; Li and Guisinger, 1991; Rothaermel et al., 2006; Álvarez, 2006; Quer *et al.*, 2007), but also a statistically lack of significance (Contractor and Kundu, 1995; Azofra and Martínez, 1999; Berbel *et al.*, 2007). All this conduce us to the following hypothesis:

H2: Entry modes of Spanish hotel chains will be positively related to the cultural distance.

The level of the economic development of the target country may influence the decision of MNE's entering mode (Contractor and Kundu, 1998a, 1998b; Ramón, 2000, 2002; Pla and León, 2004; Berbel *et al.*, 2007). Our hypothesis is:

H3: Entry modes of Spanish hotel chains will be positively related with the level of the economic development of the target country.

The degree of the penetration of foreign investment into the target market is an internationalization determinant that wasn't considered in many studies. Dunning and McQueen (1981) stress that *ceteris paribus* the countries that got a high penetration of foreign investment are the ones where the foreign companies will tend to use more equity entry modes based on follow the clients strategy. There are basically five studies in the hotel industry that have taken into account this variable (Dunning and McQueen, 1981; Contractor and Kundu, 1998a, 1998b; Ramón, 2000, 2002) and only Ramón determined a positive relationship, while the others didn't found statistically significance. Based on the above observations, we formulate the following:

H4: Entry modes of the Spanish hotel chains will be positively associated with the level of penetration of foreign investment into the target country.

Firm's specific factors

For a competition in equal terms of a foreign firm and a local one, is necessary that the foreign one poses ownership advantages that allows it to internalize, if it's the best option, knowledge and capability into a new subsidiary. This means that the MNE needs financial and managerial support that can be assured by a great *size*. In the hotel environment there are studies that corroborate the affirmation of Gatignon and Anderson (1988) that the entry modes with high control degree are less used in large operations (Contractor and Kundu, 1998a, 1998b; Pla and León, 2004; Quer *et al.*, 2007). Ramón (2000, 2002) determines the opposite and Berbel *et al.* (2007) concludes that the firm's size got no statistical significance. Although, our hypothesis is based on direct information obtained from hotels managers which consider the company's size as a very important factor to decide the company's entry mode in foreign markets. Contractor and Kundu (1998b) tested this kind of information for the U.S. hotel industry, and Ramón (2000, 2002) and Berbel *et al.* (2007) for the Spanish one, and they determined basically an inverse relationship. Our hypothesis is:

H5: Entry modes of the Spanish hotel chains will be negatively related with the firm's size.

The traditional view considers the firm to adopt gradual changes in its entry modes starting with the license agreement (franchise in our case) and finishing with the wholly owned subsidiary at the time that the *international experience* increase (Johanson y Vahlne, 1977; Erramilli, 1991; Agarwal and Ramaswamy, 1992). The other vision is the nontraditional one, which sustain that

103 Contractor and Kundu (1995) considers the possibility that cultural distance can become a barrier for the international expansion due to three perspectives: the learning costs, the adaptation costs of their products/services to the conditions of the foreign market and to its culture, and the interaction with the suppliers and with the labor that implies the use of local inputs.

high international experience assures greater knowledge of the foreign markets, and it can give more flexibility and capacity in evaluating and anticipating the behavior of potential partners. The international experience which can be expressed in two ways¹⁰⁴, according to the theory, is playing a very important role in the process of international expansion.

H6: Entry modes of Spanish hotel chains will be positively associated with the international experience.

H7: Entry modes of Spanish hotel chains will be negatively associated with the international degree.

5.- Results and discussion

The table 2 provides the results of the four multinomial regressions used to verify and test the hypothesis proposed earlier, given the correlation of the independent variables. According to the results obtained, the development level of the destination, its risk degree, its cultural distance and the firm's size are the most important variables in the MNE choice of an entry mode.

Table 2: Logistic multinomial model estimates ^a

Independent variable	Model 1	Model 2	Model 3	Model 4
GDPpc	0.000(0.000)*		0.000(0.000)**	
FDI/PIB	0.035(0.033)	0.054(0.021)**	0.044(0.017)**	0.057(0.212)**
Cultdist	9.057(1.311)***	10.143(1.157)***	8.133(1.071)***	10.219(1.210)***
Crisk		0.053(0.224)		0.057(0.206)
Size	-5.255(1.699)**	-5.115(1.321)***		
Intexp	-0.144(0.079)*	-0.180(0.068)**		
DOI			11.582(1.805)***	13.552(2.450)***
Wald chi2	90.91	123.81	80.90	105.62
	Prob>chi2=0.000			

^a Values of beta coefficients. Standard values in brackets. ***Significance of more than 1%; **Significance of more than 5%; *Significance of more than 10%.

Spanish MNEs that are looking for security in their investments will chose destinations with a high level of development (H3) and previous FDI (H2). Country risk (H4) is no longer such an important barrier as at the beginning of the process. Dunning and McQueen (1981) concluded that in the hotel industry is more likely to find FDI in highly competitive markets characterized by a higher GDPpc and greater FDI/GDP ratio.

The others Eastern Europe countries were explored by the Spanish hotel companies in the vacation and leisure slope, fundamentally in the ones situated in the Mediterranean Basin. Sol Meliá was the leader in 2000 with its 23 hotels and 7,190 rooms in Croatia and Turkey. The city hotel Spanish chains, that do not have the same national experience, started their international expansion only at the end of 2000 and the beginning of 2001, when NH Hotels acquired the Dutch chain Kransnopsky and the German Astron. This could be a relevant explanation of the lower degree of city hotel offer generally and also in Eastern Europe (Table 3).

Table 3: The Spanish hotel offer in the Eastern Europe

Year	Nr. Hotels	Nr. Rooms	% Hotels/Total	% Rooms/Total	RO Hotels	RO Rooms	%RO Hotels	%RO Rooms
2000	34	9,296	8.65	9.34	-	-	-	-

104 First, as number of years passed since the first operation overseas, and second, as firm's degree of internationalization (number of countries were MNE is operating multiplied by the foreign hotels divided on the total hotels).

2001	42	11,825	8.28	9.67	-	-	-	-
2002	34	8,335	5.75	5.98	-	-	-	-
2003	40	10,604	6.07	6.76	1	225	2.5	2.12
2004	42	11,575	6.65	7.16	-	-	-	-
2005	47	12,658	6.93	7.49	1	78	2.12	0.61
2006	41	12,357	5.92	6.76	3	463	7.31	3.74
2007	60	15,815	7.03	7.46	3	463	5.26	2.94
Leisure hotels 2007	49	14,909	81.66	94.27	1	305	33.34	65.87
City hotels 2007	11	906	18.34	5.73	2	158	66.66	34.13

Source: Author's own elaboration.

Romania, before joining the EU has been chosen as a destination of the Spanish hotel MNEs, but not through direct investment, due to its economic and cultural conditions (according to the information obtained from the managers). However, two years before Romania entered into the EU, NH Hotels decided to enter in the Romanian city hotel market and in 2006 the leisure chain RIU opted for a vacation and leisure hotel in the Black Sea coast even if in 2003 things didn't work out as planned.

6. Conclusions

In conclusion, the study indicates that the Spanish hotel industry tends to involve itself to a greater investment in: areas culturally different from Spain because of the difficulties of evaluating properly the behavior of the partners; countries with a higher GDPpc and FDI/GDP ratio, as a proxy of the country's infrastructure and of the safety of the direct investment.

In these areas, Romania still has to work hard, but given that is now a member of the EU, there are more opportunities of attracting FDI and this means a great possibility of progress and development of its economy and society.

As Bulgaria, Romania should exploit its Black Sea coast and all its natural resources even if this doesn't suppose a direct entrance of FDI into the real estate property, but to improve the infrastructures, the price/quality relationship and even the possibility of developing the newest hotel products (e.g. condo hotels or multi-property) taking advantage of the presence of Spanish real estate companies in the Romanian sector.

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