FACTORS OF INTERNALISATION OF HOTEL CHAINS

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Introduction

The wish for growth and multiplication is a strategic decision and results from a company’s readiness to set foot on a foreign market. To what degree this can come true is a complicated question considered from various aspects, mainly in the studies of multinational corporations, strategic management, international trade and others. Hotel chains as multinational enterprises and part of the service sector are an interesting matter to study. Being huge international corporations, they operate on a much bigger scale than what is common for tourism (where, as a rule, small and medium-size enterprises prevail), their activity, at that, is not limited to a single country, it spreads in a wider, global aspect, instead. In this sense, hotel chains feature all the qualities of multinational companies and a big part of their trends and issues are characteristic for them as well.

In studying hotel chains, a focal point in literature is taken by the process of their development and expansion, or their internalisation. By “internalisation” one means the process of growth outside the country where the company has been registered or the activities carried out in several countries, often in a particular region or globally.

It is necessary to specify that the process of expansion does not include compulsory exit from the original country. If the market in a particular country is big enough, a hotel chain can operate only in it too, i.e. remain local. However, in the very process of expansion the company faces similar issues as in going international. That is why internationalisation itself and the factors that predetermine it refer to local chains too, and the minor importance of outside factors makes the process easier.

As Slattery suggests, in various regions in the world hospitality has been internationalised to various degrees. The highest is the extent of internationalisation of Anglo-Saxon chains (American and British ones) mainly as a result of the origin of these chains. In Europe the industry itself is highly fragmented. Even though there are

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more than 170 companies with not more than 10 hotels in their own portfolio, in practice they fail to apply branding of their hotels to the necessary degree and, therefore, position them as a unified brand.

Studying the processes that allow hotel chains to go beyond the boundaries of their national market, as well as studying the factors they comply with in choosing a new market or country, already feature the chains in their role of participants in the global system of hospitality and tourism. By studying internationalisation and its factors we demonstrate how hotel chains, by use of their complete scope of resources, activities and relations, could possibly develop and grow, with very high rate globally, at that. In view of this fact, the objective of this paper is to identify and analyse the factors that influence the process of internationalisation of international hotel chains. The objective is achieved by solving the following scientific tasks of research:

1) Clarifying the specifics of hotel chains and their importance for internalisation.
2) Identifying and analysing critically the inner factors of internalisation.
3) Outlining and analysing outer factors that influence hotel chains.

Specifics of hotel chains and their importance in internalisation

Hotel chains are an interesting phenomenon in the field of hospitality, simply because they have several very specific characteristic features. On the one hand, they operate through a big number of outlets, often in various countries, which makes them part of multinational corporations. On the other hand, since they operate in the field of services and more particular – in hospitality, they feature the typical elements of the hotel product which is not similar to any other product in the sphere of business and services. The latter are tangible and inseparable, they combine production and consumption, require the compulsory participation of the consumer. That is why they have difficulties in reproducing themselves with absolute precision and it is almost impossible to maintain an ever-lasting quality in producing them. The hotel product includes a set of material elements and services, at the same time it is always interrelated with a specific location and client’s involvement in the production process. Unlike most servicing industries (consultation services, tour operating services, insurance), hospitality requires a considerable initial capital which is also characteristic of other sectors of the servicing sphere (chains in the leisure-time industry, retail chains and so on).

All these characteristics lead to more differences in the process of internationalisation of hotel chains.

Studies in the field of internationalisation are exceptionally numerous and various (See Appendix 1). Despite being numerous, however, sources on internationalisation of hotel chains are a bit chaotic and they do not fit a widely accepted uniform framework,

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in spite of the numerous attempts to define one. Authors themselves apply various presumptions and use various theoretical approaches to explain the process - the eclectic theory, the theory of transactional costs, the agent’s theory, the syncretic one, the theory of ethnocentrism, the theory of resources and so on. The process of expansion is viewed sui generis, outside the context of the phenomenon of hotel chains. The factors outlined often turn out to be important only for the example studied in particular. There are almost no studies made from the point of view of local tourism industry and hotels, as well as of their positions in respect of the emerging hotel chains.

It is essential to point out that in most papers there are combined all steps in the process of accession, i.e. one views together all factors that influence both the decision for expansion and the choice of a way to break into a foreign market (the so-called entry mode). It is exactly for this reason that various theories are involved (the Eclectic theory, the Theory of transactional costs, the Theory of resources, the Agent’s theory and others). In the long run, no thorough framework is set up. In this sense, this paper focuses only on the factors that directly affect the decision of hotel chains to expand overseas, rather than on the particular entry mode they choose.

**Inside and outside factors influencing the process of internalisation of hotel chains**

As for the factors which exert influence in internalisation, there are numerous attempts for classification, but one of the most common and affirmed one is the Eclectic theory, formulated by Dunning & McQueen. It divides factors into three completely heterogeneous groups, all related to the internal characteristics of the company and ownership, defined by the host country and predetermined by the skill of the company to internalise its activities (Ownership, Locational, Internalisational – OLI) which results into the name of the theory – “eclectic”.

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10 Dunning, J. and McQueen. 1981. Цит. съч.
16 Dunning & McQueen, 1981, цит. съч.
First come the so called “ownership advantages” or ones resulting from ownership. The authors review the inherent company characteristics that are its competitive advantages compared to the local firms on the foreign market. These are: size and structure of the company, the network of suppliers and partners that it has built, the experience and expert qualities of its managers, its ability to implement innovations, to afford introducing extra products and services and others.

The next group of factors that determine whether a company will enter a foreign market or not, are the so called “location advantages” or factors defined by the host country. These are: size and growth of the tourist infrastructure, availability and quality of staff for hotels, state policy in regard to tourism and hospitality, political, social and economic stability. In later publications some authors add also cultural differences, as well as local traditions and habits that are not intentionally mentioned in the eclectic theory. In some studies of particular cases one adds more importance to the political and economic conditions in the host country.

As a last group of factors that determine the development of a company overseas, Dunning points out the so called “internalization advantages” or the company skill to internationalise resources and the activity for using them, which practically happens by choosing the way of entering the new market. By “internalisation” the author understands the degree of control that the parent company is able to exert on its own resources and the acquired ones or, in other words, whether the hotel company should affirm itself with its own investment or by way of contractual relations. This group of factors affects rather the way of entering the new market studied in the context of the Theory of transactional costs. That is why they are not the topic of this paper.

The eclectic theory is widely accepted and it is it that many studies are based upon confirming its postulates. Johnson and Vanetti, for example, successfully apply the eclectic theory for the region of Central and Eastern Europe and develop it further by formulating more factors concerning the host country – size and image of the city, infrastructure of the region and the way the city is perceived as an attractive business location. However, it is necessary to point out as a disadvantage that the eclectic theory is static and does not take into account the corporate strategy and decision making that are strictly subjective for each company and also happen to be a competitive

17 That are not exceptiona.
advantage in relation to other companies\textsuperscript{21}. That is why Contractor \& Kundu\textsuperscript{22} base their ideas on several existing concepts about internalisation and create their own – the “syncretic” one aimed at overcoming the shortcomings of the former.

In most cases researchers\textsuperscript{23} view factors of internalisation in a very simplified way, dividing them into firm-specific and country-specific, which in this case turns out to be parallel to the eclectic theory but with a different name, classification and additional conditions. In order to include these authors in our study too, and thus make a more detailed summary of internalisation factors, we also group them into firm- and county-specific.

The firm-specific factors include the necessary conditions for international growth that are part of the company/hotel chain itself, its own resources, size, competitive advantages; yet, they also include the strategic plans and goals, while the country-specific factors are those that predetermine the location which the company has chosen to develop its activity (See Table 1).

\textit{Table 1}

\begin{table}[h]
\begin{center}
\begin{tabular}{|l|l|}
\hline
Firm-specific & Country-specific \\
\hline
\checkmark size of the company & \checkmark economic conditions in the host country, level of economic development \\
\checkmark international experience & \checkmark political and legislative conditions, openness to foreign investments, state policy \\
\checkmark strong trade mark & \checkmark political and economic risk \\
\checkmark competent managerial personnel, professional skills & \checkmark cultural differences or cultural destination \\
\checkmark developed competitive advantage, specialised know-how & \checkmark market potential \\
\checkmark available financial resources – economies of scale & \checkmark infrastructure \\
\checkmark established technology & \checkmark increased social prosperity/purchasing power of local population \\
\checkmark quality and control & \checkmark characteristic features of the local market – local entrepreneurs, available potential partners \\
\checkmark global reservations system & \checkmark saturation and competitiveness on the country’s own market \\
\checkmark system for training staff & \checkmark attractions, mega events, tourist resources \\
\checkmark company’s strategic and business goals & \\
\hline
\end{tabular}
\end{center}
\end{table}

- \textit{Firm-specific facets of internalisation}

Firm-specific factors, actually, turn out to be the conditions that determine a hotel-chain readiness to multiply itself. From the point of view of the resource approach

\textsuperscript{21} Altinay, 2007, цит. съч.; Contractor \& Kundu, 1998a, цит. съч.


this is a way for the company/hotel chain to broaden its resources\textsuperscript{24}, while from the point of view of the theory of transactional costs it is a means to better exploit the available specific assets\textsuperscript{25}. In both cases it is about transferring and using a company’s own competitive advantages. A hotel chain can develop mainly because of its firm-specific strengths (competitive advantages) that are respectively a result of the available set of resources and abilities, as well as the activities through which they are managed. However, the strengths can come from the relations within the chain with the closest institutions of the microenvironment. The brand, the reservations system, the service standards are some of the most significant resources of the hotel chain that underpin its competitive advantages. They are applied owing to the international experience and organisational skills, the effective organisation and information system, whereas their bearers are the employees, the managers, the owners of the chain or those defined in Table 1 as competent and trained staff.

Out of the firm-specific factors the size of the company is outlined as one of the determinative ones\textsuperscript{26}. Of course, for big companies it is much easier to provide resources – financial, human or others. It is exactly with hotel chains, however, that the company size does not affect that much its decision for going international. There are many examples where relatively small firms function successfully overseas (New Otani, Japan), because a prevailing form for entering a foreign market is through contracts; besides, transferring technologies is much easier and affordable.

As for international experience the situation is similar – in hospitality it is not always a necessary condition for entering a foreign market\textsuperscript{27}. For sure the strong brand is present as a factor in most studies, be it in the hotel sector or not\textsuperscript{28}. Undoubtedly it is one of the driving forces in going international because it provides popularity and recognition; for clients it symbolises a particular image and reputation\textsuperscript{29}. Also, authors are unanimous in their opinion about professional skills and managerial experience\textsuperscript{30}.

For the service sector the specialised know-how\textsuperscript{31} or service technology is most often pointed out as a competitive advantage. In some hotel chains the latter is in the form of directives for behavior described in detail in relation to every step in the

\textsuperscript{26} Erramilli & Rao, 1993, цит. съч.; Johnson & Vanetti, 2005, цит. съч.
\textsuperscript{29} Contractor & Kundu, 1998b, цит. съч.; Chen & Dimou, 2005, цит. съч.; Heung et al., 2008, цит. съч.
\textsuperscript{30} Fladmoe-Linquist, 1996, цит. съч.
process of servicing clients. A global reservations system, a developed distribution network, a system for staff training are also considered to be competitive advantages of hotel chains that they can make use of on new markets.

Available financial resources are an absolute condition for development of any company, especially on international level. Yet, in the context of hotel chains financial security is of minor importance in the cases when entering a foreign market is only on non-capital ground and the basic financial risk is taken by the local partner (franchisee or hotel owner).

One of the main criticisms of the eclectic theory is the omission of a company’s strategic goals as an influential factor on the decision for going international. A company’s whole strategy and intentions for development define the direction it takes in order to affirm itself according to the set goals. Entering foreign markets, as it was already pointed out above, is one of the development strategies.

- **Country-specific factors of internationalisation**

The country-specific factors for a hotel chain are those of the microenvironment. Even though considered indirect, they are an important part of the conditions that determine which country a hotel chain chooses. To a considerable degree the relations with outside stakeholders, represented by competitors, suppliers, partners, clients and mediators, also have an effect. In practice, these are all individuals outside the hotel chain as an organisation.

As country-specific factors influencing the process of expansion of hotel chains most often are pointed out the political regime in the host country, the current economic situation, as well as the prospects for the near future – risk of making investments. As more specific indicators there are pointed out the ownership of outlets (it is relevant mostly about the countries with communist and post-communist regimes where the prevailing ownership is that of the state), capital markets, market potential, cultural

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32 Contractor & Kundu, 1998b, quoted source.; Heung et al., 2008, quoted source.
33 Quer et al., 2007, quoted source.
38 Pine and Qi, 2004, цит. съч.
40 Guillet et al., 2010, цит. съч.; Wu et al., 1998, цит. съч.
and language closeness\textsuperscript{41}, the local tourist market and the competitors\textsuperscript{42}, the availability of quality human resources and managers\textsuperscript{43}. In more recent publications the country of origin of hotel chains and the conditions in it are also pointed out as factors\textsuperscript{44}.

The political regime in the host country refers mainly to the countries with communist, post-communist or authoritarian regime where the principles of the free-market are not relevant or the economic activity is limited in a certain way. The most common example in studies is China – mainly because of its growing importance worldwide, as well as the country’s huge potential. Attention is also given to countries like Cuba, the countries in Central and Eastern Europe, Russia, the Middle-East and North-African countries, as well as those in South-East Asia – it is now that they emerge as potential hosts, with growing tourism industry and stabilised economic situation. Recently the political stability turns out to be determinant for a country’s development in general – the example of Libya and other Arabic countries show the direct impact of political irregularities on all other sectors in a country. The manner of governance is directly connected with the lawful regulations and ownership of hotels. Again, in the context of China, as a centrally regulated market, the role of the state as a direct participant is of major importance and affects both the current situation and the prospects for the development of the tourist and hotel industry as well\textsuperscript{45}. The country’s openness to foreign investment is of similar importance. For many countries attracting foreign capitals is among the priorities for development which, respectively, creates a much more favorable background for the incoming companies – like comfortable taxation, less bureaucratic obstacles and others.

The economy is the other important factor that requires compliance when entering a foreign market. By principle, the degree of development and stability attracts more investors, it is an indicator for social prosperity respectively for market potential, thus increasing the attraction of the destination. Economic development presupposes development of the market infrastructure as well and a better basis for the incoming companies.

Together, political and economic factors measure also the degree of political and economic risk in a particular country from the point of view of foreign investing companies.

\textsuperscript{42} Pine and Qi. ит. съч., 2004; Gross and Huang. ит. съч., 2011; Guillet et al. ит. съч., 2010.
Local culture, traditions, customs, outlook and way of life play an important role in making a choice on behalf of multinational companies. Thus, the social side of tourism comes to the fore. Velo & Mittaz\(^\text{46}\) show to what degree cultural differences can prevent the implementation of foreign values, accepted as such. Intercultural differences are broadly studied\(^\text{47}\) in analysing globalization processes and pointed out as an essential factor in choosing a country for investment. They are of crucial importance for the service sector, tourism in particular, where there are real social interactions between guests and servicing staff, as well as between employees, managers and managerial team. In practice, even in other favorable conditions the difficulties in communication with the foreign nation may turn out crucial for the whole venture.

Physical remoteness as a factor refers mainly to recently emerging companies that prefer to start with their neighboring countries\(^\text{48}\) first. This factor is of greater importance in material production where the closeness to suppliers and distributors is important.

The tourism branch and everything that it relates to an essential part – infrastructure, competitors, market saturation, tourist resources and degree of their valorization, the country’s tourism policy and so on. Just as Porter\(^\text{49}\) points out, the attractiveness of the industry in combination with the firm-specific factors determine its competitive position on the market. This includes the specifics of the local market – availability of potential partners, reliable suppliers.

Recently major world events have more and more importance in tourism – the Olympic games, world championships, world exhibitions\(^\text{50}\) because of the early planning and investment where countries or other non-governmental organisations also take part in (associations, partnerships and so on). Last but not least, the tourist resources and attractions themselves are of importance – they are the basis for tourism to exist as a rule. In this sense important are not only the countries where hotel chains enter, so are also the particular places where the new hotel will be located – gateway cities/entry points\(^\text{51}\), resorts or other places depending on the product profile of the chain.

Even though mentioned rarely, there are factors in the country itself that is the place of origin of the hotel chains, that also prompts them to going international. Such are, for example, the degree of saturation of the local market with hotel chains, legislation in the field of competition that refers to the control on the companies’ ruling status and its abuse, as well as the unallowed concentration on local markets. All these factors stimulate hotel chains to set foot on the international markets.

\(^{46}\) Velo, V. and Mittaz, C. Breaking into emerging international hotel markets; Skills needed to face this challenge and ways to develop them in hospitality management students. International Journal of Contemporary Hospitality Management, 18(6), 2006, 496-508.
\(^{48}\) Heung et al., цит. съч., 2008.
\(^{50}\) Guillet et al., 2010, цит. съч.; Zhang et al., 2011, quoted source.
\(^{51}\) Johnson & Vanetti, 2005, quoted source.
Conclusion

The opportunities for developing a particular company refer invariably to its growth. Expanding the activity nationwide is a natural prerequisite for the future expansion overseas. All international hotel chains have started their operations as local chains and have later made international expansion or internationalisation.

On the whole, internalisation is a complicated and heterogeneous process which, at that, acquires even more global character. Whitla even thinks that at a certain point internalisation turns into “globalisation” and the two concepts differ. The first one simply means entering a foreign market, while the second encompasses a larger spread on overseas markets leading to a bigger popularity of the brand, easy recognition on behalf of clients from any countries rather than economic benefits. The goal is to have a maximum spread of major markets, especially in the so-called gateway cities – entry points in a particular country. Other authors like William and Shaw pay attention to the influence exerted by internalisation over the closest partners of the hotel chains (outside stakeholders – suppliers, clients, competitors) – they are also made to go international. Tourists are viewed as active participants in internalisation and innovation owing to their ever growing mobility, informativeness and thus – their demand, they are viewed also as sources of ideas for new products.

In the process of internalisation international hotel chains create more and more flexible relations with suppliers and partners, they create and maintain inner networks and relations. Recently one observes the acceptance of development strategies with not only standardised, but rather adapted, personified products, as well as a focus on knowledge rather than operations, as was the case before. European and Asian hotel chains will enjoy stronger development and will thus undermine the until recently, dominating position of the North-American and British companies.

54 Ibid.
56 Ibid.
### Appendix 1

**Scientific studies in the field of internalization and the factors that determine it**

| Author(s)                          | 
|-----------------------------------|---|
| Alexander & Lockwood (1996)       | x | x | x | x | x | x | x | x | x | x | x |
| Alon *et al.* (2012)              | x | x | x | x | x | x | x | x | x | x | x |
| Altinay (2004)                    | x | x | x | x | x | x | x | x | x | x | x |
| Altinay & Altinay (2003)          | x | x | x | x | x | x | x | x | x | x | x |
| Anderson & Gatignon (1986)        | x | x | x | x | x | x | x | x | x | x | x |
| Brown *et al.* (2003)             | x | x | x | x | x | x | x | x | x | x | x |
| Chen & Dimou (2005)               | x | x | x | x | x | x | x | x | x | x | x |
| Contractor & Kundu (1998a)        | x | x | x | x | x | x | x | x | x | x | x |
| Contractor & Kundu (1998b)        | x | x | x | x | x | x | x | x | x | x | x |
| Dimou *et al.* (2003)             | x | x | x | x | x | x | x | x | x | x | x |
| Doherty (2007)                    | x | x | x | x | x | x | x | x | x | x | x |
| Dunning & McQueen (1981)          | x | x | x | x | x | x | x | x | x | x | x |
| Erramilli & Rao (1993)            | x | x | x | x | x | x | x | x | x | x | x |
| Gross & Huang (2011)              | x | x | x | x | x | x | x | x | x | x | x |
| Guillet *et al.* (2010)           | x | x | x | x | x | x | x | x | x | x | x |
| Harrison & Enz (2005)             | x | x | x | x | x | x | x | x | x | x | x |
| Heung *et al.* (2008)             | x | x | x | x | x | x | x | x | x | x | x |
| Hill *et al.* (1990)              | x | x | x | x | x | x | x | x | x | x | x |
| Johnson & Vanetti (2005)          | x | x | x | x | x | x | x | x | x | x | x |
| Littlejohn *et al.* (2007)        | x | x | x | x | x | x | x | x | x | x | x |
| Pine *et al.* (2000)              | x | x | x | x | x | x | x | x | x | x | x |
| Pine & Qi (2004)                  | x | x | x | x | x | x | x | x | x | x | x |
| Quer *et al.* (2007)              | x | x | x | x | x | x | x | x | x | x | x |
| Rodriguez (2002)                  | x | x | x | x | x | x | x | x | x | x | x |
| Shane (1996)                      | x | x | x | x | x | x | x | x | x | x | x |
Increased globalization worldwide affects each branch of industry. It is particularly evident with international hotel chains and the process of internationalization through which those pass. The article identifies and subjects to critical analysis the internal and external factors, which affect them in the process. Those include on the one hand the internal preparedness of the hotel chain for expansion, and on the other - the characteristics of the state, where it is to make an entry.