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LOCATIONAL STRATEGIES OF INTERNATIONAL HOTEL CORPORATIONS

IN

EASTERN CENTRAL EUROPE

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Dedication

I dedicate this thesis to the memory of my parents, Alice and Jack Johnson.

Abstract

This study investigated expansion strategies of international hotel operators in Eastern Central Europe. Due to the growing importance of services in economic development, there is an impressive body of knowledge on the process of internationalization and service industries. The last comprehensive academic study on internationalization and the hotel industry was undertaken at the beginning of the 1990's, however, and we believed that with the major changes impacting upon the industry due to the effects of technology and globalisation, it would be useful to establish the important key factors in the internationalization process, along with the competitive advantages perceived by major international hotel companies. The second "gap" identified in the body of knowledge was that of hotel internationalisation strategies in Eastern Central Europe. We therefore set out to identify which were the locational perceptions of senior hotel executives concerning Eastern Central Europe and ascertain the reasons for the form of involvement used in the hotel sector in the region.

An in-depth review of the literature regarding internationalization was conducted, which evidenced that the most useful model for answering the questions was the eclectic paradigm as developed by John Dunning (1993). The paradigm has been used in many manufacturing and service sector studies, including that of the hotel sector (Kundu, 1994). However, it has not, to our knowledge, been used on a service sector industry in Eastern Central Europe.

A questionnaire survey was conducted of the leading international hotel chains, framed around the three tenets of the eclectic paradigm, namely ownership, location and internalization advantages. It was decided to complement the analysis of Dunning's eclectic paradigm with multivariate analysis of competitive and locational strengths, thereby permitting additional insights into the relative positions of the major companies, providing in effect a "photograph" of the market in Eastern Central Europe.

Due mainly to the effects of new technology and globalisation on the hotel industry, there have been many changes in the last decade, including increasing consolidation and concentration and an increasing importance upon branding and financial performance. In relation to Eastern Central Europe there have also been monumental changes in the industry since the fall of communism, the main ones being significant increases in international arrivals and tourism receipts. Per capita spending by tourists to the region is, however, significantly behind the overall European average. Potential market sectors were discussed, with the most promising for Eastern Central Europe being an emphasis on "green or nature"

tourism, cultural tourism, the tourist business market, especially meetings, incentives, conferences and events (MICE) markets, and finally the rejuvenation of the traditional spas and medicinal tourism of the region. An analysis of the hotel market was undertaken, with the conclusion being that the majority of the hotel stock in Eastern Central Europe was in the lower/mid-market sector, and was not up to international standards.

It was apparent from the research that the time taken to internationalise by hotel chains had reduced significantly in the last decade.

Only one-third of the companies in the study had representation in the study region, and concentration was heavily slanted towards two European hotel chains, Accor and Bass. Non-equity involvement was the most favoured form of involvement, with 62% of the properties surveyed in the region being franchised properties.

The ownership, locational and internalization advantages of the eclectic paradigm were analysed in relation to the size of the company, the region of origin of the chain, and the level of internalization. Competitive advantages were considered in relation to other international hotel operators, and in comparison with indigenous hotel operators in Eastern Central Europe.

Overall the ownership and locational advantages were more pronounced by size of company and region of origin than by the level of internationalization. The major company ownership advantages of international hotel companies in relation to other international hotel operators were *knowledge of guest requirements, strategic planning and reservation systems*. Ownership advantages were more pronounced against indigenous hotel operators in the region, and were *marketing expertise, reservation systems and level of technological advancement of the company*. Locational advantages identified for the region consisted of the size and nature of the city in which the hotel was to be located, the infrastructure within the region, and the perception of the region as an attractive business tourism destination.

With regard to future developments, apart from the notable exception of the French hotel chain Accor, the locational strategies of international hotel companies are focused upon developing luxury hotels for international business tourists in the major cities of Prague, Budapest and Warsaw. This may be considered a conservative strategy that does not seek to exploit the domestic market or realise the full potential, especially in relation to Poland, which has over 15 secondary and tertiary cities of significance. This may be influenced by the fact that the perceived major barriers to development in the region are political instability, pervasive corruption and lack of international demand.

Finally, the adequacy of the eclectic paradigm as the analytical framework for the study was discussed, and its advantages and disadvantages identified, together with its usefulness for further research.

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Abbreviations used

B2B	Business to Business
B2C	Business to Customer
ECE	Eastern Central Europe
COMECON	Council for Mutual Economic Assistance.
CRM	Customer Relationship Marketing
CRS	Central Reservation System
EBRD	European Bank for Reconstruction and Development
EIU	European Intelligence Unit
EU	European Union
FDI	Foreign Direct Investment
FFE	Furnishing, Fittings and Equipment
FSA	Firm specific advantage
GDP	Gross Domestic Product
GDS	Global Distribution System
GHDG	Global Hotels Development Group
GNP	Gross National Product
H.Q	Head Quarters
HOTREC	Hotels, Restaurants & Cafes in Europe
ICT	Information and Communication Technology
ILO	International Labor Office
ISIC	International Standard Classifications System
IT	Information Technology
M&A	Mergers and Acquisitions
MICE	Meetings, Incentive, Congress and Events
MNE	Multinational Enterprises
N.k.	Not known
N.a.	Not available
OECD	Organization for economic co-operation and development
OLI	Ownership, Location and Internalisation (from Dunning's eclectic paradigm)
PLC	Product Life Cycle
R&D	Research and Development
REIT	Real Estate Investment Trust
SME	Small and Medium Sized Enterprises
TNC	Transnational Corporations
TTI	Travel and Tourism Intelligence
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Center of Transnational Corporations
VFR	Visiting friends and relatives
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

Background to the study

Introduction

Well over ten years have passed since the shroud of the Iron Curtain fell from the countries of Eastern Central Europe, leaving them suddenly visible as potentially attractive tourist destinations[1].

At the same time there have been irrevocable changes in the supply and demand for services worldwide, due mainly to the development and implementation of new technologies, often resulting in services now being delivered and consumed in ways that were inconceivable just a few years ago. There has been increasing academic interest both in the potential for future development in the Eastern Central European countries, in the increasing extent to which companies "go international", and the manner in which they do so.

The purpose of this study is to integrate the two themes of internationalisation and Eastern Central Europe by analysing the internationalisation process in the service sector of Eastern Central Europe, focusing on one particularly significant sector, that of the hotel industry.

Need for investigation

It is clear that services, and often-in particular tourism, have become the major area of economic activity in developed countries (WTTC, 2001). However, there have been relatively few studies that have attempted to apply conceptual models and paradigms to the tourism and international hotel industry. Dunning and McQueen (1982) and Kundu (1994) were two exceptions; Dunning developed the concept of the eclectic paradigm, which has become a reference for studies in internationalisation, and applied it to the worldwide hotel industry. Beattie (1991) and Beattie and Litteljohn (1992) analysed the European hotel industry using industry mapping and clustering. Concerning Eastern Central Europe in particular, there has been much academic interest in the tourism field. Researchers include Hall (1992, 1995, 1998_a, 1998_b, 2000) who examines the general development of tourism in the region; Williams and Balaz (2001, 2002), who have written in-depth studies with specific reference to the Czech and Slovak republics; and authors such as Szivas and Riley (1999), who discuss employment in the tourism industry during economic transition.

[1]Although there are many different geographical groupings of "Eastern Central Europe", for the purpose of this thesis, Kostecki's (1994) definition of the region as including Hungary, Poland and the Czech and Slovak Republics is used, together with another country in the region that had a border with the West, Slovenia. These five countries are at a comparable stage of economic transformation, and are all seeking speedy integration into the European Union. These five countries constitute the study region.

Specific academic studies devoted to the hotel industry are varied and often focus upon one country and one-topic issues, for example hotel investment and Hungary (Lorenz and Cullen 1994), training needs for the Polish hospitality industry (Airey, 1994) and the effects of the market economy on the Hungarian hotel industry (Johnson 1997).

However, despite the variety of studies undertaken, to the best of our knowledge there has not been a comprehensive academic study of internationalisation and the hotel industry in Eastern Central Europe.

Europe is an attractive prospect for international hotel companies in general, and Eastern Central Europe is particularly attractive due to the expected increase in tourism in the region, the evident potential for tourism development, and the latent demand for domestic tourism. Already, there is evidence of some internationalisation, although it tends to be scattered and sporadic.

We believe that it is useful to undertake an applied study that combines a sound conceptual base with field research in the region. The study should yield some important insights into the potential for the future development of the hotel industry in a region of emerging importance, whose particular characteristics are not always sufficiently taken into account.

Research questions

Three questions provided a framework for our research project:

1. Which are the major competitive advantages considered important to an international hotel operator when it decides to "go international"? Specifically, in Eastern Central Europe, how do companies view their competitive strengths against other international hotel chains, and against indigenous hotel operators?
2. What are the critical considerations for a hotel operator when deciding on international locations and how are countries in Eastern Central Europe perceived?
3. What are the major reasons determining the entry mode for hotel development in Eastern Central Europe, i.e. foreign direct investment, management contract, or franchising?[2]

[2] These are the ownership, location and internalisation advantages of Dunning's eclectic paradigm. As will be seen, certain elements from previous questionnaires developed by Dunning and McQueen (1982) and by Kundu (1994) were used as a base for the current questionnaire (appendix 5.1). Questions were also introduced in relation to strategic planning (which was omitted from the paradigm), and also specifically related to Eastern Central Europe.

Structure of the thesis

Chapter One gives a brief overview of the development of service economies, dealing specifically with tourism as an important service activity, and placing the international hotel industry in context as an important component of the tourism sector.

Chapter Two presents and evaluates the current literature on the internationalisation process by companies, specifically in relation to service enterprises such as the hotel industry. Different models and paradigms are critically evaluated for their applicability to the study, and the most appropriate, Dunning's eclectic paradigm, is selected as the conceptual basis for the field study.

Chapter Three provides a market sector analysis *of* the international hotel industry in general, including the dynamics of the international hotel markets, the major players and their strategies.

Chapter Four traces the development of tourism and the hotel industry in Eastern Central Europe, considering the socio-economic characteristics of the region, the major changes in the tourism sector since the fall of communism and existing and future market opportunities. Central to the study is the analysis of the structure of the hotel industry in Eastern Central Europe, including the specificities of the sector and the strategies of international hotel operators in the study region

Chapter Five presents the field study undertaken for this project on internationalisation and the hotel industry in Eastern Central Europe and discusses the results. Key findings from the Ownership, Location and Internalisation elements of the application of the eclectic paradigm are presented and analysed. To give a more complete picture of the market, complementary statistical analysis is undertaken, including cluster and correspondence analysis.

Chapter Six concludes the study, suggests application of the findings in theory and practice, discusses the limitations of the study, and identifies areas of research that would be fruitful to undertake in the future.

Chapter 1. Introduction: the development of service economies

1.1 Introduction

The first part of this chapter gives a general overview of the development of service economies that we considered necessary to place the study in context, secondly there follows a more detailed analysis of tourism as a major service activity and the hotel industry within tourism services.

1.2 The development of service economies

Fundamental changes have occurred in the structure of most countries' economies since the Second World War, with services becoming the major sector of economic activity (OECD 2000_a).

The USA was the first service-oriented nation. At the beginning of the 1900s, fewer than 30% of workers in the United States were employed in services, compared to 40% in agriculture. Already by 1929, however, 55% of the working population was employed in services, and approximately 54% of GNP was generated by services (Zeithhaml and Bitner 1996). Service employment in the US rose to over 66% by 1980; the trend in Europe was slower, though by 1977 52% of employment in the EEC was in the tertiary sector (Gershuney and Miles, 1983).

In terms of the creation of new employment, since 1969 services have accounted for 95% of all new jobs in the US, and over 75% of GNP (Kotler *et al* 1995).

Table 1.1 presents data on value added by services to GDP in a selection of relevant countries:

Table 1.1 Value added to GDP by services, selected countries 1987-1997

COUNTRY	1987	1997	CHANGE (%)
Austria	64.1	68.2	4.1
Czech Republic	50.5[a]	58.4	7.9
France	66.9	71.5	4.6
Greece	61.1	67.9	6.8
Japan	56.8	60.2	3.4
Spain	59.3	70.9	11.6
Switzerland	60.8[b]	63.5	2.7
United States	68.3	71.4	3.1

Source: OECD 2000_a, Annex, Table A

[a] The Czech Republic 's figures refers to 1992-1994

[b] Switerland's figures refer to 1985-1991

This table gives a selection of countries to permit meaningful comparisons. These show considerable variations. Austria and Switzerland were included so as to compare two nations approximately equal in terms of geographical location and size of population. It may be seen that Austria is approximately 5% ahead of Switzerland in service value-added, perhaps owing to its lack of transnational corporations in manufacturing, such as Nestlé, Philip Morris and ABB, which are located in Switzerland. Also noteworthy is the share of services in the southern European states such as Greece and Spain, which have recorded considerable increases during the period under review. The United States is included as the first service-based nation, with over 70% of value added in the service sector, which is now the norm for several European countries, including France and Spain. Although still low by EU standards, there has also been steady growth in services in the Czech Republic, typical of development in the former centrally planned economies. In contrast, growth has been much slower in Japan, mainly owing to the particular business environment, which is seen to act as a barrier to new entrants and to risk-taking.

The importance of service development is particularly marked in OECD countries generally, where the service sector accounts for more than 70% of economic activity, compared with less than 20% of activity in manufacturing (OECD, 2001). It is likely that the share of services will accelerate in the short and medium terms, given the ongoing shift towards knowledge-based, service-oriented activities in many countries (OECD, 2000 $_a$). The most rapidly growing sectors are finance, insurance and real estate and business services; in 1995, for 19 OECD countries these sectors, taken together, exceeded US$ 1.1 trillion. By 1997 ten of the largest 20 corporations in the world by revenues were service enterprises. Service companies were also important by market capitalisation, with Microsoft placed first in the table at USD 407 billion, and Wal-Mart and AT&T sixth and seventh (OECD, 2000 $_a$).

Changes have occurred on both the supply and demand side for services. Often it is not the *type* of human need that has changed, but rather *the way of satisfying that need* (Harvey, 2000, emphasis added). Developed countries have moved from industrial, mechanical, nationally-focused economies producing mass consumer durables under a regulatory framework and in stable conditions, to globalised, de-regulated, client-focused economies characterized by rapid, discontinuous change, which is impossible to forecast in the long term (Kostecki, 1994). This has resulted in the development of “service economies”.

The key difference between an “industrial society,” which attributed value in terms of material objects that could be exchanged, to a “service economy” concerned more with the benefits derived from the performance and utilization of products (which may or may not be material objects) is that services have become the “indispensable production tools necessary to satisfy basic needs and increase the wealth of nations” (Giarini, 1987, p.26). Services are the absolutely central concept and it is the *quality of performance* rather than the *quality of output* that stands as the main criterion of evaluation: the critical factor is the quality of the customer’s experience, the “outcome” rather than the “output”.

It is clear that these fundamental changes have impacted on the extraordinarily rapid development of service industries during the past 25 years in both developed and developing countries, and in many cases have provoked it. The international hotel sector is one such industry.

1.3 Service industries – definitions and classifications

Despite the importance of services in terms of their respective contributions to national economies, "[the] service sector is one of the least understood portions of our global economy" (Daniels, 1993, p.1). The diversity of services is also often neither appreciated nor fully understood (OECD, 1999). Historically, difficulties over definitions and classifications have posed problems for measurement of profitability and productivity. In the absence of a unanimously accepted classification scheme, many academics have developed different methods of classifying services. Over 16 different schemes were identified by Payne (1993), using a wide variety of factors ranging from the type of service to the degree of labour intensity it required.

While traditionally manufacturing and services were in the past considered to be very distinct, the two sectors are now becoming more interrelated and the differences are blurring. One main reason is the role of information technology in overcoming the storability and the intangibility of services. The role of electronic commerce has been fundamental in this development, and services are becoming increasingly linked to products, if not inseparable from them. Outsourcing has also been a key factor in the development, as companies focus on their core competencies and leave more specialised companies to take care of peripheral tasks (OECD, 2001).

Earlier academic writing on services concentrated on the differences between goods and services. Four generic differences were defined, including intangibility, heterogeneity (variability) perishability, and simultaneity of production and consumption. Theses concepts are no longer universally applicable to all

services, however (Lovelock, Yip and George, 1996), and it may be more useful to focus on the commonalities of services, looking at different ways in which service-based companies differ from those which are goods-based. According to Lovelock (1996), there are eight generic differences between goods and services that are important for marketing, and the eventual potential globalisation of services. Table 1.2 shows the main differences:

Table 1.2 Key differences between products and services

PECULIARITY OF SERVICES
Greater involvement of the customer in the production process
People as part of the product
Greater difficulties in maintaining quality control standards
Greater difficulty for the customer to evaluate
Absence of inventories
Structure and nature of distribution channels
Relative importance of the time factor

Source: Lovelock, 1996, p.16.

There differences are discussed in more detail in Lovelock, Yip and George (1996), who state that the potential for globalisation of a service industry is dependent not only on these factors, but also on whether the service is classified as “people processing”, as “possession processing,” or as “information-based”. Additionally, service systems for production and delivery can be categorised into “front office” or “back office (for hotel services, in a literal sense). “People processing” services by their nature involve a high degree of contact with front-line service employees and with the physical facilities. Many “back office” operations, however, can potentially be conducted at a distance, and with “possession processing” and information-based services there are many possibilities of reducing the physical contact with the client. Increasingly, consumers purchase an intertwined package of goods and services. This has important implications for economies of scale and scope, and for the relationship between suppliers and

consumers. The Internet has radically changed the method of transactions in such areas as education, banking, retail and financial services in ways which were unthought of just a few years ago; for example, it is no longer even necessary for a patient to be physically present alongside the consultant to have a medical diagnosis.

For the tourist and hospitality industries, information and communication technologies are changing the methods by which clients view, decide, select, and reserve accommodation, although the core service still, of course has to be provided when the client physically travels to the location and the unit.

There are several problems associated with classifying and analysing statistics in services and no one measure is entirely satisfactory for the purpose of this study. The OECD uses the International Standard Classifications System (ISIC) that has four classifications of services. Hotels are found under category 1, with wholesale and retail trade and restaurants. However, while there are certain similarities between the different trades, hotels and supermarkets, for example, do not have much in common, and grouping them together makes many statistics unusable.

Specific statistics on hotels are provided by the World Tourism Organisation (WTO), which has developed a definition for hotels that in some degree does facilitate comparisons. Their approach will be developed further in section 1.4.4.

To adopt a pragmatic approach, which will allow for measurement and comparisons, for the purpose of this study, services have been defined as follows:

> a diverse group of economic activities not directly associated with the manufacture of goods, mining or agriculture. They typically involve the provision of human value in the form of labour, advice, managerial skill, entertainment, training, intermediate services and the like
> (OECD, 1999, p.4).

1.3.1 Changes in supply and demand for services

In parallel with the large increase in the role of service industries, there have also been major changes in the types of services demanded and offered. Many authors have analysed the underlying reasons for the increased and differing demand for services including Porter (1990), Lovelock (1991,1992, 1996) and Segal Horn (1990,1994, 1998). On the supply side, changes have resulted from such major factors as

deregulation and globalisation; in demand, from changing family structures and increased leisure time. Table 1.3 lists the major factors that have altered the nature of services in the past two decades.

Table 1.3 Major factors impacting on supply and demand in services

SUPPLY	DEMAND
Computerization and technological innovation	Greater affluence
Increasing internationalisation	Socio-economic changes including dual-career families; pressures on personal time; and fewer joint family activities, such as meals.
Increasing concentration, domination of few MNEs	Demographic changes including increasing numbers of children and older people who consume services.
Privatisation	Technological changes that have upgraded service quality or made entirely new services feasible (such as in medical care, cable television, and on-line data bases for personal computers)
Growth of Franchising	Urbanization, creating new services (e.g. security services)
Changing patterns of government regulation	More leisure time
Relaxation of professional association standards	Cultural homogenization
Increasingly complex management	Increasing sophistication leading to more and broader service requirements (e.g. in personal financial services)
Manufacturers as service providers	
Expansion of leasing and rental business	

Sources: Porter, 1990; Segal Horn, 1994, 1998; Lovelock, 1991,1992,1996.

The above table shows how many fundamental factors have had a direct impact upon the number and nature of services. Evidently, many such changes have taken place in developed nations (especially those relating on the demand side to greater affluence, socio-economic changes and technological changes). Changes have also occurred in the supply side, and again, while these are particularly in evidence in the developed world, there are signs that in the developing world (e.g. the case of India and the supply of computer software) changes in services will also have a profound effect on economies.

Even more fundamentally, Vandermerwe (1994) comments on the changing nature of customer demands and buying habits, showing that such needs have now changed profoundly. Fundamental reorganization is required within companies in order to move from industrial hierarchies to service networks, and so address the following axioms:

1. Customers want solutions rather than core products or services;
2. Customers want more value for users;
3. Customers need to have access to suppliers' know-how and information throughout their use of the offering.
4. Customers want integrated global delivery service.

For companies to accept these propositions will require a paradigm shift in their interpretation of their operations, and in many cases of their *raison d'etre*. This is especially the case in the international hotel industry, where many hotel functions (such as the front desk) are often there for historical reasons, and often provide a negative value (for example through queuing periods) for guests. Point No. 4 is also very relevant to the industry, with many corporations entering into strategic alliances so as to provide clients with a full range of seamless service offerings (e.g. airline, hotel, car-hire service), deliverable throughout the world.

1.4.Tourism as a major service "industry": definitions and economic importance

Although each industry sector is distinctive, it is useful at this stage to describe the specificities of tourism.

1.4.1 General industry characteristics

One obvious peculiarity of tourism is that *the consumer comes to the supplier* of the service rather than the reverse. Although tourism is often referred to as "the world's largest (and often fastest-growing) industry" it is not one industry, rather is it composed of a number of related and inter-related service sectors that do not fit neatly into the standard criteria for national accounts (OECD 2000_b). The Standard International Classification of Tourism-Related Services (SITCA) of the World Tourism Organisation (WTO) identified 70 specific activities related to supplying tourism services, and an additional 70 activities at least partially concerned with them (WTO, 1998). An important consequence of this dispersion is that it is extremely difficult accurately to measure the full economic impact. Nevertheless, when looking at the sum of the parts, i.e. accommodation, meals, local transport, entertainment and shopping, statistics relating to tourism are of significant scale.

Tourism is taken here to be international tourism; this is estimated at only 10% of total tourism flows (Poon, 1993). Even so, by 1995 tourism accounted for over one third of the value of total worldwide services trade. In terms of output, travel and tourism are forecast globally to generate 11% of GDP (WTTC, 1995). Tourism is a highly labour intensive industry, and is a major source of both employment

and foreign currency, especially in remote and rural regions. Tourism demand (both international and domestic) is directly related to income levels; therefore the sector has grown as a function of increasing prosperity throughout the world. In contrast to fast-moving consumer goods (FMCG) marketing, tourism marketing may be seen to consist of “slow marketing”, as tourism projects require substantial investment in infrastructure and other facilities. This can run into billions of US dollars and take over a decade for results to be seen as is the case in certain countries in Eastern Central Europe.

One of the most important factors for the development of tourism was the invention and adoption of wide-bodied, large-capacity aircraft that facilitated low-cost airline travel (World Tourism Organization, 1998).

Tourism and many of its constituent parts (airline seats, hotel rooms, restaurant covers) is highly perishable and inventory cannot be stored. This accounts for the extensive usage of yield management techniques in the industry.

Tourism depends on various transport sources to deliver clients (with *airlines accounting for 90% of international travel*). Regulations concerning the ease of obtaining *immigration entry and exit* have a direct influence on the sector.

It is an important employer in developing nations. This may be attributed to the high growth rates of the tourism sector in relation to the domestic economy as a whole: already by the late 1970s there was substantial expansion by international hotel companies in developing countries (Dunning and McQueen, 1982).

Initially tourism was heavily concentrated in the developed world (focused strongly on Europe and the United States, which had over 70 % of market share). The share of developing countries now accounts for 1/3rd of the total (WTO, 2002). Less developed countries have enjoyed strong increases (albeit from very low bases). Other factors that will have a bearing on the development in these countries are perceived political and economic stability, along with levels of transport and infrastructure.

1.4.2 Defining tourism services

Although it is a set of complex and interrelated service activities, we may usefully define tourism as “the activities of persons travelling to and staying in places outside their normal environment for period for not more than one consecutive year for leisure, business and other purposes" (OECD, 2000_b). The tourism “industry” may therefore be considered from both the demand and supply side as those organizations and individuals involved in the consumption and supply of tourism activities.

Much of the quantitative information is generated from the demand side, focusing upon the numbers of tourists and sales[3] generated. It is important to differentiate between an "international arrival", someone who crosses an international boundary, and a "tourist" someone who stays for at least one night in a foreign country. This distinction is especially important for this study, as the number of international arrivals in Eastern Central Europe has recorded spectacular increases, but for the hotel industry, it is the person who stays overnight that is the most interesting prospect.

These statistics may then be aggregated into the different industry sectors to provide a fuller picture of the contribution that tourism makes, both directly and indirectly, to the various industry classifications. Coefficients are then calculated to obtain the numbers of people employed in the different branches.

Recently, real progress has been made in quantifying the full impact of tourism across differing industry sectors. After much ambiguity and inexactitude, serious attempts have been made to determine the contribution of tourism and the value added from the demand side.

Over the past fifteen years the Statistical Committee of the OECD has been working with the World Tourism Organisation and the UN to develop a set of Tourism Satellite Accounts. The creation of the TSAs is an important step forward, enabling more accurate comparability and credibility in data analysis of the direct impact, (e.g. in hospitality and tourism enterprises), and in indirect supplier sectors (e.g. in aircraft and ship manufacturing.)

1.4.3 Growth in international tourism

Just over half a century ago, in 1945, only 25 million persons crossed international borders. This number had increased by a factor of 17 to 425 million by 1990, and had climbed to 699 million ten years later. By the year 2020, it is anticipated that there will be 1.6 billion international tourists (a 64-fold increase) spending US$ 2 trillion (WTO, 1999, 2000, 2002). The World Travel and Tourism Council forecast that the travel and tourism industry would contribute 2.9% to Gross Domestic Product (GDP) in 2001 amounting to US$20.5 billion, which is anticipated to almost double by 2011 in dollar terms to US$42.5 billion. The travel and tourism industry employs over 4.5 million people, (3.2% of total employment in 2001), which is forecast to rise to 3.6%, or 5,824,000, in the same period (WTTC, 2001).

[3] Expenditure made by, or on behalf of, the visitor before, during and after the trip and which expenditure is related to that trip and which trip is undertaken outside the usual environment of the visitor"(OECD 2000 b, p.16)

Not only the number of tourists, but also the pattern of destinations has changed since 1945, and Appendix 1.1 shows these changes in the world's destinations in terms of numbers of international arrivals.

As may be seen, there have been significant changes from the development of mass tourism from the 1950s onwards. Its geographical concentration, which saw 97% of tourism in 15 leading countries, all in Europe and North America, has been reduced. The industry has become more diverse and more "democratised". There have been other underlying trends, such as attempts to lessen the impact of seasonality (i.e. the preponderance of mid-summer, north-south travel) through the staggering of school and work holidays. A greater variety also appears through an evolution in the reasons for travel, which tends to blur the distinction between business and leisure. There is an overall trend towards shorter individual stays (but with more frequent breaks), and an increasingly varied supply of accommodation.

The Meetings, Incentive, Congress and Events (MICE) segments have been a major driving force behind the development of business tourism.

There has also been a major increase in different types of vacation offered, including cultural, sports, adventure, rural and cruise tourism segments.

Although the largest segment numerically and economically is still "sea and sand" tourism, there have also been significant attitudinal changes, resulting in a demand for more information on the local surroundings and for more activities to be made available.

From the original 25 million tourists who in 1945 visited just 15 countries, by 1997 over 70 countries had more than one million tourists, with the share of the top 15 countries slipping by 35%, from 97% to 62%.

Also important has been the appearance of newcomers on the list from Asia, especially China, which by 1999 reached 5th position. Some countries of Eastern Central Europe have had fluctuating fortunes; Hungary, for example, reached 11th position by 1970, climbing still further to 5th place immediately after the fall of the Berlin wall, but then dropping back to 14th position by 1999. The Czech Republic (as Czechoslovakia) had also reached the top 15 destinations by 1970, but by 1990 had disappeared from view, only to return to 13th position nine years later. The most dramatic increase in international arrivals, however, has been in Poland. In 1982, the country was described as "a minor tourism destination" (EIU, 1982). By 1999, however, Poland was within the top ten destinations worldwide, and attracted over 18.6 million international arrivals.

In addition to the general changes in supply and demand mentioned in 1.3.1, there are specific changes that have impacted on the tourism sector directly. Some of the major factors are:

1. Increasing price and quality competition.
2. Tourist consumers who are increasingly becoming “dollar rich, time starved.”
3. Polarisation of the market into either standardized low value-added tourism products/services or highly individualized/higher value-added services.
4. An increasing awareness of the need for sustainable development in tourism planning.
5. Continually increasing demand from consumers for more choice and activities, and improved interaction between service suppliers and consumers.
6. Increasing awareness of safety and security in consumers’ perception.
7. Expansion of business tourism, including conventions and incentive tours
8. A general tendency towards more frequent, but shorter-duration, travel (improving seasonality), and interspersed with infrequent long haul, longer duration vacations.

Source: (Weiermair, 1995).

These trends have had an evident effect upon tourism supply. One interesting analysis of this effect is that of Poon (1993) who has applied the product life cycle (PLC) to the tourism industry, with the early stages of "mass tourism" appearing on the scene from the early 1960s. By the end of the 1980s, however, there were signs that this form of tourism had matured and the main characteristics of mass production - i.e. charter flights filled with sun-seeking travellers who passively accepted whatever was given to them - was unappealing to many new segments of the market. Instead, the so-called “new tourism” was being offered as the alternative, based on sustainable development with diagonal integration and a combination of new technology and differently segmented markets. “New tourists”, it is postulated, are fundamentally different from old tourists in a number of key areas, including higher income, travel experience and education levels, and greater environmental and cultural sensitivity (Poon, 1993). The result may be seen in the development of such tourism products as adventure holidays, with their mix of nature, fitness and excitement.

In relation to this thesis, an important consideration to be borne in mind is how adaptable the tourism product in the region is to this new form of tourism, and if it may be considered an attractive models both politically and economically.

1.4.4 Economic importance of tourism

The industry's direct services to tourists represent between 3-4% of GDP worldwide. Strong regional variations exist, however, and in some countries this may be as high as 10% (Duhamel 1998, ILO, 2001). Travel and tourism is growing at about 3% per annum, again with differences according to region. In recent years, growth in Europe has been lower than average at 2.3%, but this masks intra-European differences, with Eastern and Central Europe recording growth of 5.2%. Again, regional variations range from 1.2% in the Americas to 2% in the Caribbean and Europe.

If indirect services are also included (i.e. those that provide infrastructure and supplies to the tourism industry), the tourism-related economy has been calculated to produce up to 11% of GDP, employing 8% of the labour force worldwide (WTTC, 2001). As an approximate calculation, one direct job in the tourism industry induces one-and-a-half jobs in the wider, tourism-related economy. It is important to note that tourism includes travel undertaken for business purposes, not just for leisure (see Appendix 1.2 for classification of tourists).

1.4.5 The international hotel industry within tourism

The hotel industry is an important sub-sector of the tourism industry and provides accommodation and related services to tourists.

There are two main definitional problems in the industry that causes problems in the collation and comparison of statistics. Firstly there is the issue of what actually constitutes “a hotel”. For example one may speak of hotels, private hotels, residential hotels, guest houses, boarding houses, lodging houses, bed and breakfast, inns, pensions, motels, *auberges*, *posadas, et cetera,* which in different countries may or may not fall within the remit of an hotel per se. In Europe, the problem is compounded, due to the peculiarly diverse range of provision (Slattery and Johnson, 1993).

The nearest to a universally accepted definition is that of the World Tourism Organization (WTO) which includes hotels within the classification of tourism accommodation as “collective tourist establishments”, comprising: hotels, apartment-hotels, motels, roadside inns, beach hotels, residential clubs and similar establishments providing hotel services including more than bed-making and cleaning of rooms”.

The WTO specifies that in order to qualify as a hotel certain criteria must be included, including a minimum number of rooms (but the actual number of rooms is not mandated) and that the premises

should be under a common management, with certain services, including room service, daily bed-making and cleaning of sanitary facilities being provided (WTO, 1994).

Although this is far from a perfect definition and is still open to individual interpretation by different countries, nevertheless the WTO states that, on a national basis, the total number of accommodation establishments covered in national statistics should represent at least 95 % of the total overnight stays in hotels and similar establishments. Despite the differences this means that there should, therefore be some consistency in reporting between countries.

The second problem in definition for the purpose of statistics is the hotel industry is composed of many different elements that are not always clear or easy to analyse. The hotel industry is notoriously difficult to “tie down”, with some authors claiming that there may be several distinct industries operating within the overall “industry” structure. Three types of companies may be identified:

(1) Companies involved in constructing, developing and owning hotel buildings (e.g. Accor);

(2) Companies involved in managing hotels, with or without equity in the hotels under management, (e.g. Hilton International);

(3) Franchising companies, which develop hotel chains without being involved in either owning hotel buildings or managing hotels such as Choice hotels or Cendant (Lewis, Chambers and Chako, 1998).

A further complication, characteristic of the hotel sector, is that of "invisible" hotel companies existing with little visibility to the general public; although they may be of significant size, they exist solely through the management of hotels under different brand names. People do not generally realise that they may stay in brand A hotel that is owned by Company X, marketed by Company Y and managed by Company Z.

The focus of the present study is on international hotel companies (as opposed to the many, often very large domestic hotel companies), and therefore, for the purpose of this thesis, an international hotel company will be defined as one that owns or has involvement in at least two hotel properties operating in at least two countries. The choice of two countries is deliberate so as to facilitate comparisons with Dunning and McQueen’s (1982) seminal study that was based on the same criteria.

1.5 Chapter conclusions

This chapter has placed the key developments in the service "revolution" in context. Many authors contend that the developments in the service sector represent a second, if not a third, industrial revolution. Dunning (1993) speaks of the first industrial revolution of the mid 19th century as “muscle replacing”, with the recent computer revolution of the late 20th being “intellectual replacing”. This change has been brought about by a convergence of differing factors, including the emergence of global markets, de-regulation, developments in information technology (IT) facilitating increased opportunities for economies of scale and scope, with new forms of business operations in the virtual marketspace rather than the physical marketplace. These changes constituted important background information for the study as a whole. The importance of the tourism sector has been analysed, and the international hotel industry, as an important sub component of tourism has been introduced. The chapter also discussed the problematic of agreeing definitions within tourism and the hotel industry, which is essential for comparing data on size, growth and distribution. Working definitions, whilst not being perfect have been agreed,

Chapter 2. Approaches to Internationalisation

2.1 Introduction

This chapter presents a critical evaluation of the existing literature on internationalisation related to transnational corporations (TNCs). It provides a theoretical and conceptual foundation that is necessary for an understanding of the international hotel industry, as analysed in Chapter 3. It also provides background information necessary for the interpretation of the field results reported in Chapter 5. The theoretical underpinnings and empirical research span several disciplines including generic internationalisation theory and the internationalisation process of service firms, together with the international development of the tourism and hospitality industries.

Six major theories or schools of thought are discussed. The section begins with the globalisation vs. "glocalisation" debate between Levitt (1983) and Douglas and Wind (1987). Attention is also given to one of the most influential models of international development, that of the stages or Uppsala model. Thirdly, the internalisation or foreign direct investment school developed by Buckley and Casson (1993, 1996) and Dunning (1993) is analysed, including the eclectic paradigm. Fourthly, network theory, also built on the Scandinavian school, is presented. The section concludes by analysing two more recent theories, that of the industrialisation of services proposed by Segal Horn (1998), and the so-called syncretic model of Contractor and Kundu (1998_a). The latter has been tested specifically on the hotel industry. Following the analysis of the various approaches, the reasons for the choice of model for the present study are given.

Although not a model as such, major factors considered important for international hotel development directors identified by a United Nations study into service industries development (UN, 1993) are also discussed.

2.2 Major theories of internationalisation

As mentioned in Chapter 1, for many years it was accepted wisdom that there were inherent differences between the production of services and the production of goods, and that the development of the respective sectors would therefore be different. It was also accepted that services were not easily reproducible across national borders, and therefore not easy to internationalise (Segal-Horn, 1998). Recent research, however, postulates that fundamental changes have occurred in the nature of the distinguishing features between goods and services, in fact in all that used to make services "different,"

including concepts of intangibility, perishability, simultaneity of production and consumption, and buyer/supplier interaction in the delivery of the service (Segal-Horn 1998).

Although initially neglected (McLaughlin and Fitzsimmons, 1996), there is now a growing body of knowledge on service internationalisation that can be traced back to Carmen and Langeard (1980), and has since been added to by Dunning (1989), Segal-Horn (1992, 1994, 1998), Lovelock and Yip (1996), Vandermerwe and Chadwick (1992), McLaughlin and Fitzsimmons (1996), Edvardsson, Evinsson and Nystrom (1993).

Despite the differences in approach, the common finding is that there are essential differences between the way in which firms expand in their home countries and the way in which they do so when they cross international boundaries and "go international" (Buckley and Ghauri, 1993).

2.2.1 Terminology

Many terms used in the literature, such as international, multinational and global tend to be used as synonyms. We have adopted the following distinctions: International companies are those that own or control value-adding activities in at least two countries. Multi-domestic/multilocal companies are those that treat competition in each country or region on a stand-alone basis, in contrast to a global company that engages in valued-added activities in each of the major regions of the world and adopts an integrated approach to strategy (Yip, 1995, Dunning, 1993).

2.2.2 Globalisation vs. "glocalisation"

Levitt (1983) is often credited with being the first to propose a global strategy with a focus on standardization, integration, homogenisation, concentration and coordination across national markets (Porter, 1990,Segal Horn, 1996, Svensson, 2001). Some fifteen years earlier, however, standardization of product, packaging and promotional benefits was proposed by Buzzal (1968). His proposals were taken up and extended by Levitt, who basically proposed three tenets:

1. Customer needs and wants have become homogenized;
2. Customers are prepared to give up certain differences in products for improvements in quality and reduced prices;
3. Companies can make significant economies of scale by supplying global markets.

While at the time this had evident sense for manufacturing companies, Douglas and Wind (1987) refuted Levitt's stand, referring to the "myth" of globalisation. They argued that the adaptation of a global strategy

is just one of a range of possible options available to a company and that even in companies which may be considered "hard global", adaptations are made at the local level in terms of preferences and tastes.

Douglas and Wind contest Levitt's three main premises, and argue instead that a global strategy requires considerations of alternative international strategic options relative to all the countries in which the company operates, with a mix of standardised, customised or hybrid products at a worldwide, regional or national level. What is important is not that a simplistic (product-led) choice is made between standardisation and customisation, but that the forces for globalisation, as well as opportunities and obstacles, are identified in the respective markets. Although the paper was written nearly 25 years ago, before the enormous increase in the importance of service industries, many of the ideas still hold water, and the "think global, act local" approach has been the mantra of transnational corporations for over two decades. Douglas and Wind's approach has also been endorsed by Segal Horn (1998), who argues that global marketing is not about providing the same product in all countries, but about providing local adaptations to a standardised core product or service.

2.2.3 The establishment chain (stages) model of internationalisation

The establishment chain model was one of the first major attempts to conceptualise the way in which firms internationalise. It is also sometimes referred to as the Uppsala model in reference to the location of the research base in Scandinavia.

According to this model, internationalisation is a process that follows an orderly sequence of growth in incremental stages (Johanson and Wiedersheim-Paul,1975, later modified by Johanson and Vahne, 1979). The *establishment chain* consists of four stages: from no regular export activities, through export via independent representatives (agents), which leads to sales subsidiaries, and finally to manufacturing.

Two of the major elements of the model are knowledge and commitment. *Knowledge* of the foreign markets is crucial in determining the *commitment* of the company to entry into them. As the company learns more about the new markets, more resources are committed: "The better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market" (Johanson and Wiedersheim-Paul, 1975). Expansion takes place firstly in those countries that have the least psychic distance from the home country in terms of the consumer, market and industry structure.

At the time, the model was a groundbreaking attempt to provide a conceptual base for internationalisation. Since then, there have been vigorous attempts both to prove and disprove the theory.

Turnbull (1993) has been one of the most critical, arguing that the model stays at a general, deterministic level, and has no explanatory power concerning the reasons *why* internationalisation occurs, or the conditions that would encourage it. Other major criticisms of the model are that the theory does not take into account the operating environments of the respective companies, or the managerial strategies of the companies, which have been shown to be crucial in the internationalisation process. Finally, with the "born global" outlook of contemporary companies, it is clear that companies do not nowadays follow the sequential process. Among service companies, too, the "instantly international" outlook is becoming increasingly prevalent today (McAuley, 1999). In addition, transnational hotel corporations pursue a mixture of expansion strategies combining both equity and non-equity concurrently (Contractor and Kundu, 1998_a).

In fairness, it would be extremely difficult for the theory still to be completely applicable thirty years after its appearance, considering developments in international trade. It is clear, however, that for the purposes of this thesis the model is not valid.

The next sub-section examines a third major school of thought that considers internationalisation from an economic perspective and has resulted in two major paradigms: the internalisation and foreign direct investment paradigms, which includes the eclectic paradigm.

2.2.4 The internalisation, foreign direct investment and eclectic paradigms

The internalisation paradigm

The internalisation paradigm has been in existence from the late 1970's with Buckley and Casson as its chief proponents (Buckley and Casson, 1979, 1998). Central to the paradigm is the avoidance of transaction costs by companies "internalising" the intermediate product market. Growth in companies continues until the benefits of further internalisation are outweighed by the costs. Whilst the paradigm has remained one of the major schools of thought in internationalization theory and has been tested in several different domains (Buckley and Casson, 1996, Oviatt and McDougall, 1994), it is unable to explain the level, structure or location of international production (Kundu, 1994).

Foreign direct investment

Foreign direct investment postulates that, in addition to the internalisation advantages proposed by the previous school, there must also be some unique firm specific advantages (FSA) that must be exploited before competitors copy them, with the inevitable erosion that follows. When FSA's are combined with

advantages derived from international locations and by internal exploitation, international companies then gain an edge over indigenous operators.

In the hotel industry, examples of firm specific advantages are global reservation systems and brand equity that allow international operators economies of scale and scope in their offer to businessmen when traveling abroad. However, critics of generic FDI theory state that whilst it explains patterns of investment, it does not elucidate a long-term process of international expansion. Furthermore, the majority of research has been undertaken on TNCs, with FDI theory not being applicable to small- and medium-sized enterprises.

FDI theory has been developed and extended by Dunning (1993), who for the past thirty years has been developing and refining the "eclectic paradigm"

The eclectic paradigm (Dunning, 1993)

This is the most all-encompassing version of FDI, and has been advocated and rigorously tested in a number of different industry sectors, in both manufacturing and services.

The eclectic paradigm considers internationalisation within the framework of three types of interrelated advantages defined by Dunning as ownership, location and internalisation (OLI) advantages. Ownership advantages are, as the name implies, competitive advantages that the firm owns vis-à-vis its competitors. Location advantages consist of political, economic and natural factors that firms consider when deciding to locate abroad. Internalisation advantages derive from a firm deciding to integrate various assets and skills within the framework of the company rather than trading them in the marketplace.

Initial criticisms of the eclectic paradigm mostly concerned the static nature of the model, and the need to integrate the strategic intent of companies into it. Dunning (2001) acknowledged these shortcomings and proposed improvements. The eclectic paradigm is the model selected as the conceptual base for the present study, for reasons given at the end of this chapter. An application and evaluation of the model can be found in Chapter 5, section 5.1.1. Other theories described in the rest of this chapter have advantages and disadvantages; we have resorted to them for certain insights, but none, in the writer's view, has the explanatory capacity of the eclectic paradigm.

2.2.5 Network theory

Network theory was first formulated by researchers from the Scandinavian school and has been developed from the late 1980s. It was intended as a more complete alternative to the Uppsala model, and makes use of social exchange and resource dependency theories (Coviello and McAuley, 1999).

Network theory states that firms engaged in distribution and production form systems of relationships developed between, in particular, customers, suppliers, competitors and governments (Johanson and Mattsson, 1993). Networks[4] may take many forms and include strategic alliances, joint ventures, licensing agreements, subcontracting, joint research and development and joint marketing activities (Ireland, Hitt, Camp and Sexton 2001). The networks that develop are the result of a *cumulative process* with relationships being made, extended and terminated. As firms internationalise, the number and strength of the relationships between different parts of the network increases. As internationalisation is based upon the organisation's set of network relationships rather than company-specific advantages, externalisation rather than internalisation takes place (Coviello and McAuley, 1999).

An important point is that the long-term survival of the firm is dependent upon resources controlled by others. A firm's success in entering new international markets may be more dependent on its relationships within current markets than it is on the cultural and other characteristics of the chosen market.

Johanson and Mattsson (1993) identified four types of firms going international: the "early starter", the "lonely international", the "late starter" and the "international among others as shown in figure 2.1.

[4] A network is defined as "a voluntary arrangement between two or more firms that involves durable exchange, sharing or co-development of new products and technologies" (Ireland, Hitt, Camp and Sexton 2001, p.7)

Figure 2.1 Internationalisation and the network model

Degree of Internationalisation of the firm	Degree of internationalisation of the market, (the production net)	
	Low	High
Low	The early starter	The late starter
High	The lonely international	The international among others

Source: Johanson and Mattsson, 1993.

Figure 2.1 shows the respective positions on the matrix, and we include a brief description of the main characteristics:

The early starter, as may be deduced from the name, has few and relatively unimportant relationships with firms in other countries. The firm has also limited knowledge about foreign markets, and cannot necessarily transfer the relationships from the domestic marketplace to the international arena. As the firm becomes more internationalised, however, it moves from the early starter to that of the lonely international.

One of the main differences in status between the early starter and the lonely international is that the company has now gained experience of relationships in foreign countries thereby acquiring knowledge of such things as foreign cultures and institutions. Secondly, the firm has acquired know-how of resource adjustments in foreign countries, and can promote internationalization within its resource net. This can result in competitive advantage for the firm, as it may then develop further foreign relationships before its competitors.

The late starter is a firm that may have been driven to international expansion by customers or suppliers in their domestic market. The company is at a comparative disadvantage due to its reduced market

knowledge compared to its competitors, and may be subject to competitors actions such as predatory pricing.

The international among others differs from the previous cases as both the firm and the operating environments are highly internationalized. Competitors are, therefore, internationally active, and major changes in competitive positioning occurs as a result of joint ventures, acquisitions and mergers. Network positions are crucial for the success of the company.

One of the advantages of network theory is that it can be adapted to smaller enterprises, and has been tested on SMEs in differing industry sectors and geographical locations (McAuley 1999, Chetty and Blankenburg Hom, 2000).

In their study of internationalisation in the New Zealand software industry (Coviello and Munro, 1995) found that the "initial triggers" for internationalisation came from networks of firms looking for new market opportunities and with established players as potential partners, thereby refuting the stages theory of internationalization.

Furthermore, networks allowed firms to overcome typical industry weaknesses, and were important in accelerating access or entry into new markets. The internationalisation efforts of the firm were seen to be determined by the interests of other people in the network, which could also be restrictive, at times constraining both the scope and nature of market opportunities, as certain firms seek to reduce their dependency on major players and the control these exercise.

As network theory is newer than the stages, internalisation and FDI models, there are fewer academic studies, especially of an empirical nature. Some criticisms of the model, however, may be levelled at the possible overlaps between the four, rather blurred categories (i.e. it is possible to be both in the "early starter" or "international among others"). Nor, as with the FDI and the eclectic paradigm, does it take account of the decision–making and strategic intent of the company. Finally, the model does not include exogenous variables that often result in internalisation, such as the level of domestic competition and government policies towards FDI (Chetty and Blankenburg Hom, 2000).

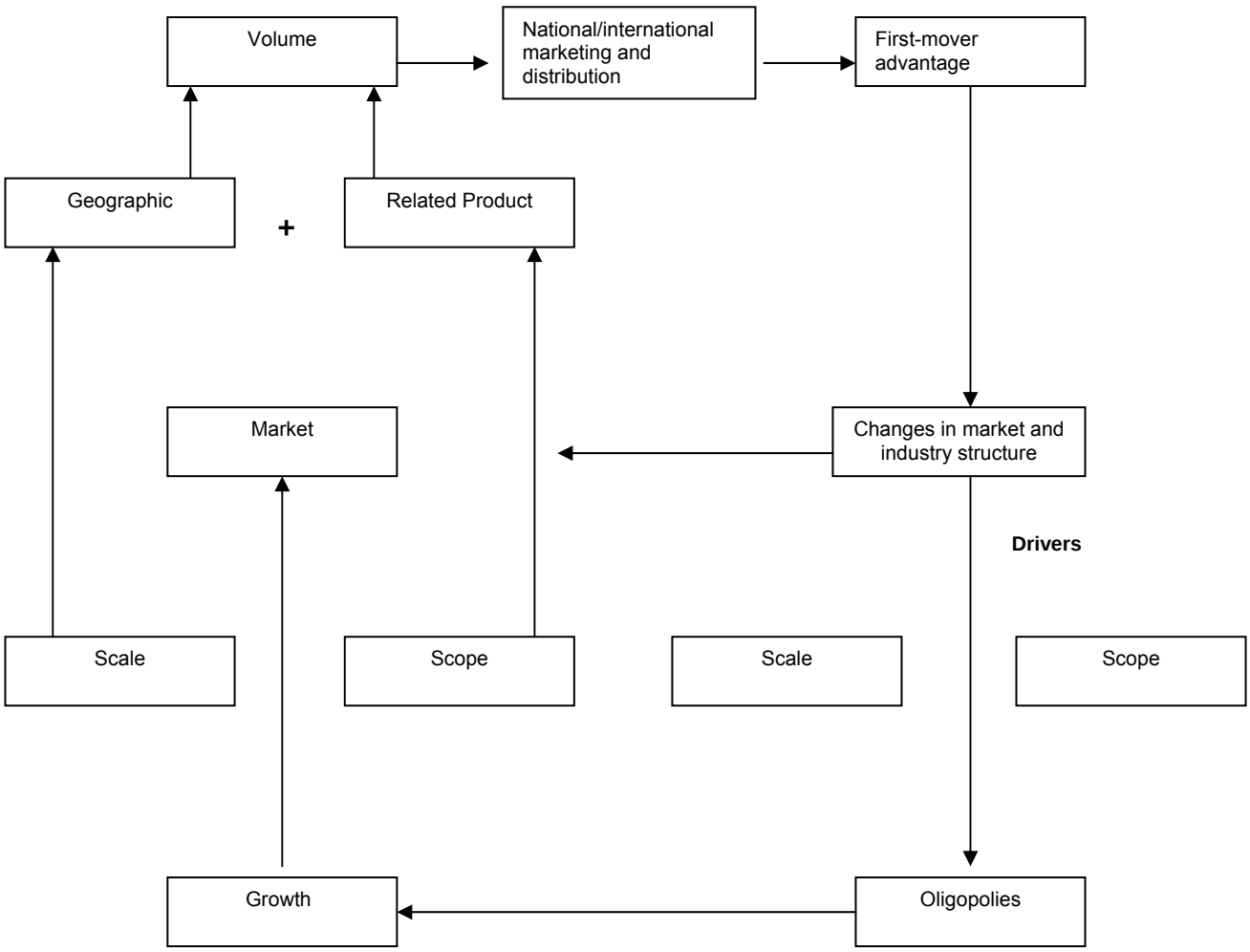
2.2.6 The industrialisation of services and "convergence theory"

A more recent school of thought suggested by Segal Horn (1998) adopts and applies Chandler's (1990) framework of manufacturing TNC development to service industries, based on the idea that the growth in service TNCs is now mirroring or converging with those engaged in manufacturing (McCraw, 1988).

The convergence theory postulates two phases. Firstly the industry evolution phase, in which firms ensure coordinated investments in scale, scope, distribution and management are able to build dominant positions and influence the future development of their industries. The financial advantages of scale and scope lead to increasing concentration, resulting in oligopolistic competition. *The logic of sustainable international competition is to make long-term scale investments to create organizational capabilities, and then to continue to reinvest in those assets* (emphasis added).

Secondly, the industry dynamics phase, whereby industrialization of services is a result of two factors: the ability to substitute capital for labour in services (as occurred earlier in manufacturing), and the possibility of changing the sophistication and characteristics of the particular sector through the integration of information technology. Figure 2.2 shows the second phase of the process:

Figure 2.2 Chandler's version of multinational growth and competition



Source: Segal-Horn, 1998

Figure 2.2 presents graphically the point at which a firm is likely to shift to international operations which is *when the domestic market provides insufficient volume to support minimum efficient scale*. Contrary to perceived wisdom, this may, in fact, arrive earlier for service firms than for manufacturing firms, when exporting is not possible (Segal Horn, 1998).

Chandler's argument is that the main prospects for growth over the long term are either through geographic expansion into international markets or in related product markets. To an extent this follows

Levitt's (1983) industrialisation of services theory, as discussed in section 2.5.1. It is based upon the argument that:

a) Fundamental, deep-seated changes have occurred in the concept of services, as such.
b) Additional changes (especially through the advances in information technology) have also increased the opportunities for service firms to exploit economies of *scale* (distributing cost reductions and expertise across national boundaries, expanding or exploiting scale in marketing, purchasing, technology, financing, etc); and *scope* (shared know-how, training, information networks, across brands and markets) which leads to more possibilities for expansion by service enterprises.
c) Extra national economies of scale have been created through more capital-intensive asset structures and higher fixed costs. As a result, there have been intensive mergers and acquisitions.

These developments have, therefore, led to increased concentration, with service industries moving away from highly fragmented markets to more concentration with clear market leaders. In many sectors they resemble oligopolies. The result is a greater similarity between manufacturing and service firms.

Many services are seen to comprise "hard" tangible elements that may now be industrialized, and separated from the point of service delivery (McLaughlin and Fitzsimmons, 1996). In addition, it is possible to codify, and therefore transfer internationally, the all-important core competencies and information-specific assets of service enterprises (along with, for example, consumer franchises relating to strongly branded services). The end result is that the structure of service industries is increasingly converging with the development of manufacturing.

The basic idea of scale and scope has an intuitive appeal, but there are problems with designation. What is the actual difference between scope and scale? It could be argued that "management", "knowledge" and "organization" are equally economies of scope, and that "shared investment and costs" and "shared R&D" could be also considered as economies of scale.

There has clearly been increasing concentration in many services in recent years (including the hotel industry[5]) and many hotel corporations have become increasingly sophisticated with their use of knowledge and information systems. With financial pressures, there is currently recognition that many

[5] As mentioned in chapter 3, section 3.4.1

aspects of hotel operations (including back-of-house) may be accomplished more productively, and are subject to studies and investigation both in-house and by management consultancy companies.

Although the theory cannot be seen to cover all service enterprises, it is applicable in the case of large MNE's. It should not be forgotten that many service industries still have considerable small-and medium-size enterprises (SMEs). This is the case in the European hotel market, where in many European countries 80% of the hotel stock is composed of establishments with 25 rooms or less (Hotrec,1998).

2.2.7 The syncretic model

The syncretic model of Contractor and Kundu (1998_a) integrates notions from several disciplines, including transaction costs theory, agency theory, corporate knowledge and organizational capability theories.

The model directly addresses the decision behind the choice of equity to non-equity that is particularly relevant for the international hotel industry, where management contracts and franchising are favoured methods for expansion. Contractor and Kundu regard location (country-specific variables) and firm-specific variables as the most important considerations behind the firm's market entry choice. Firm-specific variables are classified into *structural factors,* such as size of the company, international experience and the extent of the company's globalisation, and *strategy and control factors* such as the importance of economies of scale, control over quality, need for size, global reservation systems and investment in training in the firm's overall strategy.

According to the model, the most important location variables are country political and economic risk. From the firm's structural and strategic perspective, essential considerations are the degree and experience of internationalisation of the company (with companies with international experience and reach preferring equity-based expansion), the amount of investment in its global reservations system and brand name, and the size of its overall operations (although size was not necessarily through equity mode, but rather by building a network of alliances).

While the model may be seen to be robust and intellectually rigorous, it is relatively new and, although it has not been tested to any large degree, it does attempt to deal with the lack of strategic intent that is missing from the eclectic paradigm. It does not contain all the answers, however, and a surprising omission from the key variables identified by major international players in assessing the attractiveness of

foreign locations was the size of the overall market. Hence the decision not to use it as the basis for the present study, even though it has been tested on the hotel industry.

2.2.8 Other important factors for the internationalisation of services.

After considering these general paradigms, it is also important to be aware of studies on service internationalisation that have not resulted in models or paradigms, but nevertheless give indicators of important factors that should be borne in mind by service companies in the internationalisation process.

The United Nations (1993) study of Service TNCs analysed the factors that were considered important by Transnational Service Corporations in establishing a foreign operation. Nine major factors were identified. Many of these are extremely important, and would certainly be taken into account by development directors of international hotel chains. They have not been referred to individually before, however, as they are an integral part of the eclectic paradigm.

1. Market size (market potential in terms of both size and growth), with direct investment modes giving higher returns on investment in high-market potential countries owing to economies of scale and lower marginal cost of production.

2. Home-country business presence

Historically, following home-country client firms abroad was one of the earliest reasons for internationalisation. It has been especially favoured in such sectors as banking and advertising through the opening of international offices to supply the subsidiaries and MNEs that they had supplied to the host parent companies.

Hilton and Inter-Continental expanded so as to provide foreign bases for the American businessman competing internationally. An important advantage is the lessening of uncertainties and ambiguity avoidance in foreign markets through the trust and goodwill that has been established through relationships and the importance of brand names.

3. Cultural distance

This is based on the proposition that services have to be customised to the local market demands, especially in relation to host countries that have a greater cultural distance from the home country.

4. Government regulations

The amount of government controls or regulatory obstacles exercised by host country governments towards service industries is considered a key criterion in the location decision. In the case of Eastern

Central Europe, this was considered especially important and questions on the subject were included on the questionnaire for the field study.

5. Competitive advantages of service industries

There are clear differences in the formation of national competitive advantages in service industries across countries. Porter (1990) believes that with the growth in global competition, national competitive advantage will take on increased importance for both firms and countries.

Sustainable competitive advantage by both countries and companies, in many respects, is a matter of how far the advantage concerned is ingrained within the country. According to Porter (1990), useful indicators of international competitive advantage are either abundant or prolonged exports to a significant number of nations, or considerable outbound foreign direct investment (FDI).

6. Global oligopolistic reaction

A school of research originating from Hymer in the 1960's states that oligopolistic interdependence is often a common characteristic of International competition. As there are typically only a few firms in an oligopolistic market, they are aware of the impact of their actions on their rivals (and vice versa) and thus on the market as a whole.

Of particular interest is the behavior of members of a regional oligopoly internationally towards each other. It is likely that companies that come from nations with a similar standard of living and consumer demands will most probably develop similar products, leading to duplication. This may be seen in the international hotel industry with, for example, the similarity of international hotel products, with chains originating from the US (Hilton, Inter-Continental) producing very similar types of hotels to those from Britain (Forte) and even France (Accor). There is evidence of oligopolistic practices in the hotel industry as reported by Baum and Mudambi (1995).

7. Industry concentration

Significant industry concentration is often the result of high barriers to entry. These barriers may take the form of substantial expertise and resources dedicated to research and development, large advertising spending, cost of capital and economies of scale and scope. Either one or a combination of these factors may be the reason behind the decision to go international.

Transnational companies generally possess advantages over domestic firms in overcoming these barriers to entry.

8. Tradability of service industries

Manufacturing companies may go international through exporting, licensing (and franchising), joint ventures and FDI. Exporting of final services may take the form of either a direct export to a foreign country (clearly not possible for an international hotel), or by a foreign customer traveling to the exporting country.

It has often been maintained that a distinguishing aspect of a service enterprise is the simultaneity of production and consumption in the same location. As mentioned previously, however, in section 1.3 with the latest advances in information technology, and the merger of computer and telecommunication technologies, it is now possible that certain services may be produced in one location and either stored or simultaneously consumed in another location. The end result has been the development of (telecommunication) network-based trade.

9. Firm size and growth

It has been found that in the manufacturing sector, large firms are more likely to be international than domestic. Firm size was also seen to be important variable in international development of service industries.

Implications for internationalisation

As with the convergence theory, there are many similar motivations in service companies compared to manufacturing when deciding to invest internationally.

At a practical level, companies going international prefer countries which have markets of significant size, with low cultural distance, and which are run by governments with low levels of regulation. Many companies have adopted a follow-the-customer internationalisation strategy. Significantly for the international hotel industry, the presence of an oligopolistic market structure is one of the major factors behind the decision to internationalise.

The United Nations study is useful because it identifies the major factors in the internationalisation process, which are not explicitly dealt with in earlier models. It cannot be seen as a comprehensive conceptual model but it remains a useful listing of key variables to be considered.

2.3 Chapter conclusions

This chapter has reviewed the major internationalisation theories, models and paradigms. Most of the studies were originally conceptualised for the manufacturing sector, and were developed in terms of the

international development of transnational corporations (TNCs). There is an increasing body of knowledge, still under development, which is specifically related to the internationalisation of services (Agarwal and Sridhar, 1992, Edvardsson, Edvinsson and Nystrom, 1993, Segal-Horn, 1998, Groonroos, 1999, Samiee, 1999). Recent studies show that, although there remain certain clear differences between manufacturing of physical goods and production and delivery of services, the traditional distinction between manufacturing and service businesses is becoming increasingly fuzzy, with the two sectors appearing to share similar characteristics. The application of information technology has been fundamental in bringing about changes in the delivery and usage of services. As many services are information-intensive, there is a strong probability that substitution of technology for labour will continue, both within existing service sectors and into new ones (Segal-Horn, 1998).

The globalisation-glocalisation argument, which started over twenty years ago, continues to be refined, although there is general agreement that even in highly standardised markets there is often an element of local adjustments to taste. This is particularly the case in services, although in international hotel companies the local element is often subservient to that of providing uniform levels of service to the international business client.

The literature on international development is rich and diverse. Although no single model can claim to provide all of the answers, many give important insights into the factors behind the nature and choice of international development - the “why” “where” and “how” of international expansion.

Of the theories reviewed, the stages theory may now be seen to be the least appropriate for the international hotel business. Companies do not merely go through a sequential process of entry modes nowadays, especially with the existence of the “instantly international companies”.

The two paradigms most suitable for this study were seen to be the industrialisation of services and the eclectic paradigm. Of these, the latter was selected as the most suitable conceptual base for present purposes, owing to the fact that it has been rigorously tested on both manufacturing and service sector industries including the international hotel industry. The model offers a good fit with the tourism and hotel industry through the emphasis given to the importance of location as one of its three principle pillars. The model is applied to the international hotel industry, with specific reference to Eastern Central Europe; the results are presented in Chapter 5.

Chapter 3. The International Hotel Industry

3.1 Introduction

Following generic internationalisation theory and its applicability to services, this chapter is concerned more particularly with the international hotel industry. It provides a link with the theories already discussed and introduces the major companies, their expansion strategies and preferred mode of development. The purpose of the chapter is threefold:

a) To provide a description of the structure, scale and scope of the industry;

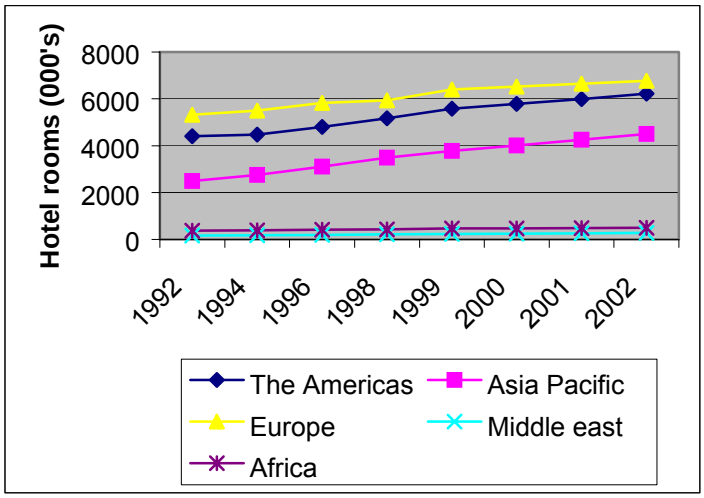
b) To evaluate the expansion strategies of the leading hotel companies, the markets served and their preferred mode of expansion;

c) To identify the key trends which have affected the industry, and which will determine its nature in the future.

3.2 Overview of the international hotel industry

While there are difficulties about the precise definition of a hotel, as mentioned in chapter 1, at the end of 1998 the latest statistics available showed that there were 15.4 million hotel rooms worldwide (WTO, 2001). Since 1990, the industry has recorded an annual growth rate of 2.9%, which gives approximately 16.3 million rooms by the end of 2000. Worldwide supply of rooms is far from evenly distributed, however, as shown by figure 3.1.

Figure 3.1 Number of rooms in hotels & similar establishments worldwide, 1992-2002



Source: TTI, 2001, own calculations
N.B. 1999-2002 figures are estimates,

Although the majority of hotel rooms, as shown above, are still within Europe, the rate of increase has been much lower in Europe than in the other two major regions of hotel supply, the Americas -principally North America - and Asia: North America now has over 4 million hotel rooms, and Europe over 6 million. Although the latter remains the dominant destination worldwide, over the next twenty years it is in Asia, (and mainly South East Asia) that most tourist growth will occur. Appendix 3.1 gives the statistics for the worldwide hotel industry by region.

The overall share of hotel rooms by continent can be seen in table 3.1.

Table 3.1 Worldwide hotel room capacity % share by region, 1990-1998.

	1990	1992	1993	1994	1995	1996	1997	1998
The Americas	35.2	35.5	36	35.4	32.9	33.1	33.3	33.5
North America	29.9	31.7	31.1	31.2	27.5	27.4	27	26.8
Caribbean	1.1	1.3	1.3	1.3	1.2	1.2	1.2	1.3
Central America	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
South America	4	4.2	4.1	4.3	3.9	4.2	4.6	5
Asia Pacific	20.5	20	20.6	20.3	22.5	22.9	23.3	23.7
Oceania	1.6	1.8	1.6	1.8	1.6	1.7	1.5	1.5
Europe	40.2	40.3	39.3	40.1	40.4	39.7	39.1	38.5
Middle East	1.3	1.4	1.3	1.3	1.3	1.4	1.4	1.4
Africa	2.7	2.8	2.8	2.9	2.9	2.9	2.9	2.8
Worldwide	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: TTI, 2001.

The trends are clear. Europe and North America, which started the decade with a combined market share of over 70%, had less than two thirds of the market just eight years later. Some regions of the world have remained largely static in their hotel supply, for example the Middle East and Africa, while there has been a low level of growth in South America. It is striking that Africa still has less than 3% of the supply of hotel rooms. This points to the lack of development in the tourism industry, and perhaps to the potential for growth in future. There are signs that countries such as South Africa and Namibia are starting to develop their tourist industries more fully. Such development remains highly dependent on

stable political and economic conditions, however: the record of the industry in Kenya, for example, shows how vulnerable it can be to negative publicity.

3.3 Composition of the market

Development of the hotel sector is due to a healthy tourism industry attracting international leisure visitors, coupled with an expanding economy that stimulates demand for business and leisure through domestic demand and inbound business tourism (TTI, 2001). Table 3.2 gives a breakdown globally of the sources of business for hotels, and the major market segments of demand.

Table 3.2 Sources of business for hotels 1992-1999 % of total room nights

Source Of Business	1992	1993	1994	1995	1996	1997	1998
Domestic	47	48.1	49.2	51.4	53.5	47.4	48.9
Foreign	53.9	51.9	50.8	48.6	46.5	52.6	51.1
Composition of Market							
Business Travellers	33.6	36.1	38.3	36.9	34.3	28.5	31.9
Leisure Travellers[1]	42	40.5	22.3	22.7	26.8	34.1	33.8
Tour Groups	N.a.	N.a.	17.3	18.4	16.5	17.7	16.1
Conference participation	11.3	10.3	9.9	10.9	9.2	10.1	9.8
Government officials	3.9	2.9	3.9	3.1	3.3	2.2	1.8
Other	9.2	10.2	8.3	8	9.9	7.4	6.6
Total	100	100	100	100	100	100	100

Source: TTI, 2001, p.13.
1 Excludes tour group participants as from 1994.

With regard to the first part of the table, which concerns domestic and foreign business, it is difficult to explain the reasons for the changes in the rate of increase in domestic and foreign business. Until 1996 there is a consistent gravitation towards domestic business, which by the end of the decade is reversed, with foreign business again accounting for the majority share.

Regarding the composition of the market, the role of government officials has been in steady decline, and there are fluctuations in majority share between business and leisure travellers, with both conference

participants and tour groups important sectors of the total. If these are added to the respective categories, business tourism accounted for just over 42% and leisure tourism for 48% of the total at the end of 1999.

Appendix 3.2 shows the composition of the market geographically for selected cities in Europe.

3.4 Industry trends & characteristics

Several major trends that have affected the structure and the strategy of international hotel companies have been identified and will be discussed in detail. These are *increasing consolidation and concentration*; the *increasing importance of branding* and *the impact of technology*.

3.4.1 Increasing industry concentration and consolidation

Chains in the hotel industry are getting larger, and becoming "mega chains" (consolidation), which also affects the total number of rooms under their control (concentration). Merger and acquisition activity is very prevalent in the international hotel industry. While a proportion of the rooms in the industry is coming under the control of a dwindling number of companies, this should be kept in perspective: two thirds of the total number of hotel rooms worldwide remains in independent (often SME) hands; the share of the chains is therefore by no means overwhelming.

Concentration in the industry can be measured by the share of the world market controlled by the major chains. Table 3.3 shows changes over the 1990s in the share of the worlds 200 largest chains.

Table 3.3 Percentage share of major hotel operators, 1990-1998

	1990	1995	1997	2000
Largest 200 hotel chains rooms ('000)	n.a	3856	4795	5660
Total number of rooms worldwide ('000)	12223	14116	14951	16300
% Share, top 200	n.a	27.3	32.1	34.5

Source: TTI, 2001, p.83, "Hotels" July 2001, own calculations.

Although the number of rooms worldwide has increased by 26% over the period, the share of the largest companies of the industry has risen throughout the period, and now stands at over one-third of the overall total. The 12 leading companies control 75% of the total number of bedrooms of the leading 50 chains, and have grown by 40% over the period 1995-2001 (TTI, 2001, p.91).

Despite being in the minority, it is the chains that set the pace and standards for the industry, as the vast majority of SMEs struggle to maintain profitability, or indeed survive. One of the major reasons behind the growth has been the chain's supply of consistent, standardised services and facilities that have been replicated throughout the world (also in developing countries) through standardised operating manuals and procedures. This avoidance of ambiguity, or the need for predictability, in such an experiential activity as staying in a hotel room, often in a foreign country, required the development of a brand name, which promises consistent delivery. Up to the 1980s, two of the most important strategic advantages which international hotel operators had over indigenous, national ones were a strong brand name and knowledge of international guests' requirements and preferences (Dunning and McQueen, 1982).

Industry consolidation may be seen from the growth in the size of companies that has principally occurred through merger and acquisition (M & A) activity. The international hotel sector is dominated by a relatively small number of companies. There are only nine corporations with over 100,000 rooms; seven of the nine originate in the US, which illustrates US dominance in the business.

In the five-year period 1990-1994, the value of deals in the hotel sector was approximately US$22.4 billion. In the four years 1995-1998, this had risen to US$105.6 billion, increasing by a factor of almost five (TTI, 2001, p. 84)

Table 3.4 compares the top 10 hotel companies in 1975, with the top 10 twenty-five years later

Table 3.4 Comparison of Top 10 Hotel Companies, 1975-2000

	2000		1975	
Rank	**Company**	**Rooms**	**Company**	**Rooms**
1	Cendant Corp	548'641.00	Holiday Inn	274'969.00
2	Bass Hotels & Resorts	496'005.00	Sheraton Corp.	109'999.00
3	Marriott Int'l	404'792.00	Ramada Inns Inc	94'621.00
4	Accor	389'437.00	Hilton Hotel Corp.	61'621.00
5	Choice Hotels Int'l	349'392.00	Trust House Forte	60'705.00
6	Hilton Hotel corp	314'628.00	Howard Johnson	59'800.00
7	Starwood Hotels	215'207.00	Balkantourist	51'800.00
8	Carlson(Radisson/SAS)	119'710.00	Days Inn Inc.	37'983.00
9	Hyatt	87'969.00	Quality Inns Int'l	32'954.00
10	Sol Melia	82'733.00	TraveLodge Int'l	31'492.00
Total		**3'008'514.00**		**815'944.00**

Source: "Service World", 1976, "Hotels", 2001.

The difference in size of the leading ten companies is very apparent. The number 1 hotel chain in 1975 (Holiday Inn) would have been in 7th position in 2000. Similarly, the number 2, (Sheraton) and number 3 (Ramada) would have been in 9th and 10th places respectively in 2000. Overall there are 3.7 times more rooms operated by the leading ten companies in 2000 than there were in 1975.

Appendix 3.7 gives a full listing of the major chains, brand names and market segments covered.

Only three of these companies, Bass, Accor, and Sol Melia, do not originate from North America.

In Continental Europe, major companies in terms of market capitalization are: Accor (US$8.50 billion), Sol Melia (US$2.02 billion), Scandic (US$0.60 billion), Société du Louvre (US$0.73 billion), Movenpick (US$0.43 billion), and Groupe Partouche (US$0.43 billion). (PricewaterhouseCoopers 1999,p.21),

Significantly, even after some acquisition activity by Asian companies in the 1980s and early 1990s (with, for example, the purchase of ITT Sheraton and Kempinski Hotels by Asian corporations), Asian companies have no representation in the top 10, and are at the lower end of the top 20.

3.4.2 Increasing importance of branding

Several advantages are attributed to brands, such as generating higher market share, price premiums from customers, providing higher investor returns, and establishing customer loyalty, thereby ensuring a more stable flow of earnings. In the hotel industry, this is especially important with regard to access to global reservation systems and purchasing power (TTI, 2001).

Brand penetration varies worldwide, however, with the highest ratio in the US, quoted at 70%. Other regions have far less branded hotel stock, with Asia and the Middle East recording 25%, South America 20%, and Europe only 15%, just over one-fifth of that of the USA. Europe especially has proved much more difficult for US chains to penetrate than was initially envisaged, owing to individual country characteristics (especially legal and financial restrictive practices), the size and age of properties and a lack of homogeneity which makes franchising (the main distribution method in the US), extremely difficult. Rates within Europe vary from over 20% in the UK and France to a miniscule 3% in Italy (TRI, 2000).

It may be seen by the brands described in Appendix 3.7 that certain firms are choosing to acquire assets across markets and industries rather than increasing their dominance in a single sector, which would allow greater economies of scope (Segal Horn, 1998).

There are clear preferences for certain companies to expand by franchising (Cendant, Choice Hotels International and Bass Hotels and Resorts) and through management contracts (Marriott International, Société du Louvre and Accor) rather than by equity investment.

Until the mid-1990s, the names of the leading 20 hotel companies remained remarkably stable, with Holiday Inn, Sheraton and Intercontinental regularly appearing in the ranking. With increased concentration owing to merger and acquisition activity, however, these brands, although still in existence, appear as a multi-brand of the holding company, (Holiday Inn is owned by Bass Hotels and Resorts[6], which also owns Intercontinental; Sheraton is owned by Starwood, that also owns Westin; Days Inn is one of Cendant's brands, as is Howard Johnson). Cendant itself is a new company, having developed from the merger and acquisition of Hospitality Franchise Systems (HFS). HFS itself was only founded in 1990,with the fusing of several older, established brands such as Howard Johnson (founded in 1925), Days Inn (1970), Super 8 motels (1973) and Park Inns (1986).

From the single brand name of the 1970s, all but one of the top ten chains had multiple brands by 1998. Analysts have suggested that within ten years the industry will be dominated by up to six "super-brands" (Mather and Todd, 1998).

3.4.3 Increasing impact of new technologies

In common with many other industrial segments, international hotel industry operations have been changed by new technologies. The most important changes have occurred through computer reservation systems and later global distribution systems that were originally developed by airlines (Galileo, Amadeus, Sabre), but were later adopted and personalised by major hotel companies. This has had a profound effect on the distribution of the hotel product. Secondly, the development of the internet has facilitated on-line reservations, which, although still very small in terms of the revenues generated (thought to be 2-5% of revenues for chain hotels), is nevertheless forecast to grow dramatically in the next few years. In a recent survey (PricewaterhouseCoopers 2001), many European hotel chains were not technologically advanced enough fully to exploit the potential of the Internet through on-line booking, with accurate and timely price information on inventory available.

Other effects of new technologies are evident in both customisation and purchasing.

[6] Bass changed its name to "Six Continents" in mid-2001.

3.4.3.1 Customisation

Marketing has evolved from mass marketing through segmentation (including psychographic and lifestyle segmentation) to database, customized, individual and finally cybermarketing.

Customisation may be summed up by the memorable quote from Don Peppers and Martha Rogers, as "I know you. You tell me what you want. I make it. I remember next time[7]." Remembering in the hotel business has mainly been associated with the use of the Internet and the development of customer loyalty programmes. In practice, many of their features have been similar to traditional sales promotions, (including special offers and discounts).

Table 3.5 shows the major company loyalty programmes by hotel companies.

Table 3.5 Major hotel companies' loyalty programmes

COMPANY	LOYALTY PROGRAMME	NUMBER OF MEMBERS (MN)
Marriott	Miles/Reward	13.1
Bass	Priority Club	8.9
Hilton	Hhonours	7
Starwood	Preferred Guest	5.1
Cendant	Various	5
Hyatt	Gold Passport	4.2
Radisson/Carlson	Gold Rewards	4.0
Choice	Guest privileges	1

Source: Peppers & Rogers, 2001

Some of the schemes are of vast proportions, with almost 30 million members in the three leading schemes (although the same person can be a member of all three). Information technology, therefore, allows the hotel companies to collect data on hotel guests in such areas as room rates paid, number of guests in party, frequency of stay, other services requested and the method of payment preferred. This information can then be used to tailor the company's offer to the needs of the customer. The Internet serves as the medium to identify and collect the personal information from the client, and then delivers the customized product (Hanson, 2000). In hotel companies this often translates into the offer of special features to members of the loyalty clubs who are given preferential treatment in areas such as on-line

[7] As Quoted in Hanson, 2000.p.184.

account management, awards redemption, stored profiles and quick reservations (Peppers and Rogers, 2001).

Industry examples of personalization include:

- Wyndham Hotels and Resorts (USA), since 1999, has built an online database of customer preferences including magazines, snacks, pillows, whether they wish to be near or far from the elevator and which floor they wish to be located on for all guests who have at least three stays per year.
- Fairmont Hotels & Resorts' (Canada) Loyalty programme is the "Fairmont Presidents Club;" benefits include instant check–in and check-out, room upgrades, free local calls, shoeshine, desired type of room, bed and pillow, distance of the room from the elevator, height of the room in the hotel etc. After a set number of nights, guests can be promoted to the next stages - gold and platinum that give higher room upgrades and awards.
- Marriott (USA) identified four major segments-business and leisure travelers, travel agents and event planners. Through Marriott.com, each of these four categories receive personalised services: a registered leisure traveler will for example receive links to an online vacation planner, a resort site and a golf site with details of the 150 golf courses at or near Marriott hotels etc.

(Source: Examples taken from Peppers and Rogers, 2001 and Picolli, Spalding and Ives, 2001)

Hotel companies wish to expand their Internet business for reasons of cost and potential. Regarding the former, it costs Bass $7.93 per net reservation booked through its call center, compared to $3.20 online. Hyatt reports an even greater saving, with costs of $9 through their call center and $3 online. Regarding the latter, potential for growth is considerable, when currently (2001), on-line sales account for less than 5% of the total with many hotel companies. Mariott, however, forecast that online sales would triple in the two-year period 1999-2000 (Peppers and Rogers, 2000, pp. 34 & 73).

Despite these examples, it has been argued that hotel companies have not so far made the fullest possible use of guest information, and loyalty schemes are often still used simply to reward levels of expenditure by guests rather than to analyse guest spending behaviour and patterns in depth, thereby missing the opportunity to personalize the offer fully and conduct one-to-one marketing (Palmer McMahon-Beattie and Beggs, 2000).

3.4.3.2 Internet usage

Procurement

Business-to-business (B2B) purchasing via the Internet is increasing. Its advantage lies in bringing together of customers and suppliers. In the case of the hotel industry, this is a substantial business, taking into account all the purchases required e.g. furnishing, fittings and equipment (FFE), food and beverage supplies, service contracts, cleaning materials etc[8]. One distinct trend is for several hotel corporations to form joint ventures to negotiate more favorable conditions via Internet purchasing. Marriott International, Hyatt and Club Corporation formed "Avendra" in May 2000.

It has been estimated that approximately US$ 7 billion per year could be recuperated from hospitality procurement by better use of the Internet, and by the end of 2000 up to US$30 billion of hospitality procurement will be on line (TTI, 2001, p.162).

On-line reservations

The Internet also provides major opportunities in saving costs and reducing complexity in distributing hotel rooms and marketing – especially customer relationship marketing (CRM). The major saving for a hotel company lies in reducing the number of intermediaries. Owing to the development of computerised reservation systems, global distribution systems and "switch" companies, the process of reserving a hotel room has become complex and expensive: if, for example a customer wishes to reserve a room through a travel agent the steps as shown in figure 3.2 occur:

Figure 3.2 Stages in the hotel room reservation process

Customer ➤ travel agent ➤ global distribution system ➤ switch ➤ central reservation system ➤ individual hotel.

As may be seen from figure 3.2, this is a complicated and time-consuming procedure, which has been estimated at US$7 plus 10% commission on the cost of the reservation. If "disintermediation" were to be

[8] The annual hospitality procurement market is worth USD 100 billion annually. If related industries such as cruise lines, casinos, senior accommodation and timeshare are included, the estimate is USD 150 billion (TTI, 2001 p.162).

applied by direct bookings through a hotel web site, reservations could be made for a small percentage of the cost of conventional methods.

3.4.4 Separation of hotel management from ownership

Several trends in relation to the ownership of hotel companies have had direct effects upon the structure of the industry, namely separation of the management of properties from ownership; divestment of non-core activities; vertical integration and rationalization.

Marriott was the first major chain to split into two distinct corporations, one dealing with the real-estate side of the business, the other with the management of the hotels. The divestment of businesses by major diversified companies has resulted in refocusing and a greater clarity of strategy; one example is Bass, which after several centuries of brewing beer and running public houses decided to focus solely on hotel developments (and was re-named as “Six Continents” in mid-2001).

Appendix 3.3 gives an overview of the major hotel group by region of origin, nature of company (hotel owner, management contractor of franchiser).

To provide an overview of strategic developments in ownership throughout the industry over the past 15 years, an analysis was undertaken (see Appendix 3.4) using the Ansoff matrix, which classifies activity into one of four areas: current product, current market; current product, new market; new product, current market; new products for new markets. This shows details of company ownership before and after acquisition. Appendix 3.5 presents the information graphically. Several main trends may be identified:

1) Diversification -"new product, new market" - was principally a trend of diversification that started in the late 1980s, with companies from unrelated industries buying into the international hotel sector. This resulted in famous brands leaving the United States and going into Asian and European ownership. Intercontinental and Sheraton became Japanese-owned and Hilton International and Holiday Inn became British-based. This trend ceased in the early 1990s, with the one major exception of the hostile Forte Group hotel takeover by the Granada Media Corporation in the mid 1990s.

2) Most of the activity occurred under the heading "current product for current market," with consolidation occurring on a significant scale as hotel corporations were merged and acquired. Horizontal integration has been important in the development of such chains as Hospitality

Franchising Systems (later Cendant), Accor, Hilton Hotels, and Bass Hotels and Resorts. This resulted in many of the chains coming back under the ownership of hospitality companies.

3) There has also been activity in the "current product, new markets" segment, as chains have sought to extend their geographic coverage (as in the acquisition by Bass of InterContinental), or by attracting new market segments, by going either up or down-market, as in the case of the Marriott (mid-market) acquisition of Ritz-Carlton (deluxe market).

4) The fourth segment, "new products for current markets," has seen little innovatory activity. Such relatively new products as Formula One by Accor, boutique hotels (by independent and chain hotels), extended stay and suite hotels would be included in this category.

3.4.5 Expansion strategies of major international companies

Unlike manufacturing industries, hotels are obviously location-bound, and have only a certain number of market-entry modes available. The main considerations in determining the entry-mode selected is the level of equity investment demanded and the degree of control required over the operations (see figure 3.3.)

Figure 3.3 Relationship between control and ownership in the hotel industry

Ownership

Daily Control

	Yes		No
Strong	Equity based	• Fully owned • Majority JV	Management Service Agreement
Weak		• Minority JV	Franchising

Source: Contractor and Kundu, 1998a

The figure shows that there are non-equity strategies of management contracts and franchising (with lower levels of control and equity commitment) on one side, and acquisition of local operators and foreign

direct investment on the other. Strategic alliances and joint ventures may be seen to occupy the "middle ground," depending largely on the level of investment and other resources committed by the respective companies.

Control may occur at different levels, for example: (1) daily operational and quality control in each hotel property (2) control over the physical assets or the real estate (3) control over tacit expertise embedded in the routines of the firm (4) control over the codified assets such as the global reservation system and the firm's internationally recognized brand name (Contractor and Kundu, 1998_a).

The principal expansion modes (ranked according to level of control over the entrant) are as follows:

Equity-involved strategy (high levels of resource commitment and control)

- Long-term leasing

This form of market entry is comparable to the full-equity method, as it commits the company to dedicate financial resources and assume control for a long period. Requiring as it does significant investment over time, long-term leases are given careful consideration by development directors, especially the corresponding risk and market desirability of the host country (for example in Germany where this is the preferred mode of entry), and has been used by companies in the past to secure sites in the best locations (Olsen, West and Tse, 1998)

- Foreign Direct Investment (FDI) and Mergers & Acquisitions (M & A)

FDI in either a new property or a series of properties is a potentially profitable option for hotel companies, but with a correspondingly high degree of risk. The major concern is the political and economic stability in the country (Olsen, West and Tse, 1998), in the light of the potential market in terms of demand and growth. As stated above, M & A has been a part of the hotel industry for many years. (See Appendix 5.3 for details.)

There has been *acceleration in merger and acquisition activity* in recent years that may be attributed to both financial and marketing reasons. Regarding the former, investors from Asia and Europe (notably Accor, Ladbrokes, Bass and Seibu Saison) benefited from changes in US tax legislation and the devaluation of the US dollar to invest in real estate and hospitality businesses in the United States. In the early 1990s, owing principally to the world economic recession, real estate prices dropped, allowing hotel companies with strong finances to acquire or merge. Bass, for example, were able to pay $2.9 billion in cash to buy Intercontinental (Olsen, 1998). There have been 13 transactions in these years of over £ I

billion, including the acquisition of ITT/Sheraton ($8.23 billion), Forte ($ 5.9 billion), Doubletree ($ 4.64 billion) Intercontinental ($ 2.9 billion), and Stakis ($2.34 billion.)

It is widely anticipated (TTI, 1997, Mather and Todd, 1998, PricewaterhouseCoopers, 2000) that this trend will increase in the short term, owing mainly to the need for companies to exploit economies of scale and scope.

Various splits of control and resource allocation

- Strategic alliance

A strategic alliance is a low-cost, limited-risk form of linkage or partnership between two or more companies. It allows multinationals to gain domestic market awareness and increase their network coverage. Forms of alliance range from relatively low-risk and low-visibility information sharing and referral of business to more overt joint branding (PricewaterhouseCoopers, 1999). Strategic alliances are especially attractive to hotel companies operating in fragmented markets with small market share (e.g. Europe). Specifically, members from the alliance benefit from

- Greater market coverage
- Economies of scale and scope
- Increasing visibility of brand name
- Cross marketing
- Reduction in capital investment
- Complement each others strengths
- Market and reservation systems,

(Olsen, West and Tse, 1998)

Recent examples in the industry include the agreements between the Dorint and Inter-Continental brands and Arabella & Sheraton. SAS and Radisson have worked together in their joint marketing and reservation systems for a number of years. Alliances may take the form of partnerships between hotel chains and food service providers, travel and transport agencies, computer and communication organizations, banks and other service organizations

In June 2000, three of the largest European hotel chains (Hilton Group, Accor Hotels and Resorts and Forte Hotel Group) launched an Internet alliance to achieve economies of scale and scope for online reservations and procurement.

Check and Dev (1993) distinguished three types of strategic alliance according to the time frame envisaged in the agreement, from short-term opportunistic to long-term strategic relationships.

In theory, alliances allow firms to focus on their core strengths and offer a stronger product line with better market coverage. In practice, however, alliances are often characterized by high rates of failure, and the anticipated synergies are not as evident as first claimed.

- Joint venture

Joint ventures often take the form of partial equity investment and may involve the establishment of joint business projects with host countries or with regional partners. They may be comprised of companies with substantial financial resources, which in time lead to wholly owned subsidiaries with full ownership and control. By its nature the joint venture assumes a certain period of financial obligations and control, and has been used to good effect by multinationals in securing properties in key locations.

Non-equity–involved strategy (i.e. with low levels of resource commitment and control)

- Management contracts

The first hotel management contracts originated in the United States in the 1950s. The operation of the hotel property is separated from its ownership, and for some companies is a preferred type of expansion (e.g. Hilton International). Recently “pure management contracts” have become less common, as hotel developments are often linked in with other facilities (e.g. retailing, offices, medical etc.) The ”package” therefore becomes more complex, with increasing equity participation from lenders (developers and host countries) demanded as a pre-requisite for the contract from the management contract company. There is a wide range in the duration of management contracts; Initially they were negotiated for periods of 20-25 years, but in the late 1980s and 1990s the trend was towards shorter terms. A recent survey (Johnson, 1999) found contracts ranging across a span from 4-6 years to 20-24 years. Typically, operators will charge in the region of 3% of revenues as fees, plus incentive fees. As may be expected, large companies with high reputations can negotiate longer-term contracts with longer extensions; length of term correlates with brand name. (Johnson, 1999). Four Seasons, through their excellent brand name and reputation for high quality, have been known to command contract lengths of up to 70 years.

- Franchising

The International Franchise Association (IFA) defines franchising as "a continuing relationship in which the franchiser provides a licensed privilege to do business, plus assistance in organizing, training, merchandising, and management, in return for a consideration from the franchisee" (Khan, 1999, p.3) The most common form of franchising is business format franchising, by which franchisers provide not only the brand name, but the complete business concept in a package, including the business plan, marketing strategy, management information systems and training. This format provides a channel of communication between franchiser and franchisee, in which the role of technology is becoming increasingly critical to the success of the latter: technology comes to play as important a role in creating competitive advantage in the hotel industry as in manufacturing (Contractor and Kundu, 1998).

There is an inherent problem in the expansion of franchising in the UK and mainland Europe, largely owing to the age of the hotel stock, which was developed before the era of standardisation and brand specification. Most hotels do not conform to the basic requirements behind major franchise brand demands (Slattery et al, 1995). To date, only two hotel companies, Choice and Accor, have developed specifications that are flexible enough to accept the older European, mid-range hotel stock.

Advantages for the franchiser include reduced capital investment, fast growth expansion, additional revenues/profits, and a potential for larger market share. In the hotel industry, franchising was mainly used in the budget and mid-market sectors, but more recently has been effective even in the five-star bracket, e.g. through the franchise of the Four Seasons' Regent name to Carlson.

In larger regions, master-franchising agreements are not uncommon, but the system is not without drawbacks. As shown in figure 3.3, franchising implies a lower level of control over quality, and conflicts are possible between the franchiser/franchisee over definition of territory, length of contract and compensation. The importance of cultural values should also not be underestimated (Lennon, 1997).

From a human viewpoint, the concept of franchising has been strongly criticized for the replication of the forms of the business that it produces: standardization, everywhere, is seen as socially unacceptable. According to one authority, the enormous growth of chains resulted in:

> "…stultifying homogenisation of products and communities. They [the chains] destroy a sense of community by mass-producing environments that minimize personal contact. Moreover, since employees and managers are forced to operate inside a straightjacket of corporate regulations, franchisees have little chance to tailor their units to their own taste or local preferences."
> (Luxenberg,1985, as reported in Poon, 1993)

This remains a minority view, however. Standardization, which is omnipresent, has often been seen as a relatively small cost to pay for the global development of the industry.

In addition to these market-entry strategies, hotel companies have adopted the hub-and-spoke development favoured by airlines. Typically, an up-market (four- or five-star) property will be developed in a gateway city. After this hub has been established, the spokes will be filled out by mid-market and budget properties in secondary and tertiary locations. At present, there are no cities in Eastern Central Europe that may be really considered "gateway". Prague, Warsaw and Budapest have been identified as having the potential to become gateway cities over the next few years, however (TTI, 2001). In this case, Mariott could use their Ritz Carlton brand in Warsaw, develop its standard Mariott hotels in, say, Krakow and Gdansk, and then use the Courtyard by Mariott in the tertiary locations such as Wroclaw and Opole,

3.5. Analysis of expansion strategies

As stated above, hotel companies often display a preference for non–equity forms of market expansion. Historically, this was mainly due to trends in the United States in the late 1960s and 1970s, when the value of real estate in the US rose faster than the rate of inflation. Investors therefore sought to purchase real estate as a hedge against inflation. This resulted in an increase in the supply of money for real-estate ventures, including hotels. Lenders increasingly insisted that hotel developers engage international franchise agreements as a condition for obtaining finance.

Simultaneously, tourism was beginning to gain recognition as an important economic factor in developing countries. Host governments therefore offered incentives to international companies for involvement in development projects. Appendix 3.8 shows the evolution of rooms of transnational corporations by type of involvement from the early 1960s to the late 1990s.

As may be seen from Appendix 3.8, this increased to an all-time high of over 90% in the mid 1980s, but has subsequently stabilised to approximately two-thirds now. Among other causes, many hotel operators were obliged, in practice, to show some form of commitment through equity if they wished to gain major franchise contracts. As a result, the "pure" franchise is almost unknown at present.

The growth in non-equity arrangements is due to a convergence of factors, including a *risk minimising strategy* (Davé, 1984). Hotel operators pursuing international expansion may pursue both *defensive* and *offensive strategies* (i.e. avoiding losing home market share, and gaining significant new markets abroad). As competition in the home market increased, new external markets naturally beckoned. In the late

1970s and early 1980s, domestic markets were relatively small, and the hotel industry was characterised by a significantly high-risk structure: the risk derived from a dependence upon tourism factors such as seasonality and economic conditions within tourism-generating countries, including changes and fluctuations in disposable income and exchange rates. The capital-intensive nature of the industry also compounded the risk (Davé, 1984). Furthermore, international hotel chains were seen to possess certain proprietary competitive advantages that would allow them to *increase market penetration* (Litteljohn, 1985), including economies of scale, a more profound knowledge of international guest requirements, better-trained management and staff, better management and reservation systems, and strong brand name (Dunning and McQueen, 1982, Dunning and Kundu, 1995).

In addition to such factors, the hotel industry is well suited to non-equity forms of expansion owing to certain characteristics, including a willingness to transfer know-how, ease of codification of management systems, and the control that can be exerted over franchisees in the industry.

1) In contrast to other industries, there is indeed *a willingness on the part of management contract and franchise companies to transfer their expertise and know-how* to franchisees. A franchise may, in fact, be considered as much a marketing alliance as a form of transfer of corporate capability (Contractor and Kundu, 1998). The international hotel firm attempts to build up a global brand and reservation system, thereby satisfying final customers, and also appearing attractive to potential buyers in a highly competitive franchise market. The power of a franchise brand is a function of its size and the ability of the franchiser to drive demand into the hotels. It follows that the rate of expansion is a critical element in determining the success of a franchise operation.

For the international operator, there are two critical factors to be considered when expanding internationally: firstly the franchiser's willingness and ability to supply the financial and human resources to the franchisees; secondly, the availability and quality of suitable licensees, franchisees, or partners in the target countries. Owing to the high fixed cost structure of the industry, there are attractive opportunities for marginal costing. With the high sunk costs of, for example, the development of global reservation systems, the cost of adding one more franchisee to the system is very small and any additional signings immediately increase profitability.

2) Owing to this *codification of management and marketing practices,* hotel corporations are able to provide comprehensive data and information, especially in relation to standard operating procedures

(SOPs), global reservations systems and likely financial projections. The problems associated with the "bounded rationality" of franchisees are reduced. The information also assists franchisees in their attempts to capitalize on the value of the brand name.

3) The franchiser *continues to exert control* over the franchisee, however, through the right to use the brand name and reservation systems. Franchising hotel corporations are not afraid of creating competitors or of dissenting behaviour from contractees, as the threat of the loss of the system privileges is strong.

3.6 Chapter Conclusions

This chapter has outlined key developments in the international hotel industry over the past two decades. It has been shown that the international hotel industry is a dynamic industry sector, averaging growth, in terms of rooms in the 1990s, of 7% per annum. Although independent owner-occupiers control the majority of rooms worldwide, there is evidence of increasing consolidation in the industry, with the major chains growing strongly in number of rooms and in the influence they exert upon the industry. Concentration had increased to over 34% by the end of 2000, and is anticipated to continue throughout this decade. Industry experts have been forecasting that there will be half a dozen "mega chains" dominating the industry. There is every reason to agree with this prognosis, there being nine chains at present with over 100,00 rooms. In the next five years, these could well shrink to six or seven.

The hotel industry is demonstrating signs of the "convergence theory" advocated by Segal Horn (1998), whereby service sectors become less fragmented and are able to take advantage of economies of scale and scope, thus reflecting the dynamics of the manufacturing sector.

Other major changes have been largely brought about as a result of information technology, including Internet reservations, customer relationship marketing, and procurement advantages by hotel chains.

Regarding the various expansion options available, a clear preference emerges for non-equity distribution, largely because the hotel industry lends itself well to codified management procedures and systems, and also owing to the power exerted by large chains over franchisees through brand name and reservation systems.

Finally, there is evidence that, contrary to traditional economic theory, returns from franchising may equal those of FDI, but with considerably less risk. This is achieved principally through a significantly higher rate

of expansion[9] and international coverage than is common in other sectors (Dunning and Kundu, 1995, Contractor and Kundu 1998_a, 1998_b).

[9] For example it has been estimated that a new franchise operation in the United States opens every 6.5 minutes, and franchise operations generate more than$800 billion revenues annually (Hindle, EIU, 2000).

Chapter 4. The development of tourism and the hotel industry in Eastern Central Europe

4.1 Introduction

After the previous chapters on internationalisation, tourism and the international hotel industry, the main objective of the present chapter is to analyse the dynamics of the tourism and hotel markets in Eastern Central Europe, especially in relation to the legacy of "socialist tourism". Existing and potential market segments are addressed. After a section examining the effects of these changes on the emerging international hotel industry in the region, the chapter concludes with a summary of the main issues important to the future development of the tourism and hotel industry.

4.2 Changes in European tourism

As seen in 1.4.3, despite the changing patterns in worldwide tourism, Europe, although losing market share, is still the main tourist destination. Within Europe there are, however, important regional differences in terms of international arrivals:

Table 4.1 International tourist arrivals in Europe 1990-1998 by sub region (million).

YEAR	NORTHERN EUROPE	WESTERN EUROPE	CENTRAL/EAST EUROPE	SOUTHERN EUROPE	EAST MED. EUROPE	TOTAL
1990	29.1	113.8	43.8	88.6	7.4	282.7
1995	37.6	116.7	78.9	93.7	11.4	338.4
1998	43.9	161.4	83.4	111.9	13.1	383.8
Average annual growth rate						
1990-1995	5.3	0.5	12.5	1.1	9.0	3.7
1995-1998	5.2	4.0	1.9	6.1	4.8	4.3
1990-1998	5.3	1.8	8.4	3.0	7.4	3.9

Source: WTO, 2000

As table 4.1 shows, there are wide variations in growth rates. Although in absolute terms Western Europe is still dominant, there are stronger growth increases in all other areas. Specifically it can be seen that the market share of Central and Eastern Europe, within European tourist arrivals as a whole, rises from 15.5 per cent in 1990 to 24.1 per cent in 1996, although, due mainly to the Kosovo crisis, this had dropped back in 1999 to 21.4% (WTO, 2000).

4.3 Tourism in Eastern Central Europe

The momentous events of the late 1980s, which culminated in the collapse of communism in the former centrally planned economies of Eastern Central Europe, are common knowledge. One of the major consequences for the international hotel industry was the re-evaluation of tourism and the hotel industry within the economies of the nations in the region. Governments became more aware of the value of travel and tourism in generating hard currency earnings and creating employment and investment opportunities. In the immediate aftermath of the transition from planned to market economies, international hotel operators eagerly anticipated the possibilities of entering a large, potentially very lucrative market that had been hidden by the iron curtain for more than half a century.

It appeared that almost every major international hotel operator wanted to have a property in the region (Hunt, 1993). This euphoria quickly evaporated, however, to be replaced by scepticism and cynicism on the part of international hotel companies, who had become impatient with the legal framework, administrative bureaucracy and inherent corruption in many of the countries concerned. It is clear that the massive challenges involved in changing from totally planned economies to free market economies could not be dealt with in the short- or medium-term, but rather within a timeframe of ten to fifteen years. Specific problems that affected the hotel industry were the shortage of external funding, uncertainties on the part of international hotel operators over long-term political stability in the region, economic performance and property title (Trew, 1993). In addition, there was a lack of local capital to fund development projects, and per capita income was insufficient to generate domestic demand.

In general terms, there is an increasing body of knowledge describing and analysing key characteristics of tourism in Eastern Central Europe, including Kerpal (1990) Medlik (1990), Hall (1992, 1993, 1995,1998a, 1998b, 1999), McCleary and Whitney (1994) Witt (1994) Airey (1994) and Lennon (1996).

Sociographic details

The size and scope of the region are indicated in the following table:

Table 4.2 Eastern Central Europe: size and population

Country	Population (mn, 1997)	Workforce (mn,1995)	Urban (%)	Landmass km^2	Population density habitant per km^2
Poland	38.6	19	65	312.68	123
Czech Republic	10.3	6	65	78.864	131
Hungary	10.2	5	65	93.036	109
Slovakia	5.3	3	59	49.036	109
Slovenia	2	1	64	20	100

Source: OECD and Economist Intelligence Unit, 1999.

As seen in table 4.2, Poland is by far the largest country in the region, both by population and area. The Czech Republic and Hungary are of comparable size in terms of population, although the Czech Republic is somewhat smaller in land area. Both Slovakia and Slovenia are much smaller countries, both physically and in relation to their populations. These factors obviously have a major effect on their respective tourism and hotel industries.

4.3.1 Peculiarities of tourism in former communist countries

The key difference between tourism in Western Europe and in Eastern Central Europe is the importance of the Marxist ideological legacy, which considered the service sector as “non productive”. As a service industry, tourism was therefore of low significance among the priorities of national governments in the region (Hall,1992, Williams and Balaz, 2000). The main role of tourism was in rejuvenating the workforce and in providing collective holiday and recreation facilities. This peculiar state form of tourism provided domestic provision in the form of resorts for trade union members, and other sectors of society including, for example, mothers with infants, offering them holidays at reduced cost, or sometimes even free (Baum, 1995). This development of networks of tourist resorts has had a major impact on the distribution and

nature of hotel and para-hotel stock in the region. The vacation centres, often in large numbers and of considerable size, tended to be of low quality.

In addition, the socialist model also took the form of cumbersome visa regulations, strict levels of security, regimented tours and restrictive currency regulations (Business Central Europe, July/August 1993). Kerpal (1990) gives a clear account of the workings of the tourism "system" as practiced towards both local populations and foreign visitors.

As a result of such policies, in 1987, only 3% of international arrivals to Eastern Central Europe came from outside the continent and over 60% from within that region (Hall, 1999). There were also severe limitations on the local population within Eastern Central Europe wishing to travel outside the Comecon states, while Western visitors were often regarded with deep suspicion. With the exception of business trips or visiting friends and relatives (VFR), western visitors were “welcomed” only as part of an organised group (Kerpal, 1990). An additional factor was the effect of the policy on attitudes to service and client orientation, considered so important by marketing writers (Lovelock, 1993, Zeithaml and Bitner, 1996). Owing to the communist system, in which everybody had guaranteed employment, it was not considered necessary, or even useful, to take into account the needs of the clients. There was a form of “studied indifference” (Hall, 1999) on the part of the service staff towards guests, which was prevalent throughout communist states.

It was not surprising, therefore, that this model of tourism organisation was not perceived as attractive to Western Europeans and tourists from outside Europe. As a result, the region missed the opportunity of mass holidays in the 1970s (Hall, 1991), which were subsequently exploited by Mediterranean destinations such as Spain and Greece.

Towards the late 1970s and early 1980s, there was a reassessment of the role of tourism, however, and governments began to realise its potential, especially in the creation of foreign exchange. The priorities of the XVth Communist Party Meeting in Czechoslovakia, had, for example set out the following aims for tourism in 1981:

1. development of mass sport and tourist activities, with the aim of regenerating the labour force;
2. promotion of friendship between nations;
3. generation of foreign exchange, particularly in the spa and transit tourism sectors;
4. improved utilisation of hotel, restaurant and spa facilities;
5. development of more sophisticated tourism services.

(Williams and Balaz, 2000, p.21).

It is evident from the list, therefore, that tourism was beginning to be seen in a more positive light, and that the government had recognised the importance not only of the domestic market, but also of the different niches which had already proved popular with foreign tourists, but which needed to upgrade their quality.

4.3.2 Tourism's role in the restructuring of Eastern Central Europe

Despite the role that tourism has played in restructuring the economies of Eastern Central Europe, there are few explanatory models for tourism development in the region (Hall, 1998,b; Williams and Balaz, 2002).

Tourism was identified as an attractive sector for investment and development very quickly after the fall of the Berlin wall. "The region [Eastern Central Europe] boasts a wide range of mass and specialist nice attractions, some of which far surpass anything Western Europe can offer" (Hall, 1995).

These consist of natural attractions and features including mountain ranges, thermal spas, immense lakes, caverns and nature reserves (of which, for example, there are over 1,000 in the Czech Republic alone). There are also rich and varied cultural attractions including examples from the Greek, Byzantine and Ottoman empires, medieval castles, baroque churches, unspoilt villages and towns and the jewel cities of Prague, Budapest and Krakow. The region has a long tradition of folk art and music, opera houses and orchestra (Hunt, 1993).

Many Western European and US tourism experts responded quickly to mandates from the European Union and other agencies to draw up tourism development plans and strategies at regional and national levels. The US consultancy company Arthur D. Little, for example, assessed the intrinsic value of Polish tourism and estimated that if Poland developed 170 tourist sites there was a potential for tripling tourism levels by 2004. The company believed that even through natural development tourism would grow by 70% between 1994 and 2004, increasing tourism revenues from US$1.6 billion to US$2.8 billion (Tour and Travel News, 1994).

The journey to a market economy was evidently not going to be easy for tourism and hotel enterprises, however. On the one hand there were still frequent examples of extreme bureaucracy, backward technology, obsolete equipment and under-utilised maintenance and service departments, and on the other there was an urgent need to develop a more effective framework for market regulation (Williams

and Balaz, 2000). Quality control is still often outmoded, and there are major skills shortages, especially at the top management level in marketing, finance and change management.

However, there are significant advantages of doing business in Central and Eastern Europe for international hospitality enterprises, which include prospects of strong economic growth, a well-educated and relatively cheap labour force, proximity to the major tourist generating markets of western Europe (important also in terms of cultural affinity), combined with policies from national governments to attract foreign direct investment (TTI, 2000). Eastern Central Europe has vast areas of untouched natural countryside, and the region has experience of tourism, albeit within the communist framework mentioned above (section 4.4.1). Finally, tourism is an excellent mechanism for the development of small- and medium-sized enterprises, allowing easy access to many thousands of the working population as shown by Szivas and Riley(1999), either working in the industry traditionally, or switching to it from other sectors (Hall, 1999).

As shown in figures 4.1 and 4.2, tourism has played an increasingly important role in the economies of the countries in Eastern Central Europe. As a major service industry, it has had an economic and social impact by exposing domestic enterprises to national and international market forces, encouraging FDI in tourist-related facilities, by stimulating comparative market advantage and niche specialization and finally by encouraging greater and closer interaction between formerly restricted host populations and the outside world (Hall,1999, p.228).

4.4 Changes in supply and demand in the tourism industry in Eastern Central Europe

While enormous changes have taken place within the last decade in the tourism and hospitality industry, growth has not always been as exciting as anticipated. This has been due to such external factors as economic slowdown in some of the major source markets, e.g. Germany, and increasing consumer choice in tourism markets, especially in relation to cheaper airline travel (TTI, 2000), together with internal factors such as the pace of economic reform which proved to be slower than anticipated in a number of countries in the region. Furthermore, the Kosovo crisis, which was virtually impossible to forecast, had a profoundly depressing impact that was widely felt, with negative repercussions for the image of the region as regards stability and security (TTI, 2000). Although the WTO (WTO, 2000) and WTTC (WTTC, 2001)

forecast growth above the European average for Eastern Central Europe, the rate of growth has varied significantly from country to country.

There was great anticipation immediately post-1989, when tourism development and investment possibilities were perceived to have enormous potential (Franck, 1990, Harrop, 1994). Tourism now does play an increasingly important role in the economies of the region. Six countries receive over $1 billion per annum from tourist revenues (Hall 1999). In 1985 there were 36 million tourist arrivals, which doubled within a decade, and which are forecast to grow six-fold from the original figure by 2020 (Paci, 1995, WTO, 2000). By 2020, it is estimated that one tourist in every three coming to Europe will choose a Central or Eastern European destination, and average annual growth in the region will be 4.4%, which is 1.3% above that of Europe as a whole (TTI, 2000).

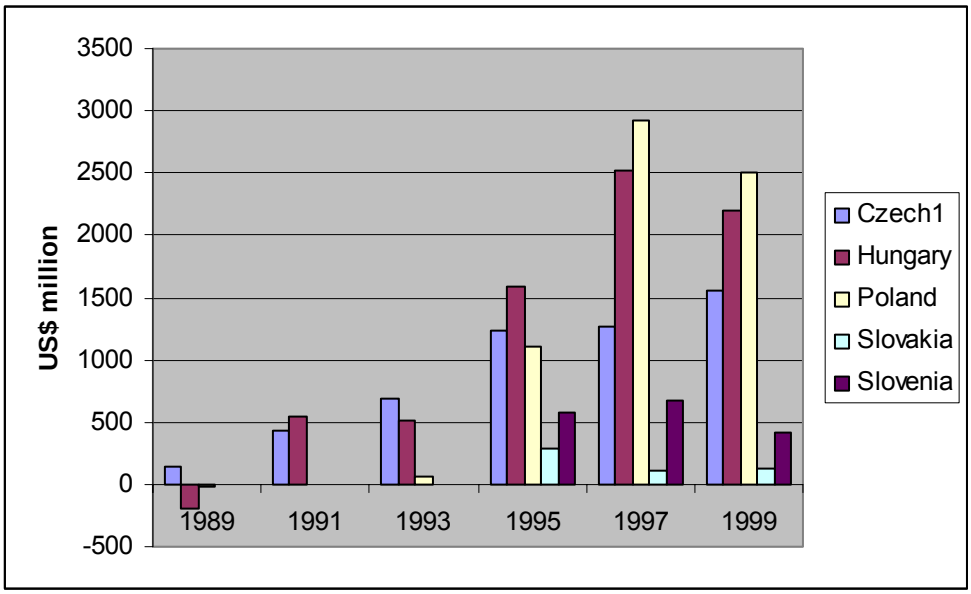
The reasons for these optimistic forecasts include both internal developments, such as the easing of entry, exit and currency restrictions, and the growth of GDP in the region, together with increased disposable income and the mobility of many Eastern Europeans themselves, thereby stimulating domestic demand for tourism products. There was also increased recognition of the economic benefits of tourism by governments in the region. Externally, there was a change in the image of the region and more substantial Western media attention to it, as well as increasing Western involvement in aspects of tourism development, including improvements to infrastructure; financial support, especially from the European Union (EU), through both EU development funds and supportive trade policies and investments, as countries in the region apply for full membership of the EU.

This next section considers the dynamics of the market in terms of the tourist arrivals, earnings and balance of payments.

4.4.1 Tourism balance of payments

The status regarding the balance of payments can be seen from figure 4.1. The tourism balance of payments was obtained by deducting tourism expenditure from the country of residence from that of tourism expenditure in other countries spent by outbound tourists

Figure 4.1 Balance of tourism payments, 1999, (S$ million)



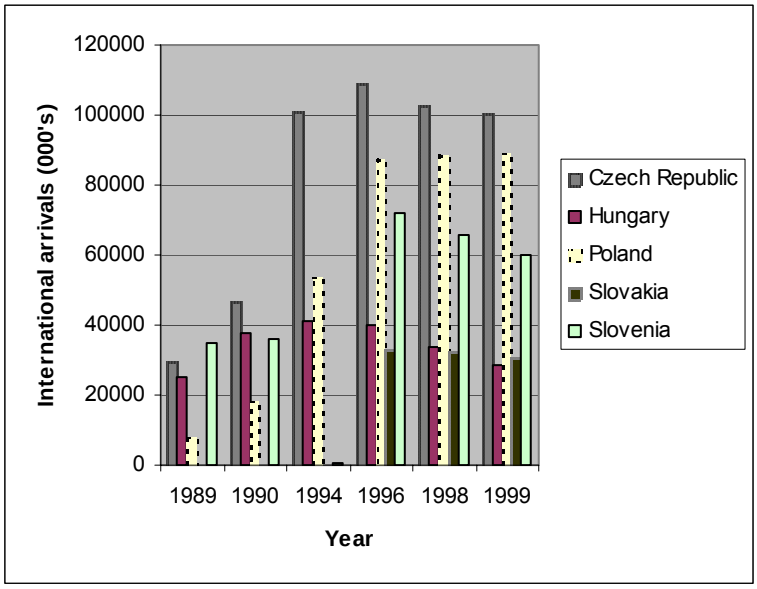
Source: WTO, 2001Euromonitor, 1985

As shown by figure 4.1 initially more money was spent abroad by outbound tourism than was generated from tourism within the respective countries. This was mainly because existing tariffs and prices were not immediately changed to market prices, so that state subsidies of tourism facilities were still required. This was compounded by the fall in the value and exchange rates of local currencies against the US dollar. The situation was reversed very quickly, however, so that the countries concerned generated more revenues from foreign tourists than their tourists spent abroad. In the case of Hungary and Poland, within the two years this had increased dramatically. The Czech Republic, while increasing its revenues, has not, however, recorded the same level of growth as these two countries. Slovakia's balance of payments has consistently been of a much lower order of magnitude, and is significantly less even than Slovenia, a much smaller country in population and area.

4.4.2 International arrivals

Often industry analysts focus upon the level of tourist arrivals to a country as an indicator of tourism success. Figure 4.2 shows the evolution and projections of tourist arrivals in Eastern Central European countries from 1988.

Figure 4.2 Tourist arrivals in Eastern Central Europe 1988-1998 (thousands)



Source: Euromonitor, 1995, WTO, 2001.

As shown in figure 4.2, while there is strong growth in Poland, the Czech Republic and Hungary, international tourism in the region started from an extremely low base; additionally, the figures should be regarded with some caution, as arrivals contain a significant number of low-spending day trippers/excursionists, especially from other Eastern Central European countries[10], as well as cross-border traders and local cross-border customers for many services ranging from medicinal to prostitution, reflecting differences (and availability) of goods and services across borders (Hall, 1995). Appendix 4.2 gives the actual statistics for tourist arrivals

Despite these caveats, however, the progress is impressive. By 1994, Hungary, Poland and the Czech Republic were in the top 10 rankings of the WTO, in 4th, 7th and 8th positions respectively. The change was the most dramatic for Poland, which had been ranked 16th in 1984.

Unfortunately for the countries concerned, these huge increases were not sustainable over the longer-term, and by 1999 Poland had slipped to 10th place, with the Czech Republic and Hungary 13th and 14th respectively.

[10] For example in Poland the average daily spend of Czech and Slovakian tourists in 2001 was US$12 and US$13 respectively, Polish Tourism Institute (WWW.intur.com.pl/itenglish/expendit). Data obtained 22.01.02

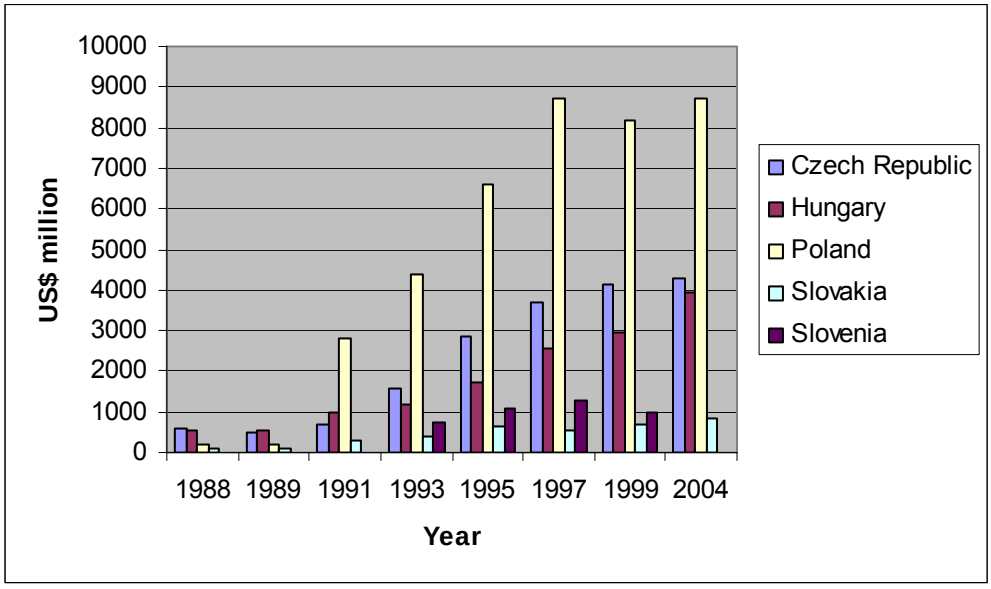
It is also important to put these figures into perspective by looking at the wider picture of European market share in tourism. Arrivals to Hungary, the Czech Republic and Poland combined only amounted to two thirds of the total number of arrivals of the largest destination in Europe, France, which in 1999 had over 73 million arrivals.

4.4.3 Tourist receipts

In terms of receipts, the situation is even more serious: the three countries only earned 50% of the total revenues generated by France[11] (WTO, 2000, Euromonitor, 2000).

Table 4.3 shows the details of receipts obtained from tourism by country.

Figure 4.3 International tourism receipts in Eastern Central Europe 1980-2004 (excluding transport US$ million)



Source: Euromonitor, 1995, 2001, Hall, 1992,WTO, 2000.

As seen in figure 4.3, the three major tourism markets of Hungary, the Czech Republic and Poland record the most impressive growth in tourism receipts during this period. The first two both increased their receipts during the period by a factor of seven, while in comparison with 1988 Poland does so by a factor

[11] It should be noted that tourism in Europe is heavily concentrated. The top five destinations for arrivals and receipts in Europe (France, Spain, Italy the United Kingdom and the Russian Federation account for 52.3% of all visitors and 51.5% of all receipts, (year 2000 and 1999 figures taken) WTO 2001, WWW. World tourism.org 16.01.02, "Tourism Highlights 2001".

of 42. Again at a much lower overall level, Slovakia and Slovenia have 9 times and 3.6 times more revenues respectively. Also of note is that despite relative stagnation in terms of tourist arrivals, within the last five years Slovakia and Slovenia have both managed to increase their receipts.

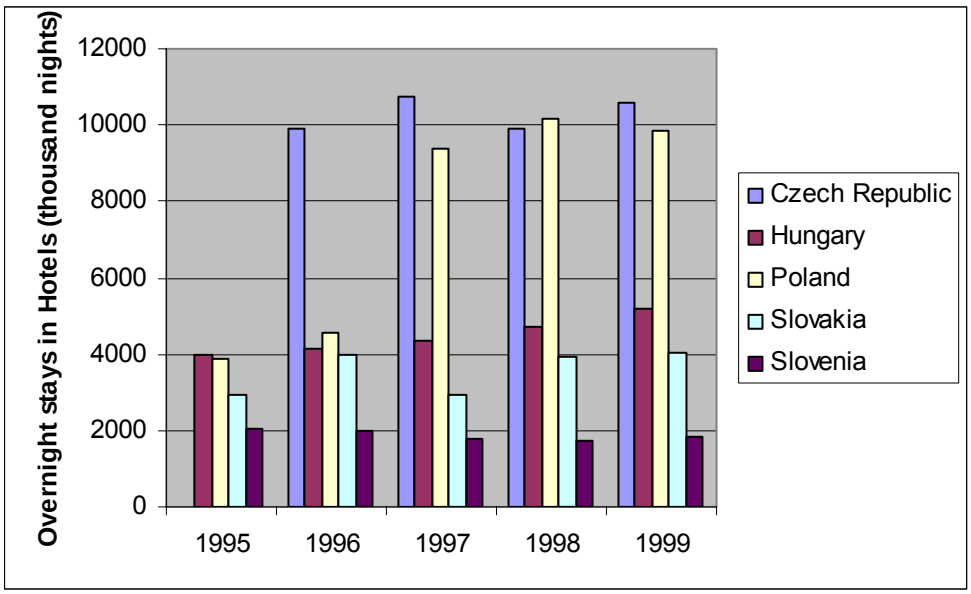
However, as with figure 4.2, figure 4.3 should be interpreted with some caution. Although it shows significant, even spectacular, growth in receipts, one should remember that the base was extremely low, when 61% of the international arrivals were from within Comecon countries, with extremely limited spending power. Central Eastern Europe still lags behind the rest of Europe in terms of per capita levels of tourism income generated. Although the region takes 25% of all European arrivals, it receives only one-eighth of the revenues (WTO, 1999)

These trends need to be taken into account by international hotel operators considering expansion into the area. Another equally important trend is the potential of the domestic market, as discussed in the next section.

4.4.4 The importance of domestic tourism in Eastern Central Europe

For many years it has been a criticism of Eastern Central Europe that there is no domestic demand. However, on closer examination of the data, it is clear that there are considerably inter-country differences, as shown in figure 4.4.

Figure 4.4 Trends in domestic tourism 1995-1999, by country



Source: WTO 2001.

Evident from figure 4.4 is the large share of Hungary's participation in domestic tourism, more than five times greater than that of the Czech Republic, which has a slightly larger population. Also clear from the chart is the major increase in Polish domestic tourism, with over 2.5 times the number of overnight stays in hotels in five years. Given the potential size of the Polish market, this should be of interest to international hotel operators, especially those such as Accor who have "hard-budget" products like "Formule 1," targeted at the domestic market.

4.4.5 Current tourism markets

The diversity of physical and cultural environments within Eastern Central Europe offers significant possibilities for market segmentation. Tourism to the area has traditionally focused on particular attractions. C*oastal tourism* is well developed in the study countries, including the Polish Baltic littoral and Slovenia. It was recently reported at the annual International Hotel Investment Forum in Berlin (March 2000) that there is an increasing demand for such developments and for new projects involving golf resorts (Knowledgespace 7.8.200).

Winter upland tourism, for both the domestic and international markets, has long been a feature of the region in Poland, Slovakia, e.g. in the Tatra Mountains, and Slovenia, but the general quality of facilities and the winter sports product available is low in comparison with major western markets. The demand has therefore often come from package-tour companies, specialising in the less advanced, younger markets, and selling predominantly on low price (Hall, 1995). As in many Western European ski resorts, the lack of snow in recent years has also affected operators, which if prolonged may eventually have far-reaching results.

There is recent evidence, however, of new market niches being opened up, which may provide a higher value-added.

4.4.6.Potential market niches

Tourist supply in Eastern Central European countries has until recently been more accentuated on quantity rather than quality and has not been overly concerned with sustainability. This is now changing, as it has been recognised that one of the major trends in tourism development is towards sustainability, owing to the importance for the environment and providing for the future (World Travel and Tourism Council, 1995). In addition, it can be shown that, provided resources are properly managed, the economic return for the provider and so for the national economy can be higher than otherwise. Research is therefore focussing on targeting high-spending groups such as adherents of “eco-tourism”, including nature and rural or farm tourism; the meetings, incentive conference and events markets (MICE) (Hall, 1995); and cultural tourism, all of which attempt to extend the season.

4.4.6.1 “Green, “rural” and “eco-tourism”

There are many definitions of “eco“ or “green” tourism. To be judged “truly eco,” a tourism product should involve travel to a natural area, be supportive of the conservation of the biosphere, bring benefit to local communities and lead to a greater understanding of the natural or cultural environment visited[12]. For our present purposes, the general concept of “green tourism” is more important than compliance with each and every possible criterion; green tourism is therefore taken to include nature and rural or farm tourism.

Paradoxically, when the image of Eastern Central Europe is often one of widespread pollution, and when large areas, such as the summer holiday camps around Lake Balaton Hungary, were transformed under unimaginative socialist schemes, the region as a whole was in reality under-urbanised by Western

European standards. There are indeed wide tracts of unspoilt countryside. In some countries, e.g. Poland, a large proportion of the population still live and work in rural areas, where farm tourism has been identified as a major possibility. Rural tourism is also an integral part of the tourism planning for Slovenia (Sirse and Mihalis, 1999) and has been identified as having potential in Slovakia (Clarke, Denman, Hickman and Slovak, 2001) and Hungary (Suli-Zakar, 1995).

Other eco-tourism projects include the large, wooded, mountain region in Czech Bohemia, marketed as "Europe's green roof" and monitoring the effects of wolves in the Carpathian areas in Southeast Poland.

In the winter, cross-country skiing also has potential, in contrast to its more destructive and energy- and capital-intensive Alpine cousin, classified as "hard tourism". The "softer" cross-country form is far less damaging, and makes good use of environmental assets (Hall, 1995).

Such developments can complement and diversify rural enterprises, transforming them into tourism and leisure SMEs offering accommodation, food, local crafts, and other services (Hall, 1998a), bringing improved incomes and standards of living, and the lessening of urban attractiveness and rural decline (Hall, 1995).

Eco-tourism is potentially a very lucrative market, when eco-tourists typically spend more per capita than the package tour "mass tourist". It is estimated that at present, however, the eco-tourist market represents only some 2-4 % of all travel expenditure (travelmole 29.01.02).

4.4.6.2 Meetings, incentive, conference and events market (MICE)

The development of the meetings, incentive, conference and events markets (MICE) sector is directly linked to the development of business travel in both continents and individual countries. Meetings and conferences are relatively underdeveloped in Eastern Europe, and the sector has been identified as having potential (Hall 1995). The size of the market is estimated at 1-4% of business tourism, but the latter is difficult to estimate in certain countries, e.g. in a wide range between 6-35%. For example, the WTO estimated 6.5% of travel to India was business travel, compared to 33.9% for Taiwan (TTI, 2000_b, p.159). The potential in Eastern Central Europe may be seen by reference to Poland, which, despite having 36% of arrivals as business travellers, has less than 2% of the meetings market (TTI, 2000_b, pp. 30-31).

Table 4.3 shows the trends for numbers of meetings in Europe throughout the 1990's.

[12] These four elements form the basis of the ecotourism society's definition of ecotourism, (Ecotourism society 2001).

Table 4.3 Number of meetings in Europe, 1991-2000, selected countries

COUNTRY	1991/92	1993/94	1995/96	1997/98	1999/2000
UK	334	334	345	331	273
Spain	301	228	228	298	143
Germany	351	309	266	270	167
Switzerland	130	102	120	108	57
Hungary	95	88	117	79	86
Czech Republic	49	44	74	64	33
Poland	33	37	39	43	38
Slovenia	6	8	14	35	19

Source:TTI, 2000_b

There are two main trends shown by table 4.3. Firstly there is a dramatic reduction in the overall number of meetings per country in the time period (which may be accounted for by the increase in the number of countries wishing to attract this kind of business). Secondly the share of the MICE market is relatively low in the Czech Republic and especially in Poland

Significant direct benefits may be generated from this type of business, including local government and private sector investment, increased employment and high average spending per delegate (TTI 2000_b). Indirect benefits include improvements in local economies, the rejuvenation of depressed areas, revenues from taxation on delegates, and improved occupancy rates in hotels and restaurants, especially if events are held in the off-season. In contrast to the other forms of tourism, the business and MICE form is relatively price-inelastic, has a broad impact on the respective business sectors concerned, and does not follow the usual seasonal peaks and troughs (Hall, 1998_a).

Costs however should not be underestimated, with significant direct costs in the building and operating of the centres, and also heavy indirect costs in terms of upgrading the local infrastructure, and opportunity costs (such as building a theme park which could yield higher financial returns and generate more employment opportunities).

The average conference centre has direct expenses, exclusive of debt service, that exceeds revenues by $800,000 p.a. (TTI, 2000_b,p.26).

4.4.6.3 Cultural tourism

Although defining “culture” is even more problematic than defining “tourism”, the conceptual definition used by Richards (1997) is adequate for this relatively brief section. Cultural tourism is “The movement of

persons to cultural attractions away from their normal place of residence, with the intention to gather new information and experiences to satisfy their cultural needs" It is the learning factor that is the most important constituent of cultural tourism.

A typology of cultural tourism resources could include the following:

Table 4.4 Typology of cultural tourism resources

1. Attractions	**Monuments** Religious buildings Public buildings Historic houses Castles & palaces Parks & gardens Defences Archaeological sites Industrial-archaeological buildings **Museums** Folklore museums Art museums **Routes** Cultural-historic routes Art routes **Theme parks** Cultural-historic parks Archaeological parks Architecture parks
2. Events	**Cultural-historic events** Religious festival Secular festivals Folk festivals **Art events** Art exhibitions Art festivals

Source: Munsters, 1997,p.110.

Within Europe the importance of culture and the possibilities for cultural tourism have been compared economically to that of the major motor vehicle producers of the USA, and recognised as deserving priority by political decision makers such as the European Union (Richards, 1997).

In Eastern Central Europe there are examples that fit into every category of the typolology, which will add to the already abundant European *richessse*. Examples of cultural tourism already evident in the region include examples of cultural tourism centred around monuments (which is also sometimes referred to as Heritage tourism)[13], include the cities of Prague, Budapest and Krakow, which have been well publicised. Additionally there are, especially in the Czech Republic, many smaller historic towns that are richly endowed in cultural monuments.

Art events are also widely held with "high culture" being represented by Poland's "Warsaw Autumn" contemporary music festival, the Czech Republic's "Prague Spring" music festival and the Hungarian Budapest summer opera and ballet festival. There is also a range of national, regional and local dance groups, choirs and folklore music events (Hall, 1998,$_a$) In addition there are a wide range of theatres, art galleries and open-air village museums. The latter were constructed to give a sense of national pride and identification, rather than for foreign tourists (Hall, 1998,$_a$). One such example of a village museum is to be found near Luhochiviche in the Czech Republic, and there are over 30 in Poland.

On the accommodation side, there are a number of guide books and listings offering stays in historic palaces and country houses "Indeed Poland" describes over 20 historic properties throughout Poland including the 13the Century Cistercian monastery at Podklasztorze.

Other segments being developed include wine tourism in Slovakia (centred around Pizinok, Modra and Valtice) Hungary and Slovenia. Much of the tourism development is in the development of wine routes that are included in tourist maps and in specialist viticultural maps of the countries. For example in Hungary there is detailed information on the 22 wine producing regions (Hungary is the eleventh largest wine producer in the world), published by the Hungarian Agricultural Marketing Centre (Hall, Sharples, Macionis and Cambourne, 2000)

Due to the region's diverse religious background, there are numerous churches, monasteries, synagogues and shrines that lend themselves to religious tourism. Jewish heritage tourism, for example, has enabled clients to trace their family roots and visit museums, Jewish neighbourhoods and ghettos,

[13] The World heritage convention includes the following as "heritage" : architectural works, sculpture and painting, elements of structures of an archaeological nature, inscriptions, cave dwellings, groups of buildings and sites (Ratz and Puczko, 1999).

and include visits to memorials of the holocaust and concentration camps in Poland and the Czech Republic.

4.4.6.4 Re-emphasis on spa and health tourism

Owing to the presence of mineralised water in many of the countries in Eastern Central Europe, there is a tradition of spa and medicinal tourism going back several centuries. Under the *ancien régime*, some of the resorts became fashionable through patronage from the aristocracy. Unfortunately, however, many of the establishments over time were managed along institutional lines for a largely domestic population, and so suffered from a lack of investment. The Danubius chain in Hungary has specialised in this niche, and are now also internationalising into neighbouring countries. Spa tourism is excellently placed both to tap into the senior or "grey market" that is increasingly health-conscious and to diversify into sports or activity tourism (Hall, 1998_a.). In contrast to regular tourism in the region, spa tourism has longer stays (often 1-2 weeks) and can be high value-added.

4.5 Emerging international hotel industry structure in Eastern Central Europe

Many of these factors relating to supply and demand in Eastern Central Europe have had a major impact upon the structure of its hotel industry. As mentioned in section 4.4.1 the supply of hotel accommodation before 1989 was met almost exclusively through national hotel chains, despite the fact that some international chains, such as Accor, Bass (Holiday Inn) and Hilton had been present since the 1970's and 1980's.[14]. The major national chains can be seen in Table 4.4

[14] For example it was reported as early as 1975 that Chaine Novotel (later acquired by Accor) was building 6 Novotels in Poland "Service World," 1975, p.33.

Table 4.4 Major national chains in Eastern Central Europe

COUNTRY OF ORIGIN	COMPANY NAME
Czech and Slovak republics	Tourinvest
	Interhotel Cedok
	Interhotel Bratislava
Hungary	Hungar Hotels
	Danubius Hotels
	Pannonia
	Eravis hotels
Poland	Ortbis hotels
	Polo hotels
Slovenia	Kompass hotels
	Hotels Bernadin
	HIT
	VAS hotels
	HTP

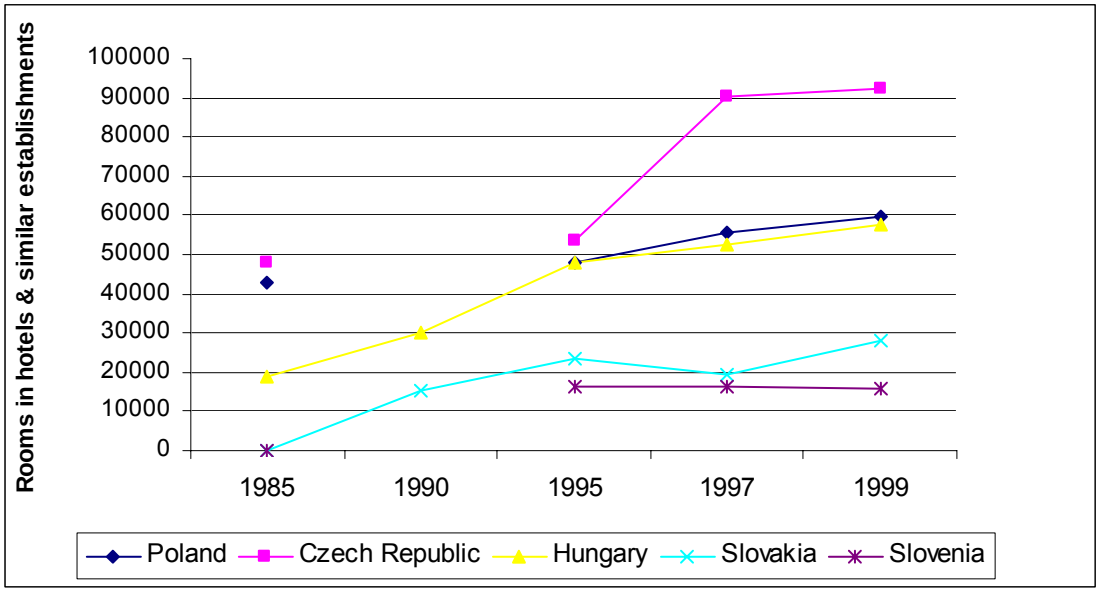
Source: Various media.

In terms of numbers of rooms, some of these chains (Orbis, Hungarhotels and Pannonia) were among the largest in the world in the early 1970's, and on that score were cited in 45th, 48th and 83rd positions among the 100 leading hotel companies (Service World, 1975, pp. 35-39)

4.5.1 Changes in capacity by country

While statistics available for the region can be misleading and are not always comparable (Hall, 1992, Trew 1997), certain conclusions can nonetheless be drawn. There have clearly been major changes in the supply of hotel rooms since the fall of communism. Figure 4.5 shows the dynamics of hotel room supply

Figure 4.5 Room supply by country, 1985-1999.



Source: WTO, 2000, 2001,Trew, 1997

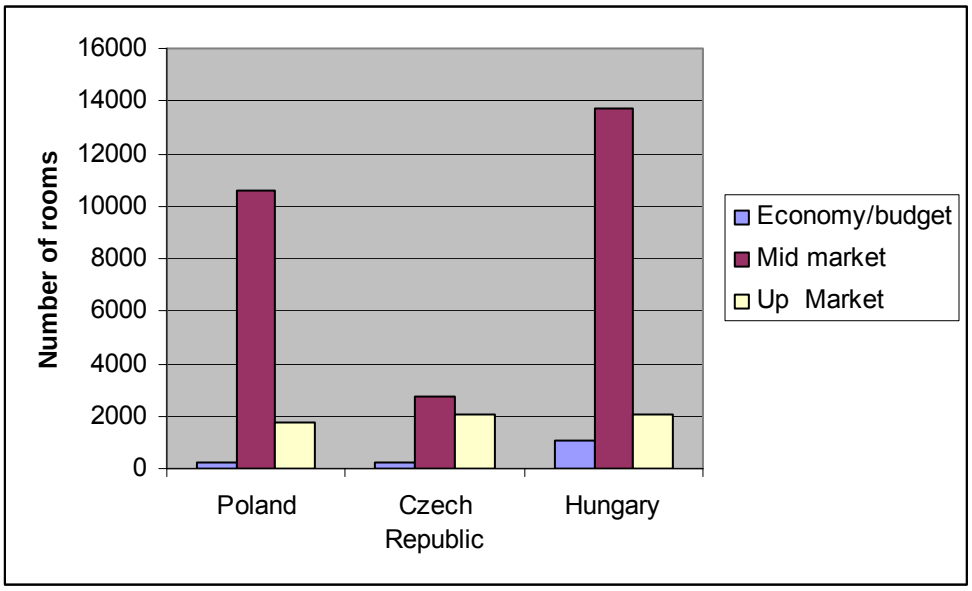
As seen in figure 4.5, the most dramatic change has been in the Czech republic, especially from 1995-1997, when room supply almost doubled, although it has since stabilised. This may be due to the fact that tourism in the Czech Republic was heavily centred on Prague, and initially there was a chronic shortage of rooms in the capital. Growth, albeit at a reduced rate, is also apparent in Hungary and Poland. The two smaller hotel markets in the study, Slovakia and Slovenia, have experienced fluctuations in their hotel room supply over the period. This is likely to be the result of the closure of certain state hotels, as subsidies became harder to find.

4.5.2 Structure of hotel supply

After the fall of communism the lack of appropriate hotel accommodation was identified as a major problem in the region. The European Bank for Reconstruction and Development (EBRD) stated, ”the lack of modern hotels and commercial facilities is constraining the development of the private sector” (EBRD, 1994, p.27)

Before this, tourism academics and hotel analysts (Hall, 1991, 1995, Kerpal, 1993, Trew, 1997, Bartl,1997) had also been highlighting the need for mid-market and budget accommodation in the region. Figure 4.6 shows the distribution of room supply in the different market segments by country

Figure 4.6 Room supply by sector and country, June 1999.

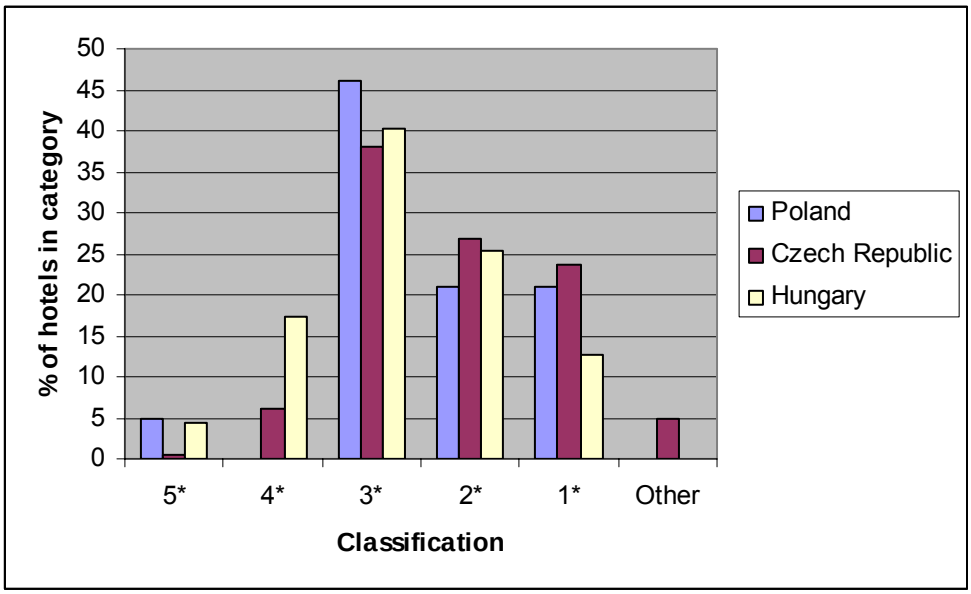


Source: Mather and Todd, 1999.

Figure 4.6 appears to belie the experts at first glance, as the vast majority of rooms are in the mid-market sector. The problem, however is not the supply, but the quality of the hotel stock: the head of development strategy for Kosice City Council (Slovakia), Mrs Rozila Mundra, was reported to say “our problem is not lack of capacity, but the quality of what we have,” (HICEE, July–August 1994, p.13).

Figure 4 7 gives more detail with the composition of the market in terms of hotel classification.

Figure 4.7 Composition of the hotel market in Eastern Central Europe, 1998



Source: TTI, 2000, Mather and Todd, 1999.

There are two main problems with hotel supply in the region: (1) the design itself of many of the hotels, which are of post-war, Soviet, concrete-block style; and (2) the serious lack of investment for renovation and refurbishment throughout the working lives of the hotels (Roh and Andrew, 1994). Hence the need for a massive injection of funds to bring the hotels up to international standards in areas such as heating and ventilation, bathrooms and information technology. It has been estimated, for example, that to bring properties in the Orbis chain in Poland up to international standards would require between US$3-15 million per property (HICEE, 1994).

Other important characteristics of the hotel market concern the market share of the major companies in the respective countries, and concentration in the industry.

4.5.3 Hotel industry concentration

As mentioned above, before 1989 hotels - as components of travel and tourism enterprises - were owned entirely by the State. In contrast to the rest of the European hotel industry, which in this period displayed

signs of classic service fragmentation and SME dominance, the hotel markets in Eastern Central Europe were heavily concentrated.

Different governments pursued varying methods of dealing with this concentration, either adopting "short sharp shock therapy" or adopting a more evolutionary approach. Some governments (e.g. in Hungary and Poland) wished to privatise the hotel stock by finding buyers who would purchase the chains' entire portfolio of hotels. Other governments (e.g. in the Czech republic and Slovakia) sold individual properties, so that by 1999 over 90% of the hotel stock in these two countries was privately owned and run. This had an obvious effect on concentration in the industry, as shown by table 4.5

Table 4.5 Hotel operator concentration ratios, 1999 (market share % of turnover)

	LEADING COMPANY	LEADING 2 COMPANIES	LEADING 3 COMPANIES
Poland	37	65	90
Hungary	28.6	46.5	49.1
Czech Republic	3.2	6.2	8.2
Slovakia	4.6	8.1	9.4

Source: Euromonitor, 2000

There is a wide variation in levels of concentration, especially between Poland and the Czech Republic. The high level of concentration in the former is due mainly to the influence of the semi-privatised national company Orbis[15] on the national market. In Hungary, the indigenous chain Danubius acquiring individual properties and a smaller chain, which largely determined the level of concentration in the national market. This came in parallel to the Accor joint venture with the other indigenous chain, Pannonia, which accounts for almost 18% of the market. The German-based hotel company Kempinski controls 2.6% of the value. The situation in the Czech and Slovak republics is therefore the reverse of that in Hungary and Poland, with no real leaders controlling the markets.

[15] Accor took a 25% share in Orbis in 2000

4.5.4 International hotel operators' locations and choice of entry mode

International hotel chains appear to be pursuing a classic "hub and spoke" development strategy, searching for gateway city locations and adopting a very cautious approach. Despite academic and industry experts stating for almost ten years that the need in the region is for mid-market and budget accommodation, the properties developed have almost exclusively (with the exception of Accor) been at the upper and luxury end of the market

A full listing of hotel operators and locations, along with form of market entry may be seen in appendix 4.3. A graphical representation of the locations of the operators by city may be seen in Map 1, which is located at the end of the appendices section.

There are several chains with over half a dozen properties in the region (Marriott, InterContinental, Accor, and Vienna International). The latter is one of the large numbers of Austrian companies serving the business community in the region. Choice of location is again of note, with Holiday Inn and InterContinental having a spread of properties in four of the five countries, while Vienna International heavily focuses on the Czech (and principally Prague), market.

Accor has adopted the most ambitious strategy, with its joint venture with the Pannonia chain in Hungary: with its major presence, the company has begun begin the distribution of its main Ibis, Mercure and Novotel brands.

Holiday Inn has also been adventurous, signing a franchise agreement with Global Hotels Development Group (GHDG) to develop 20 hotels within Poland over 20 years. The agreement gives Holiday Inn approximately 4% of revenues in return for its expertise and brand name. Total investment is approximately US$116 million, with construction of four Crowne Plaza Hotels (five star), 4 Holiday Inns (mid range), and ten Holiday Inn Express (budget). GHDG also intends to modernise existing properties and include them in the chain.

Best Western has also developed its marketing consortium in the area, with independent hoteliers subscribing in Prague, Brno and Ljubljana

It is useful at this stage to have an overall view of hotel chain activity in the region, and per country. Table 4.6 gives an overview of the major hotel chains presence.

Table 4.6 Profile of hotel chain operations in Eastern Central Europe, September 2001

	Poland	Czech Republic	Hungary	Slovakia	Slovenia
Total rooms	59'704.00	92'138.00	57'674.00	27'983.00	15'753.00
Hotel group rooms	17'048.00	8'543.00	17'548.00	346.00	306.00
No. Hotel operators	11.00	14.00	16.00	1.00	1.00
No. Hotel brands	15.00	18.00	23.00	2.00	2.00
No Hotels operated by publicly quoted operators	75.00	14.00	64.00	2.00	2.00
No. Hotels operated by domestic groups	79.00	24.00	100.00	n.k	0.00

Source: International Hotel database, 04.09.01. WTO, 2001

As may be seen in table 4.6, the Czech and, in particular, Hungarian hotel markets have the highest chain penetration. At first glance the Polish and Hungarian markets appear to be very similar. The major difference, however, is in potential, for Poland has 15-20 secondary cities which would support mid-market and budget hotels; Hungary, less than a third of the size of Poland in population and area, is much more limited.

Previously, there were two major brakes on tourism development - a lack of capital and no domestic demand. There are now signs, however, that local and regional entrepreneurs are appearing who have the capital and the inclination to invest in hospitality enterprises (Trew, 1997). In Poland, for instance, Electrum SA, a holding of several Polish companies, has created Elector, with the intention of developing a chain of approximately 100 hotels across the country. The company are seeking to franchise the Elektor brand name, with partners taking a 49% share in individual properties.

An additional issue considered crucial for development by international hotel operators is that of potential sales in the region. Table 4.7 provides data on projected sales by country.

Table 4.7 Hotel sales by country, 1999-2004

	1999 US$ MN	**% GROWTH 1995-1999**	**2004 US$ MN**	**% GROWTH 1999-2004**
Czech Republic	1585	101.3	1637	3.2
Hungary	264	63.8	387	46.5
Poland	2379	88.1	2172	-8.7
Slovakia	79	71.5	93	17.7

Source: Euromonitor, 2000.

As this shows, the growth in hotel sales after 1999 has been extremely varied, with reduced but substantial growth still continuing in the Hungarian, and to a lesser degree the Slovak, markets. Growth in the Czech market is much reduced, however, and in the Polish is in decline. This figure should be treated with caution, however, based as it is on the assumption that domestic tourism will decline. International tourists are forecast to increase slightly in this period, however, and while it is evident that tourism infrastructure will have to be improved considerably, an actual decline, seems unlikely, rather than a very modest growth. Clearly, however, there is an urgent need for improvements in Poland's tourism infrastructure, which is currently acting as a major barrier to development.

4.6 Chapter Conclusions

This chapter has related changes in the hotel industry in the region under review to the dynamics of global, European and Eastern European tourism. Although the global market share of Europe is set to fall, in absolute terms the continent still has by far the majority of tourist arrivals. Within the countries of the region, there have been wide fluctuations in terms of international arrivals, tourists staying in the region, and receipts from tourism. Although there have been large increases in numbers of tourist coming to the region, many countries underperform in their receipts in comparison with the European average. This could be due to the low level of facilities and quality often associated with the industry, and therefore the lower prices paid by consumers.

Tourism within the region is in many respects at a crossroads. On one hand, there is the temptation of providing the older model of mass tourism that took off in Western Europe during the late 1960s and 1970s. There is clear demand from the domestic markets expressed in large numbers of charter

holidaymakers flying to the Mediterranean. This model of tourism, however, is increasingly viewed by tourist experts (Poon, 1993) as unsustainable in the long term, and not appropriate for modern business practices. Alternatively, there is the better, far more sustainable model of seeking to exploit higher value-added niches, e.g. nature and rural tourism, which would use the rich rural heritage of the region to its best advantage, both in the summer and by promoting cross-country skiing in the winter (Hall, 1998a). Other highly viable niches include the various forms of cultural tourism described, as well as health tourism and the lucrative business tourism.

There is evidence that, after the phase in which most operators pursued a policy of non-equity expansion in the three capital cities of Prague, Budapest and Warsaw, newer segments and locations are now being considered as attractive, particularly in the main secondary cities of Poland.

The route to this market economy has been arduous and frustrating for international hotel companies and local populations. The progress achieved should not be under-estimated, however, as four out of the five countries are now candidates for the European Union in the next intake, and are considered to have progressed beyond the “transition” stage of economic development. The next stage, though no bed of roses, should in principle be more uplifting, as countries may now prepare for the future rather than having to dispose of the past (Paliwoda, 1997).

While there is still criticism at a general level that governments do not support tourism policies by providing adequate resources, and levels of infrastructure fall short of international standards, there is undisputable potential in the region and most governments are now offering positive incentives for tourism. For example, there are now directories of the most attractive cities for investment, with investors being offered tax holidays and other inducements. Special economic zones are being created throughout the region, and airports and transportation systems are being upgraded to comply with EC norms.

It would be naïve to assume that there will not be major obstacles to future developments in the region, especially a lack of investment, high seasonality and the lack of resources and tourism strategy. Nor should one underestimate the magnitude of the problems in areas such as administration and bureaucracy, continuing confusion over property rights, and widespread corruption and crime. Removing bureaucracy does not create entrepreneurs (Paliwoda, 1997). Problems still to be resolved include high taxes on imports, finding partners who have the experience necessary in negotiating contracts, and the ongoing lack of sophisticated business skills.

The most important factor for continued investment is the maintenance of political and economic stability. Poland, Hungary and the Czech Republic are perceived to have the best chances and lowest risk, and some companies, notably Accor and Bass, has attempted to exploit first mover advantages.

Knowledge of the region and the specific factors affecting its economy will be essential in developing an effective investment strategy. It is recognized that although over the last 20 years the hospitality industry in general has shown increasing consolidation through mergers and acquisitions, in Continental Europe the market is still fragmented. There is less awareness, however, that Eastern Central Europe differs both from the international industry and from the rest of the continent. One interesting paradox to have emerged from this study is that, in contrast to western countries, there is consolidation of a kind in Eastern Europe, as a result of the long period of Communist rule. Future investors must recognize this consolidation, still largely in existence despite the development of free market economies, and its implications addressed.

An important aspect of this is that governments are often unwilling to sell individual properties, instead preferring to sell the chain as a single entity. It follows that smaller individual investors will have few opportunities. For international chains, however, there can be major opportunities for tapping new segments and regions, for example where the budget and up to 3-star market has been neglected. Prime sites, however, will become harder to find, especially in the best locations for luxury properties.

There is now a real sense of expectation in the region, which is considered a more attractive location for investment than Western Europe. The European Bank for Reconstruction and Development (EBRD) paints a mainly optimistic scenario, citing macroeconomic stability and the move towards market economies providing the essential operating environment required for growth (EBRD, 1997).

It is remarkable that the changes have continued in spite of the great hardships faced by local populations, as the official philosophy changed from one day to the next, resulting in a sharp deterioration in living conditions and social provisions. Czinkota (1998) contends not just that the collapse of communism was the failure of a political and social system, but that it was also "one of the great failures of Western academe" not to have predicted it and have had some answers ready for the restructuring of centrally planned economies. The analogy is given of the congregation praying for rain, though none of the believers have brought an umbrella!

Fortunately, among the companies that have sought new opportunities in the region, some have adopted far-sighted strategies, foregoing immediate profits to build long-term partnerships that ultimately will

benefit both parties. Their readiness to take risks is a tacit recognition of the stability of the environment and the adaptation of local society to great social, political economic and financial changes, as economies “in transition” give way to a "normal" business environment.

Chapter 5. International Hotel Corporations in Eastern Central Europe: Field Research.

5.1. Introduction

This chapter presents the data and analysis from the exploratory research, linking the theoretical base of the study with the specific hospitality-related setting of the field survey.

The chapter begins with a brief recapitulation of Dunning's eclectic paradigm (1993), summarizing its strengths and limitations, and justifying its selection as the basis for the study. Section 5.1 shows the ways in which the paradigm has been tested and adapted as a useful investigative tool both for questions relating to internationalisation in general and for the international hospitality industry in particular. The three main elements of the paradigm that apply most usefully to the hospitality industry are identified and applied in a preliminary analysis of factors influencing international hotel expansion and consolidation.

Section 5.2 concerns the methodology adopted for the study. The different methodological options are presented and the reasons governing the final choice are given. Data sources are specified, and the design and testing of the questionnaire used in the survey are described in detail.

Sections 5.3 and 5.4 present the composition of the population and the sample, giving an overview of the nature of the companies involved according to size, country of origin and major structural and behavioural characteristics. Since a large part of the present study is concerned with internationalisation, a concise analysis is provided of the level and extent of internationalisation of the hotel industry today through the creation of an "internationalisation matrix" which allows the companies concerned to be grouped in terms both of level of internationalisation and in terms of the size of the company.
Section 5.5 deals with the hotel industry executives' perceptions of company, locational and internationalisation advantages, which form the cornerstone of the eclectic paradigm created by Dunning.

Finally, section 5.6 presents the findings of cluster analysis and correspondence analysis undertaken on the data. These two complementary statistical methods provide a useful synthesis, giving a "perceptual photograph" of the results, including both variables and objects. Patterns and trends that emerge from an analysis of the survey are examined in relation to earlier surveys. The importance of the findings is

discussed, as well as the limitations of the survey and the ways in which methodology might be improved for future studies.

5.1.1 Dunning's eclectic paradigm applied to the International Hotel Industry

This section provides an overview of the conceptual base used for this study - Dunning's eclectic paradigm, and links the theory to the specific industry setting of the field study.

The eclectic paradigm has been discussed in chapter 2 as a useful framework for explaining the extent, pattern and growth of value-added activities undertaken by multinational firms outside their national boundaries. According to the paradigm, the extent of these activities is dependent on the value of interaction between three main variables or advantages, namely those associated with ownership, location and internalization or coordination (Dunning, 1993, p.17). The eclectic paradigm has been the major model used since the 1970's to address questions relating to internationalisation.

Although initially conceptualized for the manufacturing sector, the eclectic paradigm has been tested in a wide variety of settings and industry sectors, ranging from the first "multinationals" of ancient Assyria c. 2000 B.C. (Moore and Lewis, 1998) to e-commerce and the Internet (c. 2000 A.D., Dunning and Wymbs, 2001). The paradigm was used as the basis for the Dunning and McQueen study of the international hotel industry conducted for the UNCTC in the late 1970's, which is still cited as one of the seminal studies in this sector.

The three main elements of the eclectic paradigm may be applied to the hotel through ownership advantages, location advantages and internalization advantages[16].

5.1.2 Ownership advantages

As with many industries, the ownership advantages are a function of, and derive from, the specific nature of the activity. The hotel industry is an experiential business that delivers a "package" of goods and services, both core and non-core. It is impossible for customers using the hotel company for the first time to have the same degree of product knowledge as they do of a physical product. Furthermore, owing to the high service content of the transaction, there is also a higher possibility of variation in the final outcome for the guest (Lovelock, 1996).

[16] While conceptually clear, it should be stated that in practice there is often an overlap between the different elements of the paradigm, especially regarding internalization advantages. In some cases, it also proved rather difficult to explain the concept of these advantages to executives in the hotel industry during the field study.

The major competitive advantages of international hotel companies are the specific ownership assets that enable them to foresee what kind of services and products guests need, where and how these should be provided (geographically and in terms of market segmentation), and how the services can be provided in the most cost-efficient manner (Kundu, 1994).

These ownership advantages apply to companies from one country in relation to those from other countries. In 1978, eight out of the top ten hotel companies, by number of rooms, were from the United States. In 2001, almost a quarter of a century later, this figure had almost remained the same: the study shows seven out of the top ten companies were still under US ownership.

The reasons for this may be linked to the management expertise, especially in marketing, brand management, operations management and finance found within American business, together with technological advances that can readily be applied to the hotel business.

The eclectic paradigm divides competitive advantages into two categories (Dunning, 1993):

1. O_A advantages - these are ownership advantages gained by possessing individual assets that are available to the hotel chain before it embarks on international expansion.
2. O_T advantages are ownership advantages developed through the economies of scale derived from co-ordinating multiple activities or repeating the same activity in different countries, which may be a direct result of the increasing internationalisation of the hotel company.

Ownership advantages may be of a structural or behavioural nature. Regarding structure, there may well be perceived advantages to be gained from the size of the company, and its ability to obtain economies of scale by, for example, obtaining master franchisers for its hotel brands. The international experience of the company may also be considered important: certain hotel companies have experience in dealing in almost 100 different countries throughout the world. Seven of the companies in this study have experience of operating in 50 countries or more. This knowledge of international markets and cultures gives a clear competitive edge over firms operating in just one market.

In terms of behavioural characteristics, there are changing market dynamics in the industry (including the globalisation of hotel markets, increasingly discerning customers and new technology-enabled business models) which oblige companies to practise strategic brand development and ensure an adequate level of technological progress within the company. The development and application of

global distribution systems (GDS) and computerised reservation systems (CRS) have been of crucial importance for hotel companies (PriceWaterhouseCoopers, 2000).

These key issues were addressed in the respective sections of the questionnaire (which is included as appendix 5.1; for further details see section 5.2.3).

The international hotel industry started to expand considerably in the late 1960s and early 1970s. At this time domestic markets, with the notable exception of the United States, were relatively small and fragmented. Hotel operators involved in international expansion could be seen to be pursuing both *defensive and offensive strategies* (avoiding losing home market share, and gaining significant new markets outside). This also coincided with the exponential increase in international tourism (as discussed in Chapter Four.) As competition in the home market increased, it was natural for hotel operators to seek new markets abroad. As well as needing to *increase market penetration,* therefore, hotel companies were also driven by the need to benefit from *economies of scale* (Litteljohn, 1985). Relatively quickly, international hotel chains gained a set of competitive advantages compared to indigenous hotel companies (Dunning and McQueen, 1982). These included:

(1) More advanced marketing expertise, including brand management and knowledge of guest needs;

(2) Higher-level management expertise, especially in human resources and finance;

(3) Greater technological capability, especially with access to centralised reservation systems;

(4) Greater economies of scale;

(5) Greater opportunities to create networks of properties.

The hotel business also has specificities that have allowed the rapid development of franchising, a form of business pioneered in the United States. The codification and possibility of applying standard operating procedures (SOP's) has resulted in making the delivery and design of hotel products more consistent, which when combined with branding ensures risk avoidance by the client.

5.1.3 Location-specific advantages

Location-specific advantages are those factors that make the location attractive to international hotel companies. Hotel locations may be classified into different categories such as major (specifically called gateway cities), primary (major industrial and business locations), secondary (where there is still significant levels of demand for hotel services) and tertiary locations (which are towns, village and country

sites of lesser importance). To give an idea of scale, Kleinwort Benson Securities have identified only 13 primary locations worldwide, ten in the United States, the remainder being London, Paris and Tokyo[17].

Factors that would be considered attractive for hotel chains include:

(1) Size, growth and stage of development of the overall tourism market in the host country (including business and leisure tourism);

(2) Tourism facilities, communication and infrastructure;

(3) Policy of host government towards foreign direct investment in the country, and the overall significance attributed to tourism by the government;

(4) Number and type of tourist attractions (natural and man-made, including cultural and theme-type);

(5) Stability of the host government, politically and economically.

(6) Cultural and psychic distance between home country and host country (UN, 1993, Kundu, 1994). As a matter of course, hotel companies will conduct environmental scanning and audits of the chosen countries, and then decide on the specific location and the type of hotel facility (by market segmentation), and the size and mode of development (FDI, long-term lease, management contract or franchise) to be used. These are reasons *why* certain companies will locate overseas, but they do not explain *how* certain countries possess advantages over others.

In determining how some countries possess advantages over others, as suggested by Kundu (1994) it is helpful to look at another paradigm. Porter (1990, p.71) stresses four major types of reasons why a particular nation should achieve international success in a particular industry. These are:

1. Demand conditions
2. Factor conditions
3. Firm strategy, structure & rivalry
4. Related and supporting industries

The interplay of these four factors accounts for the dominance of the international hotel industry by American companies (Kundu, 1994)

To deal firstly with demand conditions, the structure of the hotel industry in the United States is very different from that elsewhere. It is by far the largest hotel market in the world and US consumers are also demanding in terms of standards and expectations.

[17] The cities in the USA are Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, New York, Orlando, San Francisco and Washington. The criterion for classification as a “major location” is the presence of at least 15,000 hotel rooms operated by quoted companies (KBS 1995 p.5)

Secondly, in terms of factor conditions, owing to historical reasons and the lack of previously existing hotel stock, unlike the case in Europe, it was possible to produce new, standardised products that could be easily branded. This enabled larger enterprises to be created and to grow, which could then use the developing modern management techniques and know-how. This is in clear contrast to the European hotel industry, which, dominated by SMEs, could not benefit from franchising, standardisation, economies of scope and scale, and gains in productivity.

This has resulted in a domestic hotel industry in the United States that is highly concentrated, with 19 quoted companies accounting for over 10,000 hotels, an average of 568 hotels per company. In the UK the average number of hotels per quoted company is 27 (Kleinwort Benson Research, 1996, p.74).

The open-door policy of the US also encouraged investment in the hotel sector that resulted in domestic firms having to modernise and hone their strategic responses to counter foreign competition.

Thirdly, regarding industry structure and domestic rivalry, the hotel market in the United States is extremely competitive. It is highly diversified in the types of products offered (from hard budget through to deluxe, from limited service to long-stay residence and “apartotels”). Competition is especially fierce in the mid-market sector, with Cendant, Choice, Marriott and Bass all seeking the same clients (i.e. including both end–user guests of the facilities and also franchisees, investors and owners).

Although the major chains are omnipresent, there are also many medium-sized and smaller companies such as Omni Hotels (15,000 rooms), boutique hotel companies such as Ian Schraeger Hotels (5,500 rooms) and Ridgewood Hotels with less than 3,000 rooms (all included in the population of this study). This openness by the US government to foreign ownership has meant that a number of European companies have established a significant presence in the USA by merger and acquisition activity. Some of the most famous names of American hotel keeping are now controlled by English companies, including Holiday Inn (owned by Bass) and Hilton International (acquired by Ladbrokes). The French chain Accor has also been very active, acquiring such indigenous companies as Red Roof Inns, so that by late 2000, Accor had over 30% of its hotel stock in the U.S. (See appendix 5.2).

Fourthly, related and supporting industries have played a major role in the development of the sector as a whole. Two of the largest names in the business were in fact owned by the airline industry - Intercontinental and Hilton. The development of business and political centres of global capacity such as New York and Washington have clearly exerted a fundamental influence on the industry, especially in such market segments as the meetings, incentive, conventions and events (MICE) business. With the

increasing importance of destination management, the effect of the entertainment and leisure industries in resorts such as Orlando, Florida have also been important in the development of leisure tourism.

Finally, a flourishing construction industry and the ease of obtaining sites and permission to build have also exerted major roles on the structure of the hotel industry in the U.S.[18]

5.1.4 Internalisation advantages

The final constituent of the eclectic paradigm lies in the internalisation advantages that companies derive from the modality of foreign involvement selected by the company when going international. Owing to the diversity in the travel and tourism markets and the difficulties in organising intermediary product markets, there are incentives for hotel companies to internalise them (Go and Pine, 1995).

There have been two major trends with regard to the choice of approach by hotel companies in recent years: increasing acquisition and merger activity, and increased non-equity utilization.

5.1.4.1 Mergers and acquisitions

Merger and acquisition (M&A) activity is highly prevalent in the international hotel industry. Appendix 5.3 shows key M&A activity in the acquisition and sale of companies for 2000.

Reasons for this predilection for acquisition include:

1. The need to have representation in major gateway cities as part of a global network of properties (If a hotel brand is not represented in a key destination, there is a danger of customer switching and the loss of customer loyalty).
2. The potential to exploit technological advance and gain from economies of scope and scale in such diverse areas as reservation systems, customer relationship marketing, training and franchising networks;
3. To protect or consolidate an existing market position;
4. To forestall a competitor gaining a foothold in a key location (adapted from Kundu, 1994)

[18] This contrasts starkly with developments in Europe, where a scarcity of appropriate sites and physical space has resulted in high land and development costs. (Pricewaterhousecoopers 2001). The inefficiency of the construction industry has been particularly cited as one of the key factors for low productivity in the UK hotel sector (McKinsey and Company, 1998).

5.1.4.2 The growth in non-equity modes of involvement

There is evidence of a clear trend by major companies to expand through non-equity methods (Contractor and Kundu, 1998). Two of the largest five hotel companies (Cendant and Choice) are pure franchising companies, and despite controlling a total of almost 900,000 rooms, they own no properties. Other major companies such as Bass and Accor do franchise, but they also have other forms of involvement. This is based upon a number of factors, both internal and external, depending on such issues as the level of development of the company, regulations and legal system in place (e.g. to protect management contract agreements), the ability to maintain and control quality in the home country, especially in terms of the level of the local labour supply, and regulations concerning the repatriation of profits.

Internalisation occurs when a firm believes that internal transactions costs are more efficient than external markets. Multinational enterprises (in current parlance Transnational Corporations) can therefore benefit from such advantages, but there are also costs associated with internalisation, including increased communication and scale costs (Buckley and Casson, 1979).

Internalisation often depends on a firm's capabilities and capacity and whether it decides to produce internally or to outsource the function, i.e. the "make or buy" business decision. It is presumed that companies that outsource have lesser internalisation capability to those that opt to keep the functions in-house.

A summary of the various forms of company, location and internalisation advantages as applied to the international hotel industry may be seen in the following table:

Table 5.1 Examples of OLI advantages in the international hotel industry

Ownership	Location	Internalisation
Company size	Size and growth rate of economy	Economies of scale
International experience	Govt. policy to FDI	Economies of scope
Brand name	Perception of region as attractive business/leisure destination	Utilisation of parent company expertise
Technological advancement	Country infrastructure	Minimising regulations and day-to-day control
Management expertise	Size and nature of city in which hotel is located	Using activities of parent company
Knowledge of guest needs		
Proprietary reservation systems		

Source: adapted from Kundu, 1994.

While Table 5.1 provides a neat demarcation of the different categories of the paradigm, however, as mentioned at the beginning of the chapter, the differentiation between its elements is often blurred and it is not always possible clearly to identify the three sets of factors for each fit between a company and the geographical area chosen for foreign expansion.

5.2. Survey methodology

As mentioned in Chapter Three on the international hotel industry, one of the major methodological problems with research is that of defining whom or what should be included as the population for the hotel industry. The hotel industry as a whole could be considered an amalgam of at least three different industries: property (real estate) developers, hotel management companies and franchisors (Lewis, Chambers and Chacko, 1998). In addition there are also major differences between major hotel chains and the bulk of the industry worldwide, which comprises the majority of the rooms worldwide (WTO 1998). The industry is highly fragmented, especially in Europe, with over 94% of the enterprise in the European Union hotels, restaurants and cafés sector (Horeca) consisting of businesses with fewer than 10 employees (Eurostat, 2000).

The problem, therefore, was to determine the precise target population for the study. There are approximately 300-400 large chains, which control approximately 5.6 million rooms worldwide. Not all are international companies, however, and this thesis is concerned only with the locational strategies of hotel chains that have "gone international ", i.e. which are MNE's[19].

5.2.1 Sampling method

It is evident, therefore, because of the concentration in the hotel industry that the international hotel industry does not allow for stratified random sampling

In determining an appropriate methodology, it was decided to use the cut-off method. This methodology is widely used in applied research on business sectors, and consists of ranking companies from the largest to the smallest (Kuhn and Fankhauser, 1996), starting with the former; further companies are added until

[19] A Multi-National Enterprise is defined as "an enterprise that engages in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country", (Dunning, 1993, p.3). The term "Multi national enterprise » has now been replaced to that of trans national corporation (UNCTAD 2001).

the sample represents at least 75% of the total market[20]. In the present thesis, 88% of the hotel rooms controlled by international hotel operators were included in the sample. It was believed that the cut-off method would allow for an appropriate range of descriptive statistical applications, thus providing a powerful tool.

It has been estimated that by the end of 1998 there were approximately 15.4 million hotel rooms worldwide (WTO, 1998). Growth in rooms has been estimated at 3% per year, resulting in 16.24 million rooms by the end of 2000. This figure includes both domestically controlled hotel rooms, and those controlled by international chains. It has been estimated that chain control of hotel rooms amounts to approximately 33.1% of the total rooms worldwide.

The population for the study consisted of 86 of the largest international companies identified from the directory of the American Hotel and Lodging Association, from the annual hotel ranking of the International Hotel and Restaurant Association, and from the Hotel Report of Travel and Tourism International (2001). The total number of rooms controlled by these 86 companies is 3,987,595, i.e. some 24% of total rooms worldwide. All major international hotel chains have been included. The many large chains that operate solely within national borders, notably in the US, account for the discrepancy with the overall world total supply by chains.[21]

5.2.2 Data sources

Names, addresses and key information of the leading international chains were obtained from the Directory of the American Hotel and Lodging Association, Travel and Tourism Intelligence Special reports-"The International Hotel Industry", (1995, 1997, 2001), articles in bibliographic databases (Proquest, Emerald) and hospitality and tourism journals (The Cornell Hotel and Restaurant Quarterly, The International Journal of Hospitality Management, Tourism Management), along with "Hotels" magazine (2001), company annual reports and web-pages.

[20] It is used in many different industry sectors, for example the US Energy Information Administration(EIA) uses the method for monthly reporting.(Weekly Petroleum Status Report/Energy Information Administration).

[21] These can include e.g. such chains as "La Quinta Inns" and "Extended Stay America" that have 40,000 rooms each. Best Western has not been included as it is not a hotel corporation *per se*, rather a marketing consortium for the benefit of its members.

5.2.3 Questionnaire design, structure and testing

A seven-page questionnaire[22] was developed and sent to three executives of major international hotel companies as a pilot study. Following their comments and recommendations, the questionnaire was amended and then sent to the Director of Development or Director of Marketing of the respective companies.

The questionnaire was made up of four sections. Section 1 sought general historical information concerning the company in terms of origin of its headquarters, nature of ownership (whether part of a group, diversified or otherwise), the major regions of distribution of the company's properties, years established, and date of establishment of first foreign operation. Operational data was also sought in terms of the existing and future market segments being exploited, marketing and training expenditures and forms of strategic alliances and major competitors.

This section was constructed so as to give a general picture of the dynamics of the industry in terms of growth, concentration, and internationalisation.

Section 2 attempted to ask two related questions introduced in Chapter 1: firstly, which are the structural and behavioural variables considered important to an international hotel operator when it decides to "go international" and secondly, what are the perceived competitive strengths of international hotel companies compared to other major competitors in the arena, and also compared to indigenous hotel operators from the study region?

Section 3 focused on the critical locational considerations for hotel operators when deciding on international expansion. Questions were framed in relation to perceptions of the study region in comparison with developing and developed countries. Questions ranged from general considerations that had been used on other occasions by similar studies (including such factors as size and growth rate of the economy, government policy towards foreign direct investment, and country infrastructure) to questions adopted to address the specificities of the region (e.g. the potential for growth in domestic demand, degree of market economy development, and service orientation of the workforce).

A search was also made to identify the major factors behind the choice of entry mode for hotel development in the region, the numbers of properties in operation, and the time frame for beginning

[22] Elements from previous questionnaires that were developed by Dunning and McQueen (1982) and by Kundu (1994) were used as a base for the current questionnaire. Questions were also introduced to determine strategic planning and the study region. Acknowledgements to Dr. S. Kundu for his advice in the initial phase of the study. A copy of the questionnaire is included as appendix 5.1.

operations in the case of companies that were not currently represented. The aim was to provide an overview of the market in terms of years of operation and form of involvement, foreign direct investment, management contract or franchising.

Care was taken in the design of the questionnaire to allow for comparison with previous studies of the international hotel industry (the most recent by Kundu, 1994) and also to give some practical insights into developments in the industry in relation to the region for senior hotel executives.

Respondents were asked to rate on an 11-point Likert scale (from -5 "significant disadvantage" to +5 "significant advantage") their perceptions of the competitive advantages, the ownership, "O" advantages of their company and perceived sources of specific locational "L" advantages within the region. The resulting rankings for the major variables were then averaged and the results displayed in graphical and tabular form.

Owing to the complexity of the questionnaire it was necessary to solicit correspondents repeatedly and encourage them to complete it. This was undertaken throughout June and July 2001. The response rate from the overall population, especially from the major players, was extremely high at 47.7%.[23]

Each of the ten major companies by number of rooms and 15 out of the top 20 hotel operators were included in the sample. Appendices 5.4 and 5.5 list the population and sample for the study.

For the most part Sections 1 - 3 were answered fairly completely but data pertaining to Section 4 on internalisation advantages was only patchy, mainly owing to the fact that there are only 14 companies (34%) which have properties in the region, and only 9 companies with more than two or more properties there. Of these nine companies, two are pure franchising, which obviously restricts their form of involvement.

It is therefore difficult to generalize about internalisation advantages from responses relating to this modest number of companies.

The next section provides details of the population and sample, illustrating the structural variables such as region of origin of company headquarters and size of companies by numbers of rooms and revenues, which will be used later in the chapter as bases of analysis.

[23] It should be noted that this unusually high response rate was due, to a large part to personal connections that were used through networking with senior professionals in the hospitality industry, interviews with attendees at the Ecole hôtelière de Lausanne executive development programme, and several follow up requests through e-mails fax, and telephone.

5.3. Presentation of the survey population and sample

As may be seen from appendix 5.4, the population of the study consisted of 86 international hotel companies originating from 20 countries and as at March 31st 2001 operating 3,989,835 hotel rooms.

5.3.1 Origin of company headquarters and size of company

The number of rooms included in this study was significantly higher than earlier comparable studies by Kundu (1994; 540,415 rooms) and Dunning and McQueen (1982; 270,646 rooms.)

Table 5.2 Details of the study population and sample by number of companies

	North America	Europe & Middle East	Asia	Other	Total
Population	33	29	19	5	86
%	38.37	33.72	22.09	5.81	100.00
Sample	14	19	8	0	41
%	34.15	46.34	19.51	0.00	100.00

Completed questionnaires were received from 41 out of the 86 companies originating from 13 countries that controlled 3,504,694 hotel rooms. This represented 87.84% of the total rooms in the population. Key characteristics of the companies in terms of country of origin, number of countries represented, size by rooms and hotels and year established may be found in Appendix 5.5.

Table 5.3 Details of the study population and sample by number of rooms operated

	North America	Europe & Middle East	Asia	Other	Total
Population	2401038	1395065	171091	22641	3989835
%	60.20	35.0	4.30	0.60	100.00
Sample	2177804	1251138	75752	0	3504694
%	62.1	35.7	2.2	0.00	100.00

The major countries represented in the population are the USA (31 companies), United Kingdom (8), Japan and China (7), Spain (6), Germany and Switzerland (3).

The population reflects the domination of the international hotel industry by the developed world, with only 13 companies, or 15% of the total, from the developing world.

Appendix 5.6 shows the number of companies per country for both the population and the sample. The major countries represented in the sample are:

The USA (12 companies; 62.14% of total rooms), the UK (5 companies,19% of total rooms), Spain and China (4 companies; 4% and 1% respectively), Japan and Germany (3 companies; 1% each of total rooms). Appendix 5.7 shows the major countries share of total rooms. This shows an increasing concentration in the hotel industry by the US companies, accounting for 62% of all rooms, up from 56% of all rooms nearly thirty years before (Dunning and McQueen 1982). The French and UK room total has also increased from 25% to 30%. Because the North American and European hotel companies dominate the top 20 (in which there is only one Asian company present, Prince Hotels), the distribution of overall numbers of rooms worldwide in the population is heavily skewed towards major North American and European hotel companies. There are no companies from Africa or South America in the study, there being no major international chains emanating from those regions. The importance of Europe and the USA in the international hotel sector is shown by 75% of the companies in the sample originating from the two continents.

To give a more global perspective, table 5.4 and appendix 5.8 compare the population and sample of the study with populations from each of the main regions[24].

Table 5.4 Comparison of study responses to actual world population (2001).

Share by continent, in %	North America	Europe & Middle East	Asia	Other	Total
Study population	60	35	4.0	1	100
Study sample	62	36	2	0	100
Actual World population	14	12	61	13	100

Source: US Census office, 2001

As table 5.4 illustrates, in terms of overall world population the USA and Europe account for just over 25%, with nearly two-thirds of the world's population in Asia. The population and sample are clearly inverted in terms of the importance given to the US and Europe

[24] Other includes Africa and Oceania.

The majority of the hotels and hotel rooms in the sample are in the USA, underlining the strength of the US domestic market. An unexpected finding is that it would appear that in Europe the average size of hotel appears larger than in the USA. This would indicate that the sample consists of larger chains owning, managing or franchising larger properties, which is at odds with the European norm of the owner-occupied small-and medium-sized enterprise (SME). The average number of rooms in the European hotels in the study is 234 per property[25]. This compares with worldwide statistics that give average hotel sizes of 56 rooms for North America, 32 for Europe, and 49 for Asia, (O'Connor, 2001 quoting WTTC 1995). Appendix 5.7 shows the total rooms included in the study by major regions.

It is also possible to classify the companies in the study by sales revenues; the order of magnitude of the chains included in the population may be appreciated from Table 5.5.

5.3.2 Classification according to sales

Table 5.5 Sales according to size of company

Sales (US$,mn)	0-49	50-499	500-999	1,000-2,999	Over 3,000	Total
Number of chains	4	10	10	6	5	35
Total sales (US$, mn)	67.95	2,058.22	6,857.76	8,210.92	29,370.60	46,565.45

As at 31.12.200
Number of company respondents =35

As may be seen, there is a high level of polarisation between the companies in the study. While the three smallest categories of hotel chains with sales ranging from US$50 million-US$999 million constitute 68.6% of the companies, they account for less than 20% of the total sales. Conversely, the five largest companies with sales of over US$3,000 (14.3% of the number of companies) account for 63% of sales. Appendix 5.9 illustrates this graphically.

As the major thread underlying this thesis is internationalisation, it is important at this stage to give a realistic picture of this phenomenon and the companies included in the population and sample.

[25] Statistics on the hotel industry in Europe must be used with caution. According to Eurostat (theme 48/200), "Statistics in Focus" there are 9,064 million "bedspaces" in EU-15 in 1998. There are 185,605 hotels and similar

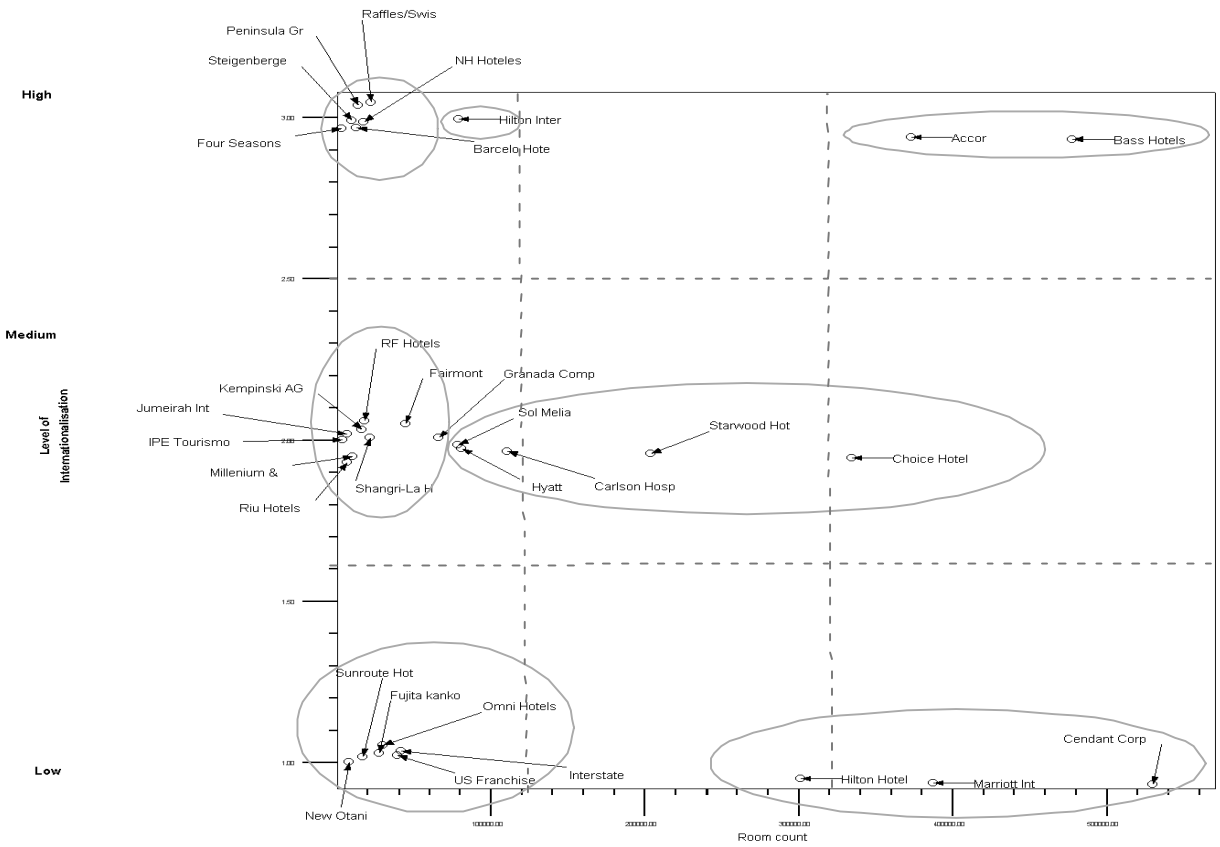
5.3.3 Classification according to level of internationalisation

Throughout this chapter reference is made to type of company, size and origin, and the degree of internationalisation of hotel companies is not always fully apparent from the data.

A comprehensive picture must take into consideration not only the number of countries in which an international company is represented, but also the number of rooms it operates internationally, in relation to its overall number of rooms. To this end an internationalisation matrix was created (see appendix 5.10) that attempts to provide a realistic picture of internationalisation and the hotel industry. The results of the matrix are presented in figure 5.1.

establishments, which gives an average of 48.49 bed places per establishment. Given that many hotels have two beds per room, this gives an approximate average size of 24-30 rooms per establishment.

Figure 5.1 Internationalisation as shown by internationalisation matrix



Size of company (number of rooms)

As may be seen from figure 5.I, the X-axis shows the overall size of the hotel company by number of rooms operated. The Y-axis is classified in three levels of internationalisation from bottom to top, from low level, medium level and high-level internationalisation.

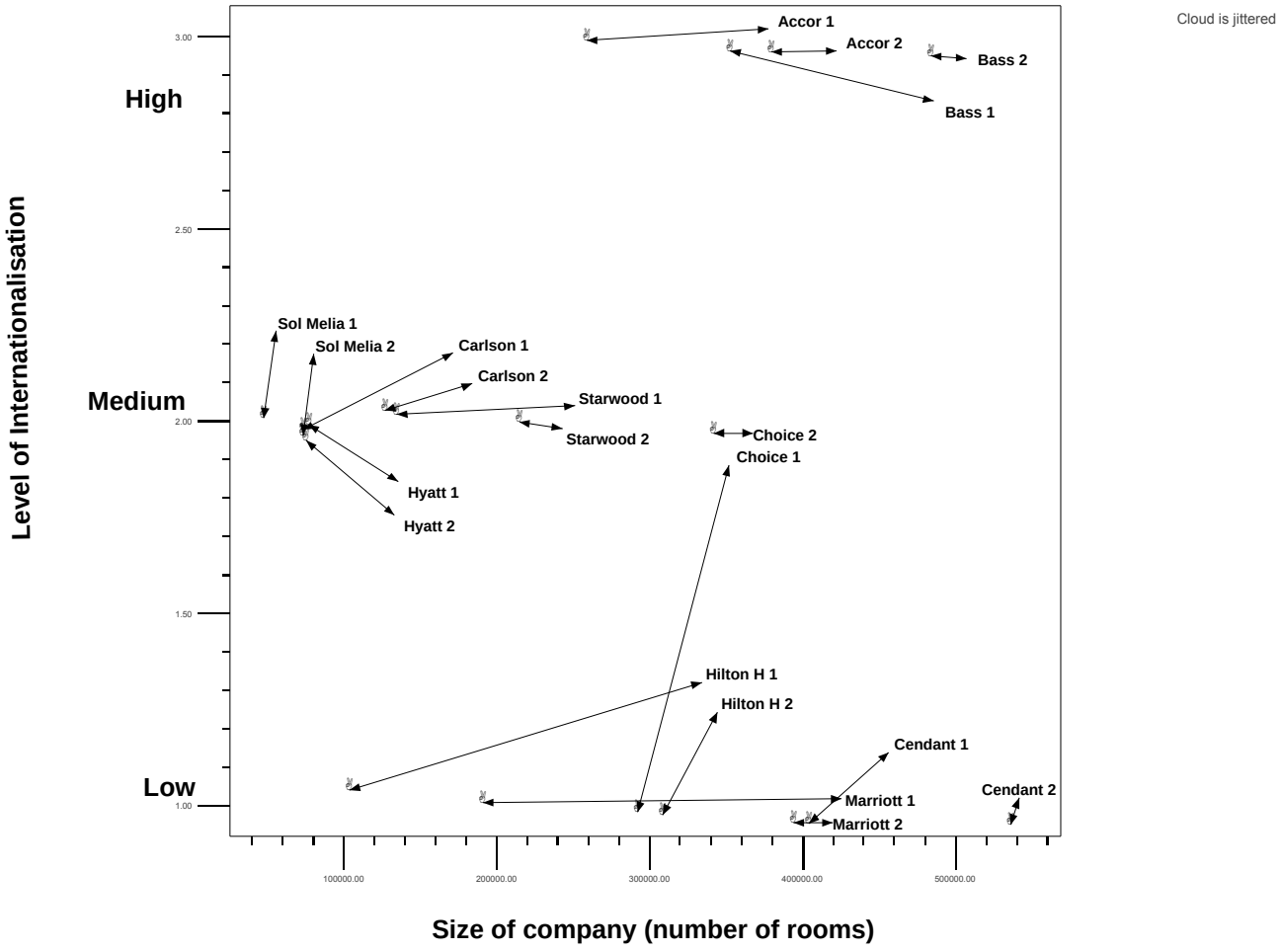
As illustrated in figure 5.1, there are six major clusters of hotel companies. Starting at the bottom left hand corner there is a cluster of small hotel companies with a low level of internationalisation. These are either Asian or North American companies. Moving up the Y-axis, there is a cluster of similar-sized companies, but who have more internationally-operated rooms, and is present in more countries; these represent the medium level of internationalisation. They are mostly of European origin, but there is also one North American (Fairmont) and one Asian (Shangri-La). At the top of the Y-axis is a group of highly international, but still relatively small, companies. These are from all three regions and include such famous names as Four Seasons, Raffles/Swissòtel and the Peninsula Group. It may also be seen that

Hilton International is some distance away from this grouping, as by number of rooms operated it borders the medium-to-large category.

In the middle of the chart is a cluster of medium-to-large companies having a medium level of internationalisation. In size these range from Sol Amelia and Hyatt, with over 80,000 rooms, to Choice that has almost 350,000. With the exception of Sol Melia (Spanish), they are all North American firms. Looking towards the right hand matrix of the chart, we find two clusters at the top and bottom of the graph. Those at the bottom (Hilton Hotels, Marriott and Cendant) are among the largest names in the hotel business, but only have low levels of internationalisation owing to their lack of international operating exposure. They are North American-based; Accor and Bass, however, the two largest European chains, are both extremely large and international.

As may have been gathered from Chapter 3, however, the international hotel industry is far from static. It has seen many changes, especially in relation to merger and acquisition activity (see Appendix 5.3). It is interesting to note whether the major changes have been in the direction of increasing the level of internationalisation as well as the overall size of the company. Figure 5.2 plots changes in the size and internationalisation level of the top ten companies, by number of rooms, over the past six years.

Figure 5.2 Internationalisation matrix showing dynamics of internationalisation of the top 10 hotel companies by size 1995-2001



As may be seen from Figure 5.2, there are several developments in terms of size and internationalisation. The name of the company and the numbers "1" show its position in 1995, and then the company name and "2" shows its position in 2001. Hilton, Marriott and Cendant have made significant increases in overall size. Other companies such as Bass, Accor, and Starwood have also grown, but to a lesser extent. Some companies such as Hyatt and Sol Melia have remained fairly static in terms of numbers. Choice, whilst only growing slightly in terms of number of rooms, is the only company to change its level of

internationalisation, moving from low-level to a medium-level of internationalisation during the period under review**.**

Following this brief description of the companies, it is now appropriate to present the nature of the business in more detail, and the form of involvement used by company in the region.

5.4. Presentation of the survey results

As mentioned in section 5.2.3, research questions were framed to attempt to establish whether the companies in the study were single-sector hotel operations, or whether they belonged to a larger group.

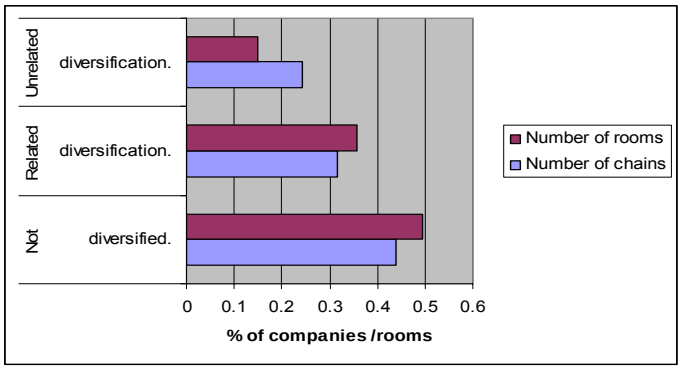
5.4.1 Core business and forms of diversification by the group

It was considered useful to attempt to establish the type of diversification for those companies belonging to a group and attempt to ascertain if the group had followed the policy adopted by many companies in the late 1970s of diversifying into either related sectors (such as travel and tourism) or into unrelated sectors (such as industrial products, construction and information technology).

Nearly two-thirds of the studied hotel chains (27) belong to a larger group. Four hotel companies (15%) are part of groups that operate hotels as their core business, 13 (48%) are part of a group that has related diversification, and 10 (37%) have diversified into unrelated sectors .

Iin order to give a view of the actual market, and thereby give a more accurate picture of the total extent of diversification, categories were calculated according to the size of the companies in terms of number of rooms.

Figure 5.3 Nature of business and type of diversification by room size

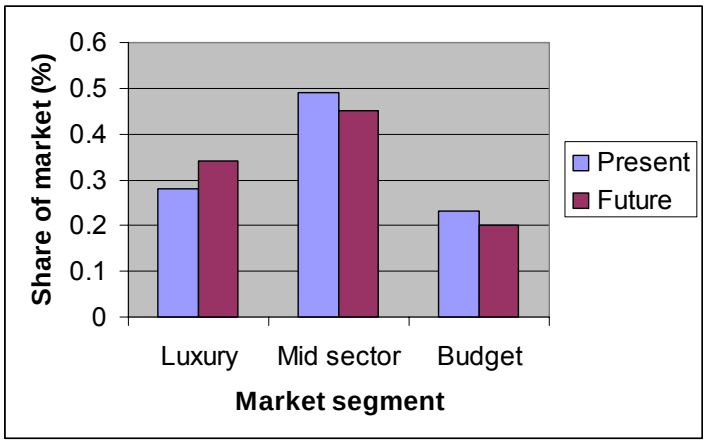


As may be seen from figure 5.3, there is a considerable difference between the forms of involvement by international hotel companies. The clear majority of chains in terms of both numbers of companies and numbers of rooms are not diversified. The highest second category are those that have diversified into related sectors[26]. While there has been a trend in recent years for companies to divest themselves of certain businesses, there has been some evidence of vertical integration in the hotel industry, with tour operators such as TIU and Airtours becoming major players in the hotel industry through their acquisition of chain hotels. Unrelated diversification is the lowest category, both in terms of overall numbers of companies and rooms.

5.4.2 Present and future market segments

Another important aspect was that of the positioning of the company in terms of market category; an analysis was made in terms of current and future market segmentation.

Figure 5.4 Present and future market segments by number of rooms

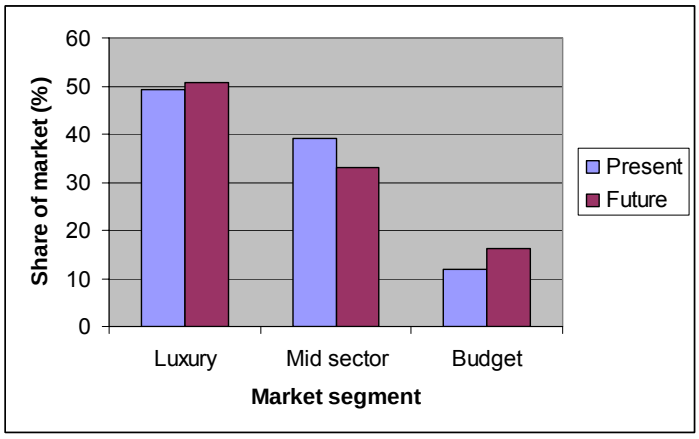


Figures 5.4 and 5.5 show the influence which the larger companies exert in determining the direction of the industry. As may be seen from figure 5.4, when the size of the company is taken into account, growth is anticipated in the luxury sector, with a slight decline in the mid-market and budget sectors. This

[26] Some hotel companies such as Accor and Carlson have shares in travel agency companies; Sunroute Systems is

perception may be attributable to the fact that many of the US chains (such as Choice and Cendant) are almost exclusively focused on the mid-market sector and may now feel that the market is saturated and have to investigate possibilities in other market segments. This is somewhat surprising, as recent growth in terms of number has occurred at the mid-market and budget levels. Again, the trend in European and Asian chains seems to indicate that the largest markets such as the US cannot take any more Motels or Days Inn-type operations, but that there is room for more up-market properties as societies generally become more affluent.

Figure 5.5 Present and future market segments by number of companies



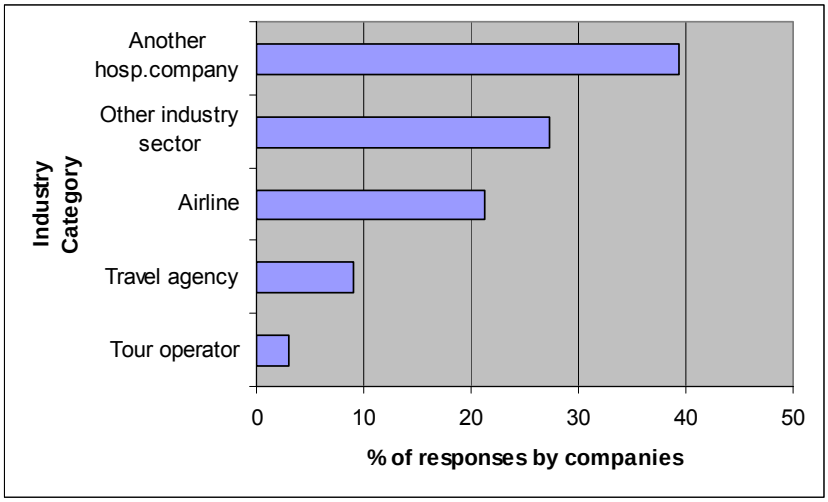
Apparent from figure 5.5 is that the majority of respondents are in the luxury and mid-market segments, with only 12% in the budget sector. Whilst it is forecast that the luxury sector will increase slightly, the mid–market is seen as likely to decline, while there will be increases in the budget sector. As mentioned in Chapter 3 on the international hotel industry, the opportunity to collaborate with other companies through the formation of strategic alliances has been an important trend in recent years.

owned by Japanese airlines

5.4.3 Strategic alliances

Question 10 requested specific details with regard to the nature of strategic alliances in the industry.

Figure 5.6 Forms of strategic alliance



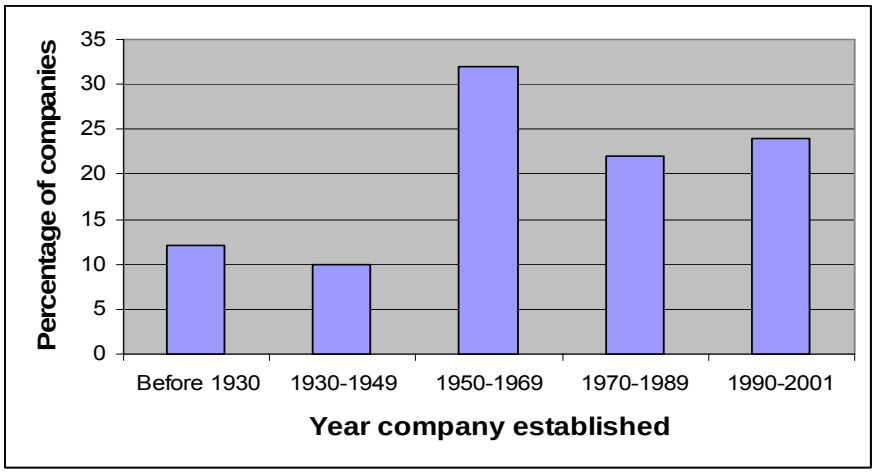
The data illustrates that the majority of hospitality companies are involved in at least one form of strategic alliance (note that the data amounts to more than 100% as there could be multiple responses).

The preferred partner in terms of revenue generated is another hospitality company, with almost 40% of the companies involved adopting that form of alliance. Other industry sectors are also of some importance, with over 25% of the companies establishing relationships with such partners as car-hire, credit cards, insurance and telephone companies. Airlines are also natural partners for hotel companies, given that many international hotel companies were owned by national airlines such as TransWorld Airlines and Pan-American (Hilton and Intercontinental respectively). Such companies as Radisson SAS, part of the Carlson Empire, still retain strong links with airline companies.

5.4.4 Age of company

As mentioned in Chapter 2, according to the stages theory of internationalisation (Johanson and Vahlne, 1993) a company would expand internationally through a set sequence of steps in a process, and it was necessary, therefore, to determine the age profile of the population and identify if there were any distinctive trends in the internationalization process.

Figure 5.7 Date of establishment of company



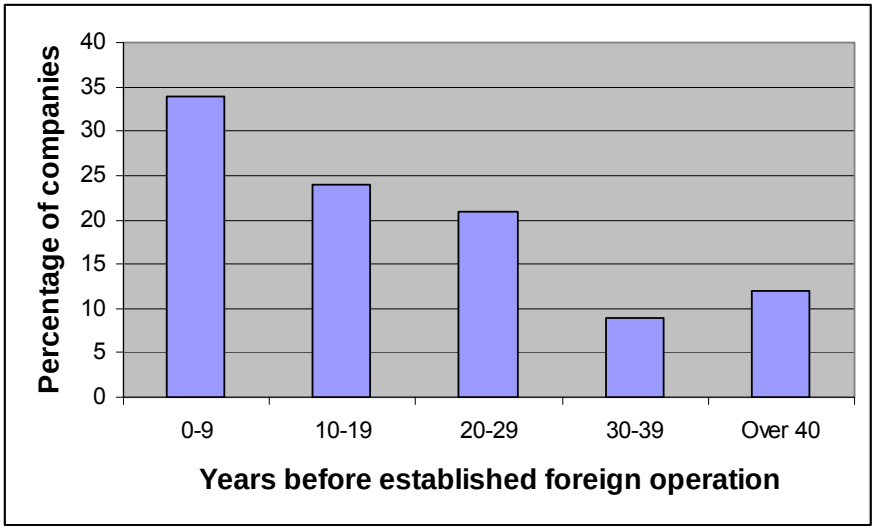
As may be seen in Figure 5.7, there is evidence of longevity in the industry, with 22% of the companies being established over half a century ago. Almost half have been created in the last 30 years, particularly during the 1950s-1960s and in the 1990s. Some of the most famous names in the industry such as Marriott (1927), Hilton (1930) and Carlson (1938) have been established brands for several decades.

As Appendix 5.11 shows, the North American international hotel companies are the oldest-established, with an average "baby-boom" age of 43.1 years. The European and Middle Eastern hotel companies come next, with an average age of nearly 36 years, while the Asian companies averaging just over 30 years. There are intra-regional differences, however, with the oldest company in the study, Kempinski from Germany, celebrating its 115th year of operation in 2002. These factors are clearly important with regard to the age profile of the respective hotels and companies, although the purpose was to determine to what extent trends could be identified in the length of time after their foundation which it took hotel companies to "go international".

5.4.5 Years to become International

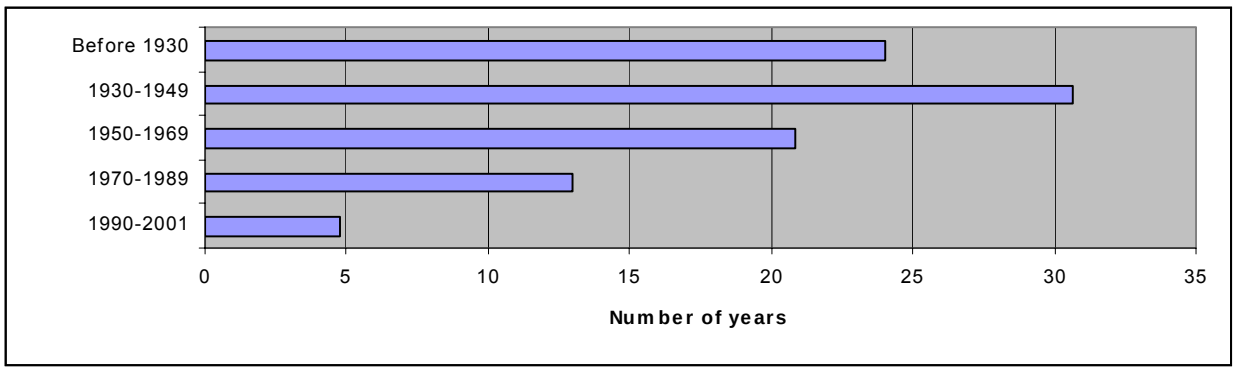
Figure 5.8 shows the length of time taken by companies to establish their first foreign operation.

Figure 5.8 Number of years to establish first international operation



As may be seen in Figure 5.8, just over one-third of the companies established their first foreign operation within a decade of their foundation. Almost one half took between 10-29 years, with just over 20% taking 30-40+ years. There were a few examples of the so-called "born global "companies in the sample (for example Millennium and Copthorne), which immediately became international. This may be accounted for by the ease of establishing management contracts and franchise agreements in many parts of the world. The average length of time taken in establishing a foreign hotel operation is shown in figure 5.9

Figure 5.9 Length of time to establish first foreign hotel (average number of years)



The average length of time to establish an overseas operation was 16.55 years; however, the trend in establishing foreign operations has been reduced dramatically within the last decades, with companies that have been established within the past ten years establishing a foreign operation in almost one-fifth of the time taken before 1930. It is clear that the trend increased in the 1930s and 1940s.

5.4.6 Characterisation of international hotel companies in Eastern Central Europe

Regarding the effects of internationalization on expansion in Eastern Central Europe, as mentioned earlier in this section, just over one third (34%) of the companies have opened hotels in the study region.

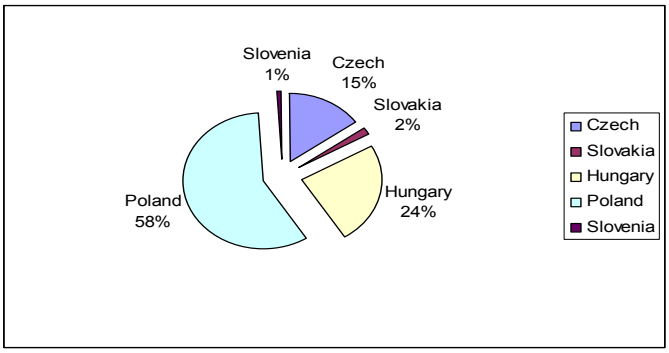
As may be seen from the internationalization matrix in Figure 5.1 discussed under point 5.3.3 above, there are several clusters of companies by category involved in the region. At the top of the scale, both in terms of numbers of rooms and internationalization, Bass and Accor have a long-term presence in the region. Other large companies with a low internationalization index such as Cendant and Marriott are also present. There are a number of medium-level internationalised companies including Choice, Starwood, Carlson and Hyatt present, as is the final category, that of highly international medium and smaller companies, including Hilton, Barcelo, and Four Seasons.

As may be seen from appendix 5.12, in 2000 there were 19 international companies represented in the region. Of these, 14 are included in the sample for the study[27]. Nine of the top ten companies have hotels in the region, with only Hilton hotel corporation not yet operating a hotel in Eastern Central Europe. As for the reasons for entry into the study region, 75% cited entry as part of the company's strategic plan, with 25% stating they entered when an opportunity arose.

In terms of the timeframe necessary for entering the region for those 27 chains not yet represented, less than 20% had plans to enter immediately, 31% were thinking in the medium-term, while 50% only saw an opening in the long-term. Figure 5.10 shows a breakdown of total hotels by country, whilst Table 5.6 gives data on the number of hotels by company and country.

[27] Of the five who were not included in the sample, the only important international player is Groupe Enverguere which was included in the population.

Figure 5.10 International hotel distribution in Eastern Central Europe



As may be seen in Figure 5.10 and Table 5.6, the bulk of the hotel properties are in Poland and Hungary, accounting for 82% of all hotel developments. This is mainly due to Accor's long-term strategy of investment in the region, particularly in these two countries (the company has 19 properties in Hungary and 62 in Poland). With 84 properties in the region, Accor’s development represents 65% of all international hotel developments. Bass, second in worldwide ranking scale, is far behind with just 14% of hotel developments, but is the only company with properties in all five countries in the region. Marriott with six hotels (4.6%) and Choice with four (3%) are next in line, followed by Cendant, Carlson, and Hilton International who all have three hotels (2.3%) each.

Table 5.6 Number of hotels by company and country[28]

Company	Czech	Slovakia	Hungary	Poland	Slovenia	Total
Accor	3		19	62		**84**
Bass	4	2	2	9	1	**18**
Marriott International	3		2	1		**6**
Cendant	2		1			**3**
Carlson	1		1	1		**3**
Hilton International	1		2			**3**
Dorint Hotels & Resorts	1		1	1		**3**
Choice Hotels	3					**3**
Granada Compass			1	1		**2**
Starwood Hotels				1		**1**
Hyatt			1			**1**
Barcelo Hotels	1					**1**
Four Seasons	1					**1**
Kempinski AG			1			**1**
Total	**20**	**2**	**31**	**76**	**1**	**130**

It is of note that Poland has increased in importance fairly recently, due mainly to the progress in economic and financial reforms and the obvious potential of the market compared with its much smaller neighbours.

The Czech Republic, with 15% of the total hotel developments in the region, is evidently important, but most of the development has tended to focus solely on Prague, resulting in congestion and concentration in the capital, at the expense of investment and development in the provinces. In relation to Eastern Central Europe, there has been frequent reference to the problems encountered by hotel developers in seeking suitable locations and developing properties.

5.4.7 Barriers to development

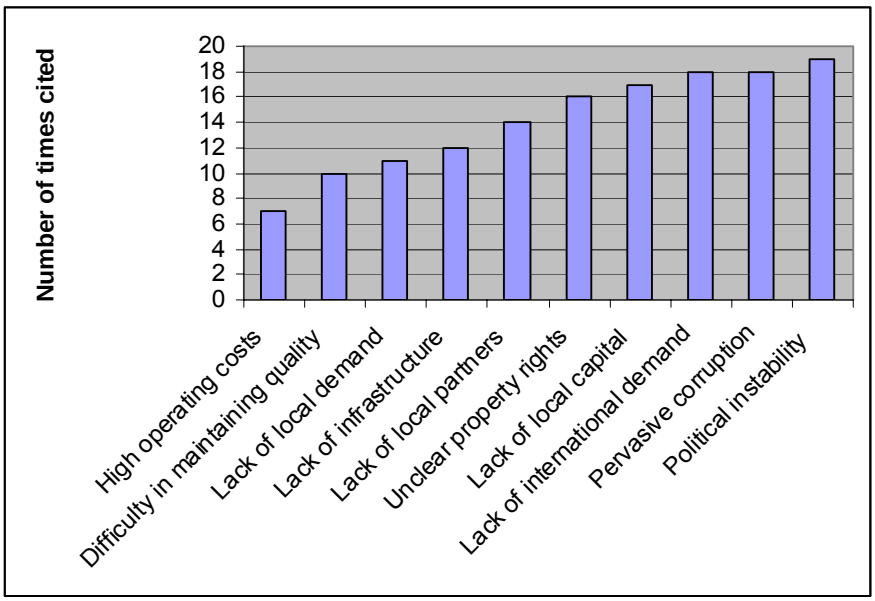
Porter (1998) cites several barriers to entry for firms entering new markets. These include economies of scale, product differentiation, cost of capital requirements, access to distribution channels, government policy and cost disadvantages independent of size. Entry barriers, therefore, depend upon the technological and commercial relationships within the industry (Knowles, 1996).

[28] A search of secondary sources in September 2001 found that there were a total of 157 internationally operated properties in Eastern Central Europe (The European Hotel Groups Database, International Hospitality Research-Industry Intelligence & Pricewaterhousecoopers).

These factors may change depending on the conditions within the local market. For international hotel companies, the most important barriers to entry are economies of scale (eight chains in the sample operate over 100,000 rooms), cost of capital (hotel properties are increasingly part of larger developments involving retail, leisure and recreation facilities, and have high fixed costs), and distribution through global distribution systems and computer reservation systems. Differentiation is also an important issue, as many hotel chains' offerings are very similar. Chains therefore attempt to differentiate through their brand names[29]. There is also evidence of increasing regulation and legislation in the hotel industry.

As mentioned in chapter 4, for historical reasons tourism and the hotel industry in Eastern Central Europe developed along particular lines, and it was considered important to establish which were the perceived major barriers to hotel development in the region. Whilst the issues mentioned earlier were important, other regional issues were even more fundamental. Figure 5.11 illustrates the major barriers.

Figure 5.11 Major barriers to developing properties in Eastern Central Europe



Number of company respondents=14

Figure 5.11 illustrates that the major factor, somewhat surprisingly, is related to political instability. This is despite the fact that there has been no major political upheaval in recent years. Also considered important are pervasive corruption, widely reported in the media, and a belief that the region has not

[29] Hilton has the strongest brand name in the industry, valued at US$1,319 mn. (In comparison with world leaders

generated a great deal of interest for international demand. This should be seen in the context of a region which is not completely homogenous, and while Poland is clearly a growing force in terms of international investment and demand, given its size and location, countries such as Slovakia and Slovenia are not perceived to be as attractive to international chains, owing to their respective state of development and overall size.

This question was answered unevenly, perhaps due to a lack of clarity in the questionnaire. It became apparent that there was some confusion over the ranking requested. The executives were given ten factors that could be considered barriers to development in the region, and asked to rank five of them from one to five (five being the most serious). Many respondents ranked all ten, while some only gave one or two rankings; it was not possible to calculate a mean or even a total. In order to interpret the data most effectively, a tally was kept of each reference to a variable. In the case of the questions answered with more than five references, the five most important, by size, were accepted. In terms of the gravity of the variables, the three highest variables which received the most "5" ratings were: political instability (10 citations), lack of local capital (9) and unclear property rights. Importantly, especially for hotel franchising companies, the issue of quality ranks second from the bottom of the table, which, therefore, shows that it does not appear to be a major issue.

5.4.8 Major barriers versus opportunities?

It is obviously of concern that these factors should be raised as serious hindrances to development in the region. There is always, however, a dichotomy between perception and reality. Some of the barriers may be more perceptual than actual, and may be transformed into opportunities in a relatively short timeframe. In analysing the barriers, Porter's (1990) diamond of environmental influences, quoted in section 5.1.3, may now be used for Eastern Central Europe.

Firstly, demand conditions are clearly an issue for hotel executives, especially in terms of international and to a lesser extent, domestic demand (ranked third and eighth respectively). There is evidence, however, that Eastern Central Europe is an attractive location for investment and tourism. FDI inflows into the region increased in 2000 to US$27 billion. While Poland, the Czech Republic and Russia (which is outside the scope of this thesis) absorb two thirds of the region's total inflows, Slovakia recorded the highest overall growth, with a six-fold increase in 2000 to US$2.1 billion (UNCTAD, 2001). As FDI

Coca Cola valued at US$83,845 million.) Pricewaterhousecoopers, 2000,p.3.

increases and businesses develop, so will the demand not just for luxury sector hotels, but also for the mid-market and eventually budget hotels. Three of the countries in the study (Poland, the Czech Republic and Hungary) were in the top 15 destinations of the world by number of international tourist arrivals in 1999, despite the negative impact of the Kosovo crisis. As the effect of this declines, it is likely that tourism will increase further. Demand will then converge between the top/middle managers of international firms and indigenous managers who will increasingly be demanding higher international standards from domestic hotels (it is estimated that domestic tourists, on average, account for 70% of stays in hotels; WTO, 2000.)

Secondly, in relation to factor conditions, hotel executives are concerned about the depth of political stability that has been established in what are fledgling democracies. Other issues were pervasive corruption, lack of local capital, unclear property rights and lack of local partners.

Regarding political stability, there are signs, however, that democratic institutions are being respected and that the days of central, militarised planning have gone forever. What may be needed is clearer communication of this to the hotel executives who may view Eastern Central Europe as part of the wider Eastern European region, i.e. including countries such as Romania and Ukraine, which are at very different stages of political and economic development.

The second barrier, pervasive corruption, is much more difficult to address. The two largest chains, however, Accor and Bass have ambitious development plans for the region, and if they can develop strategies to overcome this then other international chains may benefit from their experience.

Lack of local capital and local partners cannot be changed overnight, although there are signs that with the establishment of market institutions there are growing numbers of entrepreneurs becoming available as local partners with capital to invest in the hotel industry (Peng, 2001[30]). Directories aligning local partners are increasingly available, especially through the Internet and through Chambers of Commerce. Problems related to ambiguous title rights and ownership of property have been common for many years. It is the responsibility of the respective governments to remedy this situation expeditiously through appropriate legislation, promoting transparency and clarity in the legal systems, especially for foreign developers. Once this is concluded, real estate prices, especially outside capital cities, should compare very favourably with western European locations.

[30] Peng estimates that in the 19990's there were about 5% of the adult working population in Eastern Central Europe who attempted to start new firms or become self-employed. This is a very similar figure to that of the US or Western Europe, Peng, 2001 p.96.

Similarly the condition of the infrastructure also has been a long-standing thorn in the sides of hotel developers. Some level of funding for large scale projects such as the reconstruction of rail corridors and main roads has nonetheless been forthcoming from the European Union, and improvements have been made e.g. to the D1, D11 and R10 motorways in the Czech Republic[31].

Thirdly, in terms of the structure of the industry, one of the major concerns of hotel companies, especially those that franchise, is the ability to maintain quality. This issue was ranked second from the bottom, which seems to indicate that it is not a major concern for hotel operators. This could be due to the fact that, as mentioned in Chapter 4 on the international hotel industry, many operational aspects of the business may be codified and transferred to new locations through standard operating procedures and manuals. The threat of withdrawing the brand name and reservation systems is also a strong means of maintaining control over franchisees by the parent company (Dunning and McQueen, 1982).

Also important is the vital question of operating costs, which obviously has direct implications for profitability. It is of note that this was the lowest item on the list, suggesting that hotel executives anticipate that costs overall in Eastern Central Europe should not be a major factor preventing development.

A related issue to that of perceived barriers to development in the region are the form of involvement that has been adopted, and the reasoning behind it. As outlined in Chapter Three, hotel development directors have many different modes of development ranging from foreign direct investment through to long term leases, management contracts, (often with a minor equity stake), and franchising. International hotel developers today often choose a blend of modes, deciding where to compete and where to cooperate with rivals through strategic alliances (Contractor and Kundu, 1998). For example in the United Kingdom, Marriott chose to cooperate with a large domestic hotel chain, Whitbread, by the agreement of a master franchise to Whitbread of the Marriott brand.

5.5. Perceptions of ownership, location and internalisation advantages

This section presents the findings of the perceived ownership, location and internalisation advantages from the 41 major international hotel companies included in the sample. The major variables relating to the three categories were drawn from the literature. Specific issues relating to the international hotel

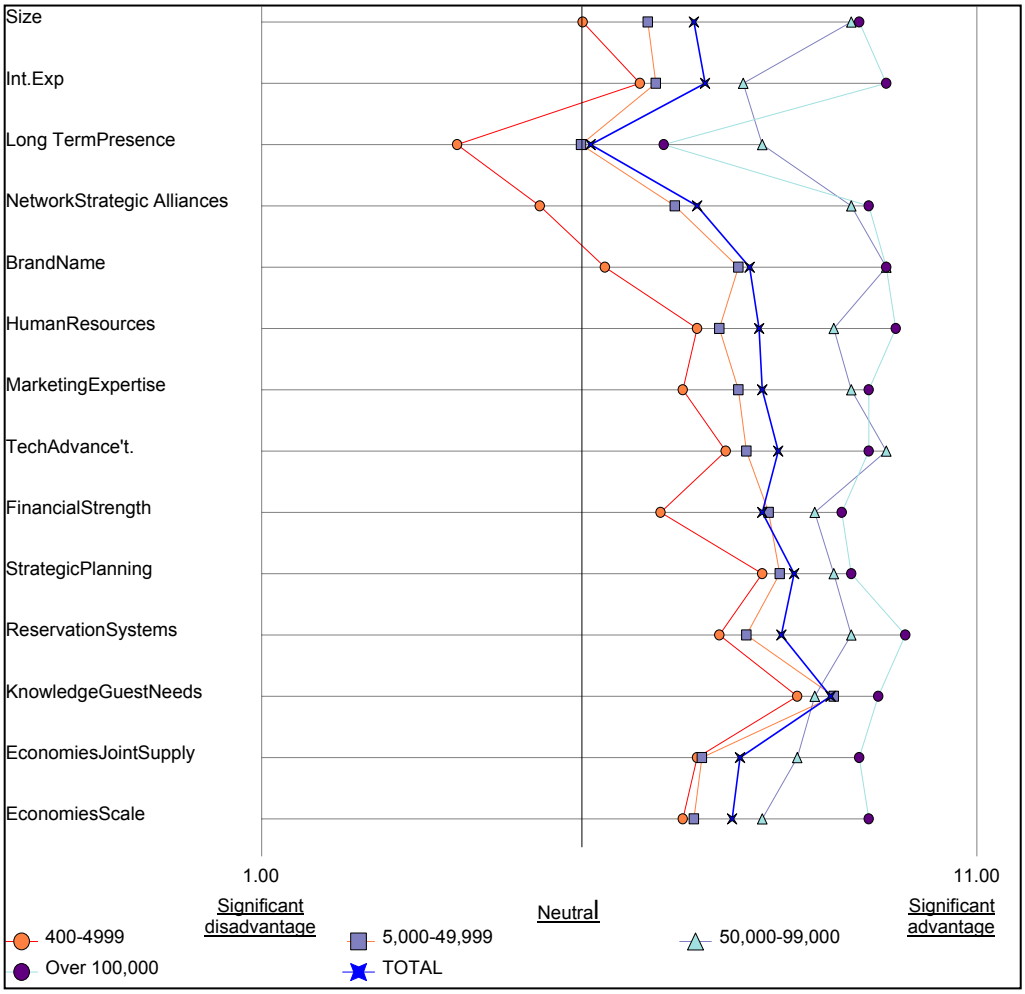
[31] As reported by the National Trade data bank (USA), Market Report, October 29th 1996.

industry and to Eastern Central Europe were also included. Extensive analysis was undertaken in attempting to identify the major contextual variables that had the greatest impact upon the data. The major contextual variables that were found to be the most important were *size, origin* and *level of internalisation*.

5.5.1 Ownership advantages compared to international operators by company size

The specific ownership advantages are presented in two forms. Firstly, ownership advantages which international chains perceive they possess in relation to other operators, and secondly the same ownership advantages as compared to indigenous hotel operators in Eastern Central Europe. The first contextual variable used was the size of the company (in terms of number of rooms operated).

Figure 5.12 Ownership advantages compared to international operators by company size



As may be seen from chart 5.12, the x-axis has been rescaled to present positive figures from 1 to 11.00. It follows that figures on the left hand side of the axis represent a “significant competitive disadvantage” to the company, while those in the middle of the chart a neutral position; a “significant competitive advantage” to the company appears as one moves to the right-hand side (11:00).

There are four major grouping of hotel companies: i.e. small (400-4999), medium (5,00-49,999), large (50,000-99,000) and very large companies. As is clearly shown by the chart, size is a major factor in the perception of international hotel company executives. There are considerable differences between the

perceived strengths of those of the largest companies compared to the smallest (in this case represented by the lighter and darker circles on either side of the chart). Overall, the perceived key competitive strengths of international hotel chains are knowledge of guest requirements, strategic planning, and technological advancement.

The largest companies perceive that they have a considerable advantage as against the smaller chains, and consistently score the perceived strengths higher. The largest companies' perceptions of their key advantages are reservations systems, human resources and brand/international experience. These factors are attributable to the distribution advantages that are made possible through the global reservation systems and computer reservation systems used by the largest companies. Human resources have also long been considered a key attribute of international operators (Dunning & McQueen 1982), and are stressed by all major players. International experience often (but not always) goes with size, and certainly the case in terms of companies such as Bass and Accor, which are present in over 80 countries. The importance of the brand may also be considered fundamental, as the importance of brand equity has been a major issue in the industry in the past decade.

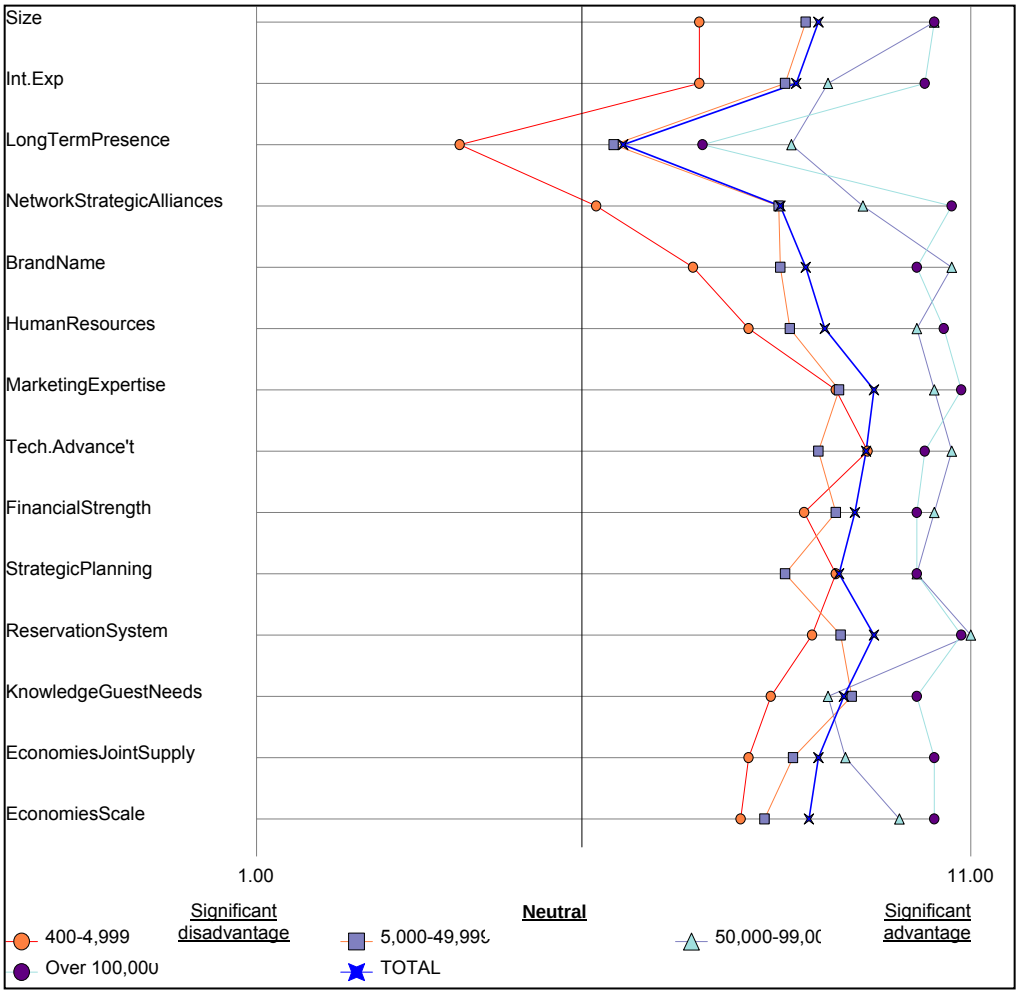
Large chains shadow the advantages of the major chains quite closely in most of their attributes (especially regarding size, their network of strategic alliances and their strategic planning), and even score higher in terms of technological advancement and long term-presence in the region. They score particularly low, however, in terms of international experience and knowledge of guest needs. These perceptions may be due to the fact that while many such companies are substantial, they are aware of the differences in scale between themselves and those of "premier league" companies such as Cendant, Bass, Marriott and Choice, who have vast resources available for marketing research (to determine guest needs in the future), and for establishing new international operations.

Medium and small companies in the study may also be seen to shadow each other. The key strengths for the medium companies are knowledge of guest needs, strategic planning and financial strength. The smallest companies perceive that they are also strong in knowing guest needs, in strategic planning and in technological advance. The medium and smallest companies are particularly close in terms of international experience, human resource management, strategic planning and especially in joint economies of supply and scale. The smallest companies score particularly low on long-term presence in the region, in their network of strategic alliances and in their brand names.

5.5.2 Ownership advantages compared to indigenous operators by company size

As this study focuses particularly on the development of the international hotel industry in eastern central Europe, it was considered interesting to compare the competitive strengths of the international hotel companies with those of hotel operators originating from the region in question. Figure 5.13 plots changes in these perceived strengths.

Figure 5.13 Ownership advantages compared to indigenous operators by company size



Comparing figures 5.13 and 5.12, it is evident that international hotel chains perceive that, in comparison with indigenous hotel operators, they have greater strengths in all areas, apart from long-term presence in

the region. This may be seen in the fact that, apart from the latter response already quoted, all other responses are on the right-hand, maximum scale on the chart.

The overall key advantages for all chains are marketing, reservation systems and technological advancement. In three of the categories, reservations systems are in the top two attributes.

The largest chains again believe that their main competitive strengths are their reservation systems, but this time also it is their marketing expertise and network of strategic alliances that give them the edge over indigenous operators.

Large chains cite reservation systems, technological advancement and strength of brand name as their key advantages. In this instance they actually give the maximum score for reservation systems and almost the maximum for the two others, scoring higher than that of the largest corporations (along with financial strength), clearly perceiving that they have distinct advantages against local players.

Medium sized chains' key competitive advantages are knowledge of guest requirements, marketing expertise, and financial strength. It is noteworthy that they have a better knowledge of guest requirements that they score higher than the larger companies, perhaps owing to the fact that smaller companies maintain contact with their guests in a more direct and more customised fashion than huge "room factory" companies which have as many as half-a-million rooms to control.

The small chains believe that their technical advancement is very strong over indigenous competitors, and rate this far more highly than do medium-sized chains. Marketing and strategic planning are rated as the next most important factors, with reservation systems fourth, although still with a strong rating. Again, all groupings perceived that long-term presence in the region was a competitive disadvantage, with the smallest chains ranking this particularly weak, along with their network of strategic alliances.

5.5.3 Ownership advantages compared to International operators by region of origin

Previous studies on the hotel industry (Dunning and McQueen, 1982, Kundu,1994, Gannon and Johnson, 1995) have identified the region of origin as an important contextual variable in the determination of company policy. In this instance, it was considered useful to contrast the perceived advantages of chains from the three major hotel operating regions, North America, Europe and Asia. As previously, the advantages are compared to international and then to indigenous chains.

Figure 5.13 Ownership advantages compared to international operators by region of origin

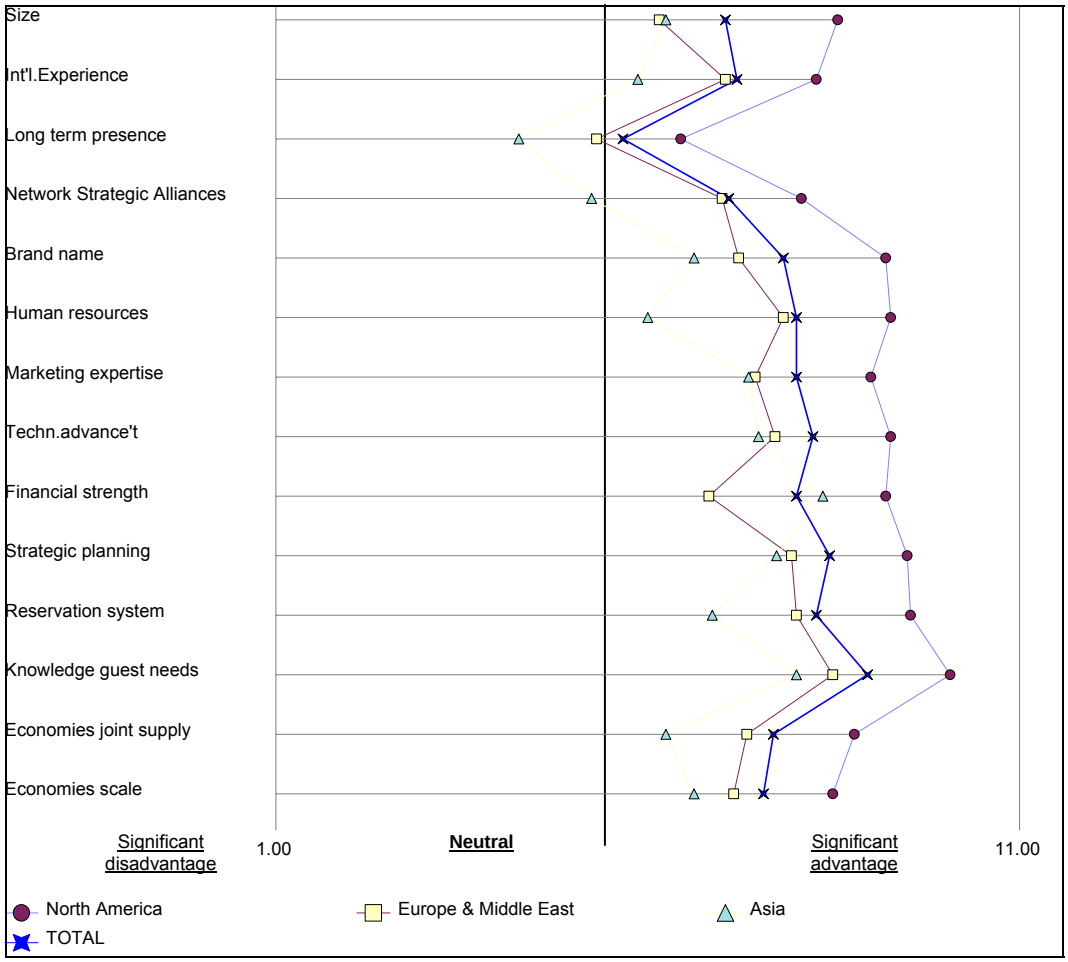


Figure 5.13 shows the overall averages of the variables, and the intra-regional differences. Although not quite so marked as the differences between the sizes of companies, there are, nevertheless distinct differences between companies emanating from North America, Europe and the Middle East, and Asia.

Overall, the three most important attributes are knowledge of guest needs, strategic planning and reservation systems.

As may be seen, the North American chains consistently rate their competitive strengths higher than the Europeans, and considerably higher than the Asian chains. The most important variables for the North American chains are knowledge of guest needs, reservation systems and strategic planning. Given the

history of the North American chains, (which are the oldest-established and use a follow-the-customer mode), it is not surprising that they consider their knowledge of guests' expectations, (especially business guests) to be a competitive advantage. Their sheer size clearly makes reservation systems that allow global distribution important. The very high rating given to strategic planning (which is also seen to be important by European and Asian companies) may derive from the fact that many respondents were directors of development responsible for setting and meeting global targets in terms of establishing new properties.

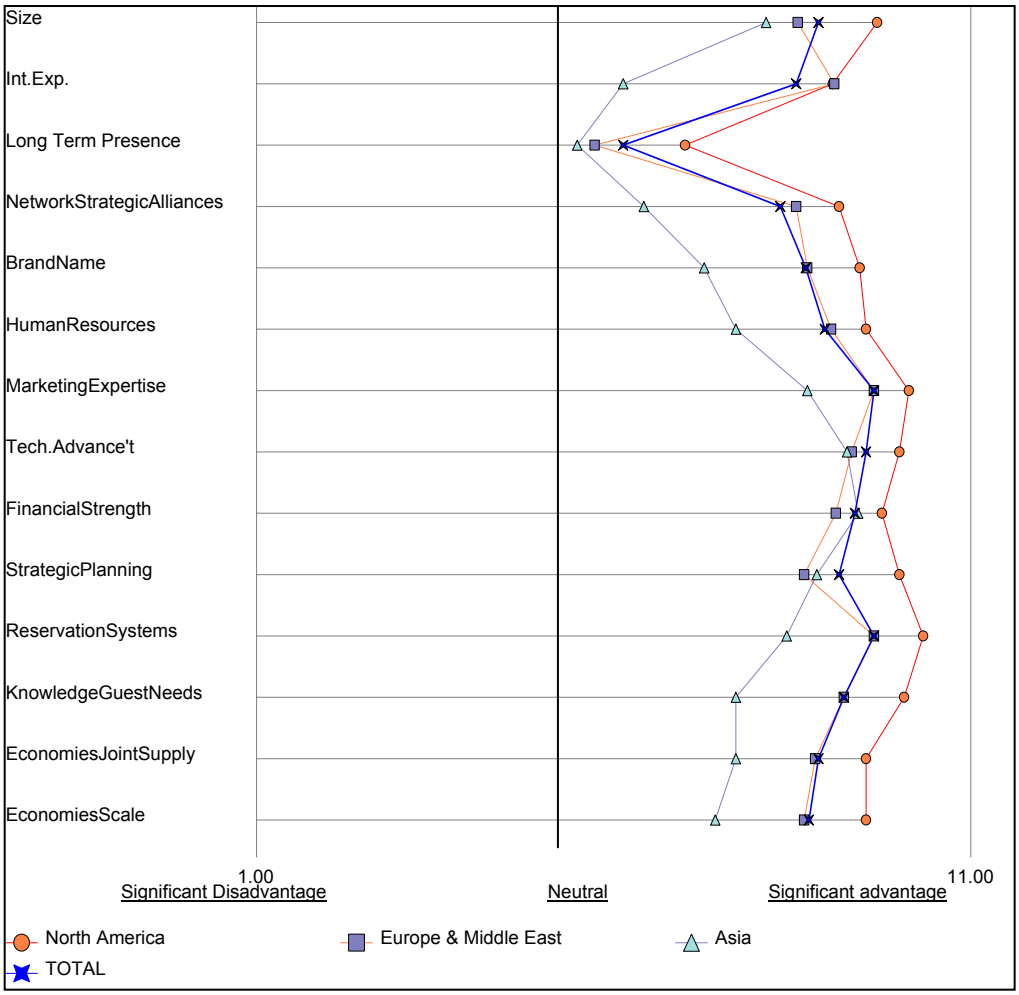
European chains achieve an average rating, and mirror the North American rankings, albeit consistently 1-2 points lower.

Asian companies rank finance, knowledge of guest needs and strategic planning as their main strengths, and exceed the European rating with respect to financial strength of the company. This may derive from the fact that many Asian companies are part of major groups (Shangri-la, Fujita Kanko and New Otani). Again, all regions rank long-term presence in the region the lowest, and the Asian companies (owing mainly to their size and history) also give low ratings to their ability to create a network of strategic alliances and international experience.

5.5.4 Ownership advantages compared to indigenous operators by region of origin

As with size of the company, it is interesting to consider the perceived advantages by region of origin. While many of the larger companies are from the United States, which suggests there should be some correlation between size and region, the sample also includes a number of medium-sized and even small US hotel companies.

Figure 5.14 Ownership advantages compared to indigenous operators by region of origin



As figure 5.14 illustrates it is clear that all chains believe that they have stronger advantages compared to local hotel companies than with other international hotel companies.

In all cases, with the exception of long-term presence in the region, the averages are consistently higher, especially for the North American chains.

Overall, the major attributes are marketing expertise, reservation systems, and technological advancement.

With regard to regional differences, the North American companies had two out of the three factors compared to international strengths, with reservations systems, marketing expertise and knowledge of guest needs considered as the most important.

The European and Middle Eastern chains have two of the same three (reservation systems and marketing). The third major strength, in the view of European chains, is technological advancement. Resources dedicated to management information systems and Internet development by the major European chains may reflect this.

Asian companies, while again rating their strengths lower than the Europeans and Americans, nevertheless are clearly higher on the scale in relation to indigenous competitors, and rate financial strength, technological advancement and strategic planning as their key strengths. As mentioned previously, finance was seen to be a major attribute against other international competitors, and goes up more than a full point on the scale in relation to the local players. Technological advancement (possibly because many of the Asian chains are based in Japan and Hong Kong) is even more pronounced. Strategic planning is also more than a point higher and considered more advantageous than that of the European chains.

5.5.5 Ownership advantages compared to international operators by level of Internationalisation.

There is a growing body of knowledge on internationalisation and the multinational enterprise generically - and with services in particular (Segal–Horn, 1998). Attempts were made to see whether major perceptual changes in competitive strengths could be identified according to the level of internationalisation of the company. As noted in section 5.3.3, the hotel companies in the sample were classified as of low, medium and high level of internationalisation. In order not to have too many graphs and charts in the main text, appendices 5.13-5.16 show the ownership and location advantages by level of internationalisation.

Appendix 5.13 shows the results for the competitive strengths in comparison to other international hotel companies.

As appears from appendix 5.13, while not as striking as those by differences of size and region, there are clear differences of perceptions of competitive strengths according to the degree of internationalisation of the company.

In terms of the most international hotel companies, the key strengths are judged to be knowledge of guest needs, marketing expertise and strategic planning/human resource management.

Those companies that have a medium level of internationalisation perceive strategic planning, knowledge of guest needs and reservation systems to be their key advantages. It is noteworthy that in the latter two,

firms with a medium level of internationalisation scored those attributes more highly than the most highly internationalised firms (and also technological advancement).

Firms that had a low level of internationalisation perceived their strengths to be in the areas of knowledge of guest needs, technological advancement and marketing reservation systems. As some of the largest companies, including Cendant and Hilton, are included in this category, the emphasis on technology and reservation systems is clear, together with marketing know-how.

5.5.6 Ownership advantages compared to indigenous hotel operators by level of internationalisation

As with the other two variables, it was considered useful to see if there were major differences in the perceived strengths in relation to the indigenous hotel operators. Appendix 5.14 shows ownership advantages compared to indigenous operators by level of internationalisation.

Just as with the other two methods of analysis, companies perceive higher levels of competitive strengths against local companies. Clearly, however, the distance between the groups is much less than it is for the groupings according to size.

The three overall strengths are those of marketing expertise, reservation systems and technological advancement.

Both firms with the highest and lowest levels of internationalization have knowledge of guest needs as their highest-ranking competitive strength. Firms with a higher level of internationalization then identify technological advancement and marketing expertise as their major attributes.

Medium-level internationalization firms consider their reservation systems, financial strength and marketing expertise to be the most important variables, and it is noteworthy that medium-level internationalization firms consider these to be higher than the three most important attributes of high level firms.

Low-level internationalization firms chose marketing and reservation systems as next in the list of key advantages. It appears from the chart that there is appreciably less distance between the variable scoring with the levels of internationalization than with the rankings assigned to firm size and country of origin. This could be because the larger companies are more evenly split between the different categories

of internationalization than in the case of rooms and origin of country, and so the perception of company strengths is spread between the different groupings.

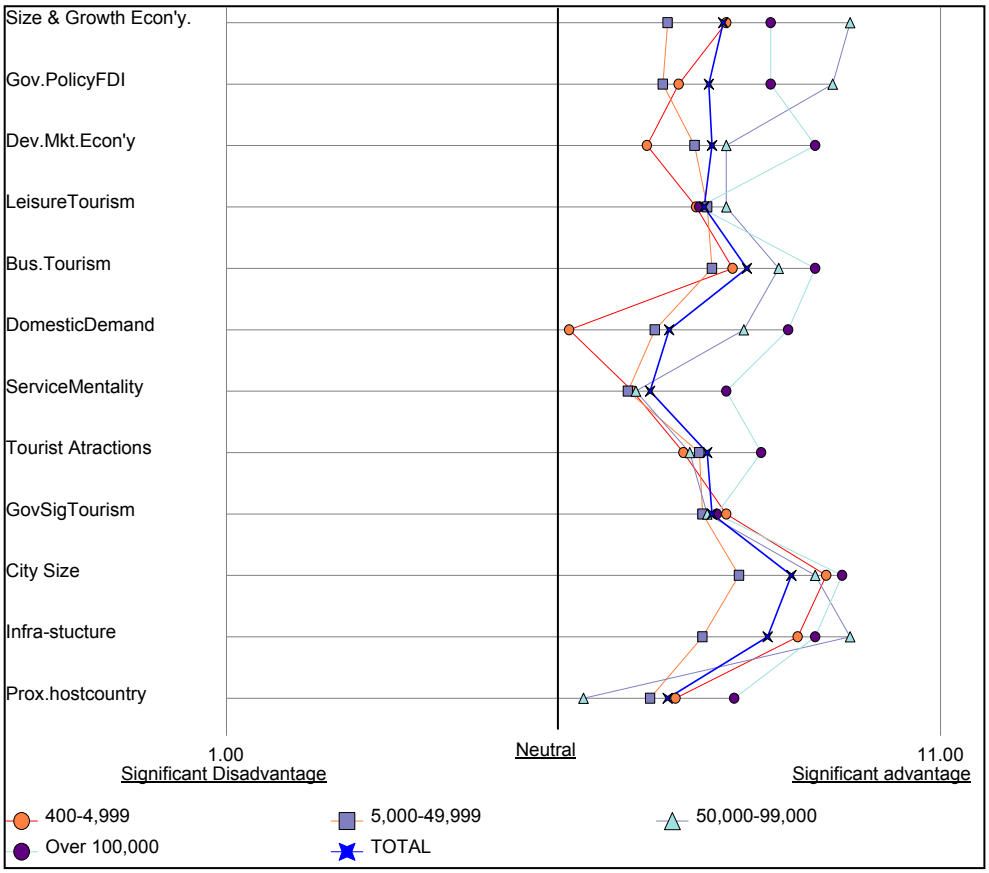
5.5.7 Location-specific advantages of Eastern Central Europe

Locational attributes and features are obviously of fundamental importance for the development of the international hotel industry. Again, detailed analysis was undertaken of the perceived advantages of the region. To ensure that the analysis is consistent, the same contextual variables of size, origin and level of internationalization were used in each case.

5.5.7.1 Location-specific advantages for Eastern Central Europe by company size.

It was considered important to determine if the perceptions of the study region differed according to the size of the company. Figure 5.15 presents the profiles of the major attributes by size of company.

Figure 5.15 Location-specific advantages for Eastern Central Europe by company size.



As may be seen in figure 5.15 there are certain variables that are considered the most important by all categories of chain, and certain ones that are specific to certain categories.

Overall, the three most important variables for the region are the size and nature of the city in which the hotel is located, the infrastructure within the region and the perception of the region as an attractive business location.

The size and nature of the city in which the hotel is located, is seen to be important by all categories, appearing as the most important factor for both the medium and smallest hotel chains.

The largest hotel chains see the opportunities for business tourism as the most important factor, and rank the degree of market economy development as the third most important perception.

For the large chains it is the government policy towards FDI that is seen to be the most important locational variable, with the region infrastructure appearing as number two.

For medium sized chains, alongside the city size already mentioned, opportunities for both business and leisure tourism are second and third respectively.

The smallest hotel chains also perceive the country infrastructure to be important, and believe that there are strong possibilities for business tourism.

5.5.7.2 Location-specific advantages of Eastern Central Europe by origin of company headquarters

This section attempted to identify the similarities and differences of the perceived strengths of the study region from North American, European and Asian hotel chains. The results may be seen in appendix 5.13 that presents the perceived strengths of the region by origin

As shown in appendix 5.13, the highest rated sources of perceived advantage are the size and nature of the city in which the hotel is located, the importance of national infrastructure and a perception of the region as an attractive business tourism destination.

The identification of the first of these factors could be due to the various primary locations, such as Prague and Budapest, which have been singled out as of great importance for the largest chains which claim to have a global network of properties. Secondly, there are a number of secondary and even tertiary locations which to date have been under or unexploited[32]. The importance of infrastructure is more difficult to explain, but could be a result of the large scale funding which has been agreed, in many cases from the European Union, for upgrades of major road and rail links. The fact that the region is seen as an important business tourism destination (in preference to leisure tourism) may result from the increasing interest shown in the region by international businesses, with Poland especially receiving increasing FDI. To date it is apparent that the hotels have been pursuing a follow-the-market strategy, with top rank hotels being constructed in gateway cities, mainly for a foreign business clientele. There is evidence recently, however, of a switch by hotel chains to a more mid-market range of properties (There has been announcements of over 50 Holiday Inns being constructed in Poland in the next five-ten years, and Accor has forged ahead with re-branding many of the Pannonia hotels with the Mercure brand). Equally

importantly are statistics that show increasing indigenisation of hotel usage. For example, again in Poland, the number of tourists using hotels has been growing, especially due to the increases in the number of short domestic trips. The development of hotel facilities has been stimulated by favourable land ownership regulations, and preferential VAT rates on hotel services (7% for one-, two- and three-star hotels). In general, in Western Europe the ratio of domestic guests to foreign guests is 50:50, whereas in Poland it is 76:24, which illustrates strong potential for growth (CEEBIC net report 2001).

Despite the increases in hotel stock, there are still insufficient numbers of relatively inexpensive international standard two- and three-star hotels

The hotel sector is profitable in Poland, with a net profitability of 5.15 % in 1997, and sector sales of US$1.38 billion. Hotel services are concentrated around Warsaw, which has 20% concentration of the total market for hotel services. Prices of hotel services are high, with most upper- and middle-class hotels too expensive for domestic guests.

There are smaller inter-regional differences towards Eastern Central Europe than are shown towards international and indigenous competition. The size and nature of the city is clearly seen to be the most important factor for the region by all three areas of origin. Infrastructure is seen to be the next most important factor by North American and Asian executives. Europeans, however, believed that the size of the economy was more important, with infrastructure considered third. The third most important factor for Asian companies was the presence of tourist attractions of international standard. The importance of business tourism was third for the North Americans, as noted. There is marked difference on which aspects are rated the lowest. The North Americans rate the perception of the regions as an attractive leisure destination as the weakest factor. The European and Middle East chains evidently perceive that there are problems with the service orientation of the workforce (the Americans and Asians also rate this variable very highly). The Asians believe that the weakest factor is the governments' policies towards FDI in terms of incentives and regulations.

5.5.7.3 Location specific advantages of Eastern Central Europe by level of Internationalisation

The last area of analysis for Eastern Central Europe, which is complementary to the results presented in earlier sections, focused upon perceived strengths by level of internationalisation. Appendix 5.14 shows the major views from low, medium and highly internationalised hotel companies.

[32] There is latent demand in at least 20 Polish secondary/tertiary locations for a mid-tier or budget brands such as

It becomes apparent that, in many instances, hotel companies perceive the region quite differently according to the level of their internationalisation. Equally evident, however are the similarities, especially between companies with medium and high levels of internationalisation.

The most important locational advantage, for all three categories of internationalisation, is the size and nature of the city in which the hotel is located. Highly internationalised companies then perceive that the infrastructure in the region and the perception of the region as an attractive business location are the most important advantages. These perceptions are mirrored by the other two categories, with the lowest level of internationalisation shadowing almost exactly that of the high level companies. There is a difference in the second priority between the two other groups and those with a medium level of internationalisation with the attractiveness of the region for business tourism and the size and growth rate of the economy. It is also noteworthy that low- and medium-level firms rate the service orientation of the workforce considerably lower than do highly internationalised companies. As is clear from the chart, there are several areas in which the medium and high level of internationalisation companies score almost exactly the same, notably government policy to FDI, the degree of market economy development, and the perception of the region as an attractive leisure destination. There are also very close perceptions in the attractiveness of the region's tourist attractions and the significance that the government accords to tourism in the development of the economy.

Also of note is the relative lack of emphasis placed on the proximity to the host country by all three categories (rated second lowest to belief that the workforce is service-oriented). As might have been anticipated, firms with the highest levels of internationalisation rate this variable lower than do firms with lower levels.

5.5.8 Internalisation drivers

In order to determine the major reasons for the choice of entry mode, executives were asked to complete their perceptions of their company's reason for choosing a particular choice of foreign market entry and form of ownership. Figure 5.16 shows the major reasons, and appendix 5.15 gives the internalisation reasons by country

Ibis/Comfort Inn/Courtyard by Marriott (study visit to Poland and discussions with industry experts, August 1999).

Figure 5.16 Internalisation drivers

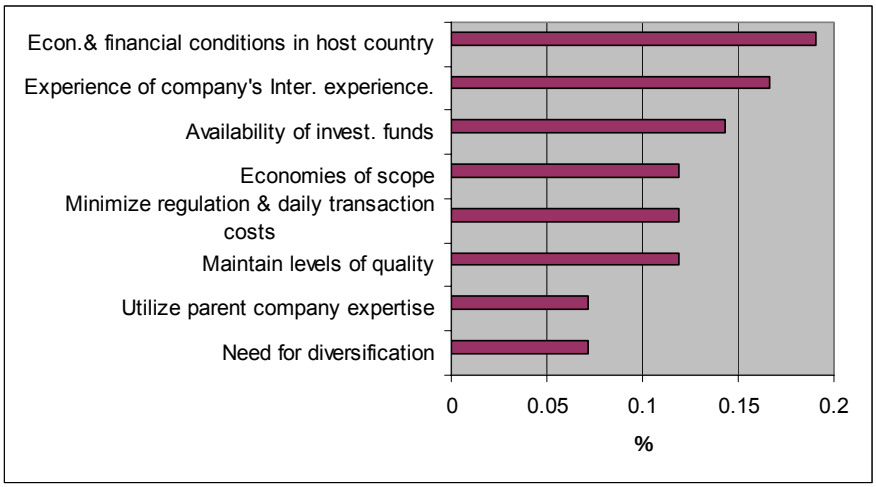


Figure 5.16 is based on the number of responses per variable, as unfortunately data was again limited, owing to the small number of companies in the region, and, apart from Accor and Bass, their having few properties already developed.

With that *caveat*, however, it is clear that economic and financial conditions in the region are considered the major factors behind the choice of operating mode. The companies' international expertise is ranked next in importance, and considered one of the key factors necessary for developing in the region. Several of the companies have a long experience of operating there, e.g. Accor and Marriott having over 25 years' experience, going back to 1975: Bass and Hyatt started in 1980 and 1982 respectively.

The availability of funds ranked next in importance, followed by three factors of approximately equal weight, i.e. benefiting from economies of scope (clearly attractive especially to franchising companies), minimising regulatory and daily transaction costs, and maintaining quality. The latter has been raised many times in relation to the hotel industry, with higher-quality chains showing an aversion to franchising, owing to the looser control that can be maintained by the parent company.

As may be seen from Table 5.7 forms of involvement, and as may have been anticipated, non-equity is by far the preferred method in developing economies/ economies in transition (Dunning and McQueen, 1982).

Table 5.7 Forms of involvement by company

Company	Fully owned	Partly owned	Mgt contract	Franchise	Total
Accor		25	3	56	84
Bass	1	1	3	13	18
Marriott International	2			4	6
Choice Hotels				4	4
Cendant				3	3
Carlson			3		3
Hilton International			3		3
Forte		2			2
Dorint Hotels & Resorts			2		2
Starwood Hotels			1		1
Hyatt			1		1
Barcelo Hotels			1		1
Four Seasons			1		1
Kempinski AG			1		1
Total	**3**	**28**	**19**	**80**	**130**

Only 2.3% of the hotels are fully owned. A relatively high proportion (22%) are partly owned, owing mainly to Accor's ownership agreements with Pannonia in Hungary and Orbis in Poland, with 15% of the involvement relating to management contracts, and the overwhelming majority, 62%, in the form of franchising. This reflects the companies' perception of instability in the region, with the lower risk option of non-equity being preferred. There has also been evidence recently that owing to the economies of scale and scope the returns from non-equity modes may at least equal those of FDI (Contractor and Kundu, 1998).

5.6. Multivariate analysis: Cluster Analysis and Correspondence Analysis.

5.6.1 Cluster analysis

Cluster analysis is a multivariate procedure that examines an entire set of interdependent relationships. It makes no distinction between dependent and independent variables; rather it is the interdependent relationships between the whole set of variables which are examined. Its main purpose is to classify objects into relatively homogenous groups (clusters) based on the set of variables considered. Objects in each group are relatively similar in terms of the distances measured between the variables and different

from objects in other groups. Distances between objects are measured according to their position on the scale of the variables. The object and distance matrix is the most important input of cluster analysis.

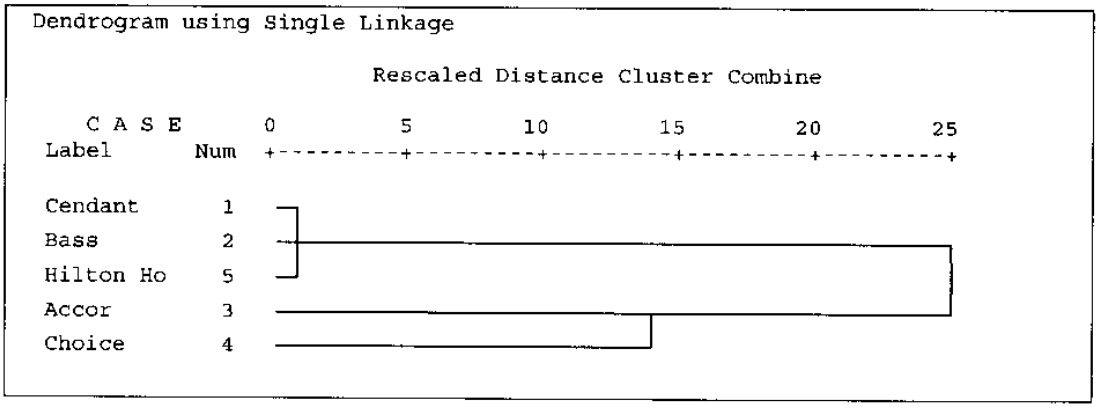
Hierarchical cluster analysis is one of the most commonly used methods. The clustering process takes the form of a tree diagram, or "dendogram", in which the single objects before any clustering form the "roots"; clusters are then created in steps according to the distances to create the upper "branches." This continues until clusterisation is no longer possible, at the very top of the tree, when the entire market is covered.

The nearest neighbour method was also adopted as appropriate, as well as the Euclidean distance method. In the latter, two clusters are merged, provided that at least two objects are at the specified distances, regardless of the fact that the other objects in the clusters are significantly separate.

It is acknowledged that cluster analysis is based on relatively simple heuristics, in contrast to the more complex statistical algorithms as used by variance, regression, and principal component and discriminate analysis. Nevertheless, in the present context clustering is a useful technique that gives initial insights into how companies may be grouped together according to their perceptions of competitive advantages and according to their view of the attractiveness of locations.

The first dendogram shows the cluster of the five major hotel companies in relation to other international ones.

Figure 5.17 Cluster showing ownership advantages compared to international operators



As may be seen from figure 5.17, Cendant, Bass and Hilton Hotel Corporation are very closely aligned in the first cluster. It is of interest that the two largest hotel companies in the world are positioned first and second. Also important is that Hilton (sixth largest in the world in terms of rooms) is also very closely aligned, clearly seeing that it shares the same kind of ownership advantages as the very largest chains in the industry.

Accor, the other major European chain, together with Bass, is at some distance from the first three, which may be due to a more modest belief in its own capabilities and ownership advantages. Choice, the smallest of the major companies, is closer to Accor than the other US chains, but is still a considerable distance away. This may be due to a number of factors, including relatively limited international experience.

A similar dendogram was completed, this time illustrating competitive strengths against hotel operators in the study region.

Figure 5.18 Cluster showing ownership advantages compared to indigenous operators

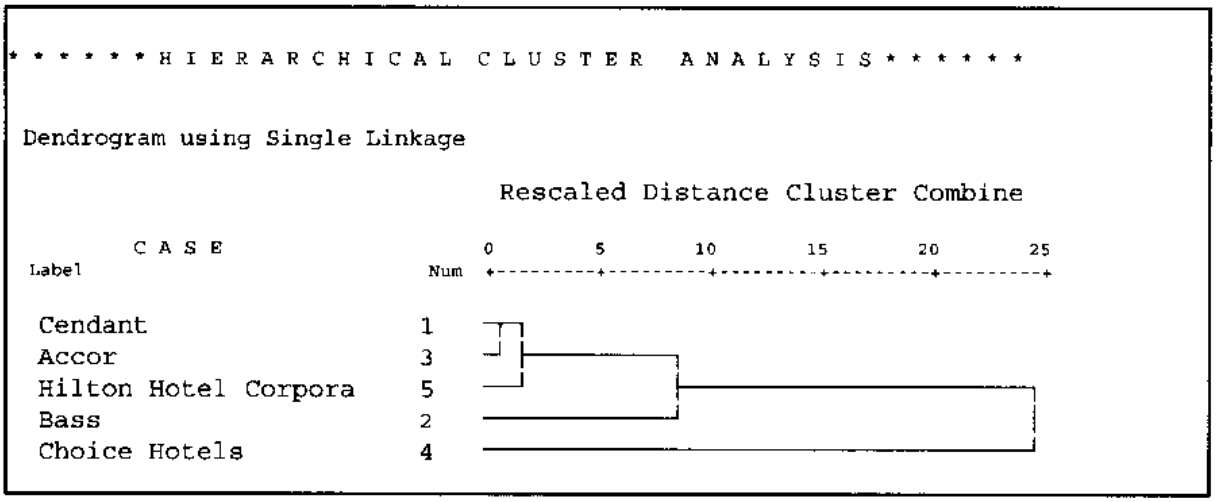


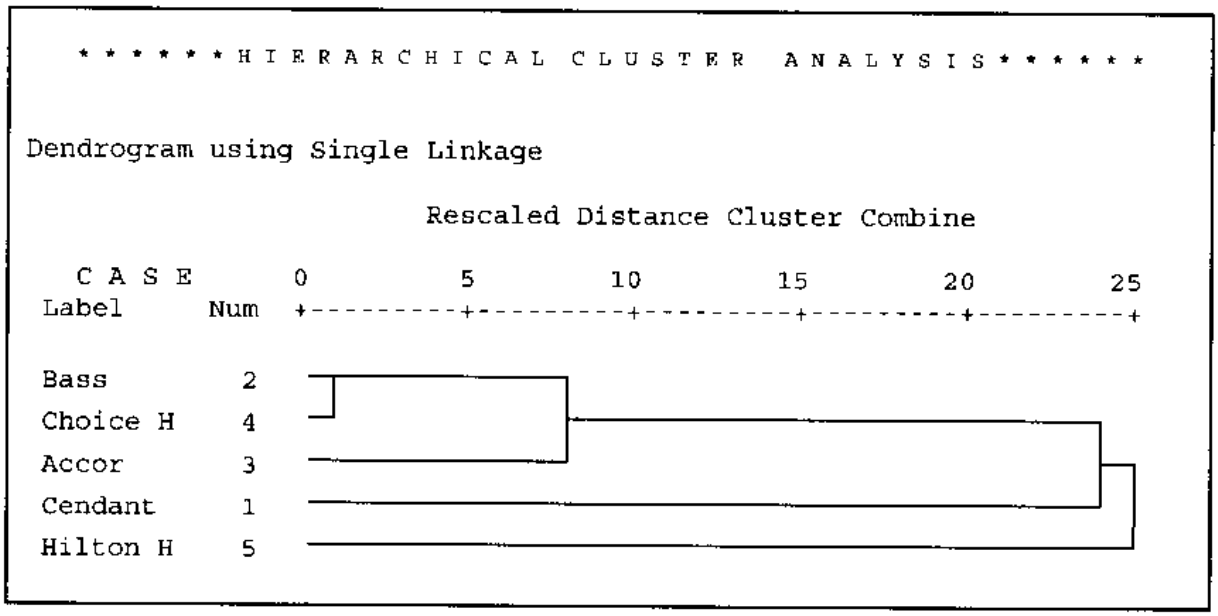
Figure 5.18 shows a fairly consistent picture in terms of competitive strengths against local hotel owners. Cendant remain first in terms of overall advantages. In this instance, however, Accor, is very closely aligned with it, indicating a belief that it has a stronger set of competitive advantages in this instance. This could well be explained by the fact that Accor has the most extensive network and number of properties in Eastern Central Europe, and has been in the region for over 25 years.

It is of note that both Hilton Hotel and Choice stay in the positions as in figure 33 (third and fifth respectively). Clearly Bass gives a lower rating to its perceived advantages than either Cendant or Accor. Choice, once again, gives a lower ranking for its competitive advantages than its leading competitors.

Although extensive analysis of the region was undertaken in section 5.5, data was shown only in aggregated form by different contextual variables such as size of chain, origin of company or level of internationalisation.

In this next instance, individual companies' perceptions are plotted for the region, enabling identification of which chains are aligned in their perceptions of Eastern Central Europe and which are quite distant.

Figure 5.19 Cluster showing locational advantages of Eastern Central Europe



As may be seen from figure 5.19 Bass and Choice are very close in the their perceptions of the region, and are joined by Accor to form the first cluster. It is of note that these three companies are at medium and high levels of internationalisation. Clearly some distance away are Cendant and Hilton Hotel Corporation, who, while being very large, have only low levels of internationalisation and limited experience of operating in the region; (Cendant have only operated properties in the region in the last two years, and Hilton have no representation in the region). This may, therefore explain their views of Eastern Central Europe.

5.6.2 Correspondence analysis

In addition to cluster analysis, correspondence analysis was also undertaken of the largest five chains that had completed the questionnaires (Cendant, Bass, Accor, Choice and Hilton Hotel Corporation). Correspondence analysis is also a multivariate technique used to depict the relative position of objects and variables in a single mapping. It scales the rows and columns in corresponding units, enabling graphical representation in the same low-dimensional space (Malhotra 1996). It is used to obtain compact representations of respondents' perceptions and preferences, providing in effect a "photograph" of the market.

Three examples of correspondence analysis were undertaken of the five major players.

1. Firstly, analysis was undertaken of the company-specific proprietary advantages as perceived by hotel executives[33] in relation to other international chains.
2. Correspondence analysis was also undertaken of firm-specific ownership advantages as compared to local hotel operators from the region
3. Finally, the specific locational advantages of the Region were considered.

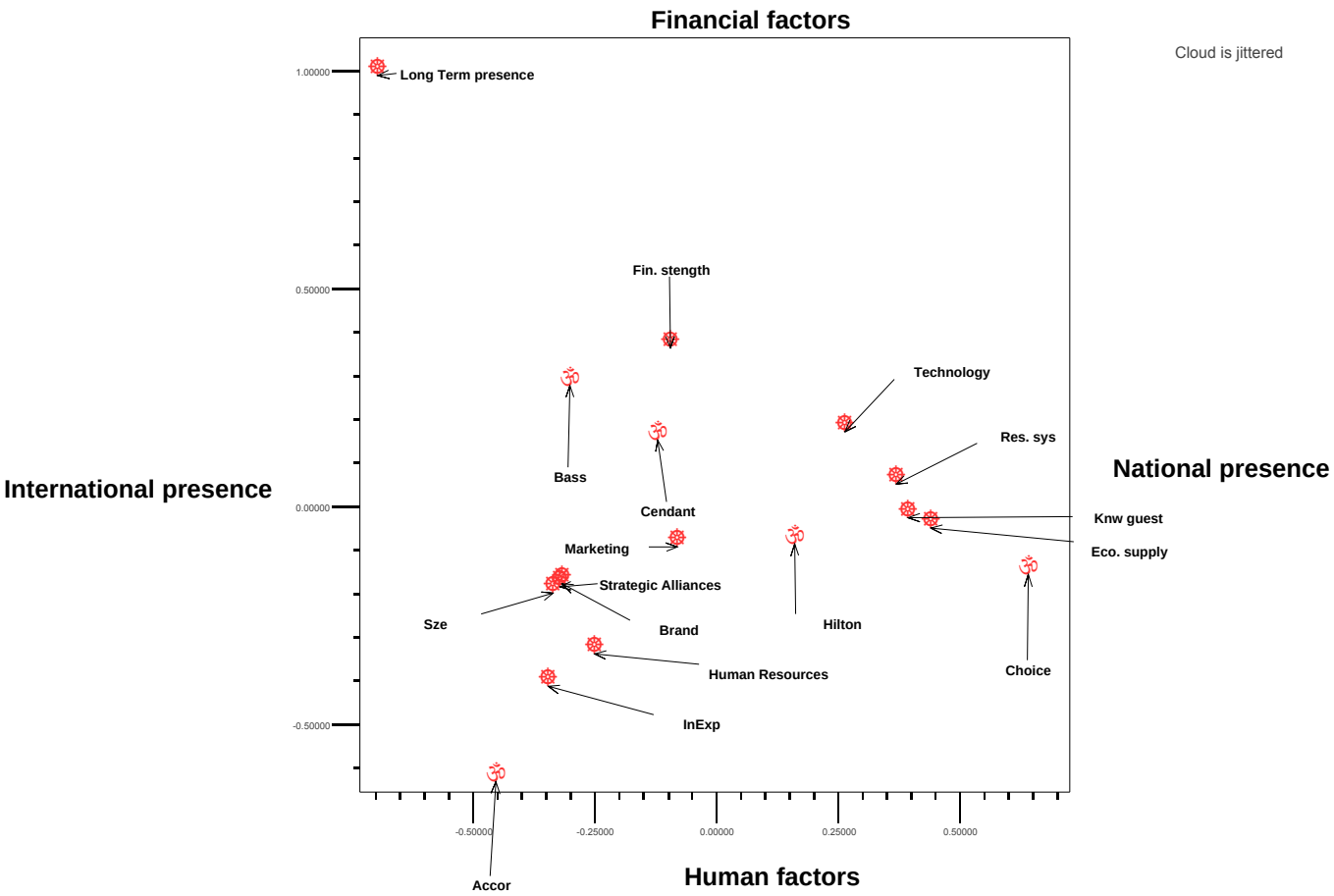
This provides an insight into the perceptions of individual company executives towards their ownership advantages (against other international companies and companies solely operating in the region), together with an image of the hotel market in Eastern Central Europe. The analysis therefore illustrates the Central Eastern European hotel market as perceived by hotel executives from North America, Europe and Asia.

[33] The "Ownership asset" advantages of the Eclectic Paradigm

5.6.2.1 Correspondence analysis of ownership advantages compared to international operators.

This section plots the major ownership attributes perceived by the largest companies in terms of number of rooms operated as against their major international rivals. Figure 5.25 shows the results as the objects (companies labelled with a triangle) are correlated with the ownership attributes (variables, labelled with a square)

Figure 5.20 Correspondence analysis of ownership advantages compared to international operators



As may be seen from figure 5.20 the chart was interpreted along two axes. The x-axis from left to right is primarily in relation to the internationalisation of the company and the degree of long-term presence in the region. The Y-axis is primarily in relation to resources, both human and financial. (The reader is referred to appendix 5.16 for complete details of the statistics covering the plotting of the respective variables and objects, including the degree of inertia of each dimension. Rather than having excess tables included in the text, only the major components will be commented on directly.)

As may be seen from Appendix 5.18, in this example the data set is highly satisfactory, with 60% of the inertia being accounted for by the first variable, and over 90% by the top two variables. All five competitors are distributed across the chart with great distance between them. The two closest competitors are *Cendant* and *Bass* (first and second in terms of size). Both companies perceive their financial strength as being a competitive asset. Bass has the reputation for having very deep financial reserves, having paid US$2.9 billion cash for Intercontinental in 1998 and US$ 1.17 billion for Posthouse in 2001.

Cendant, as part of a diversified MNE, seems to have substantial financial backing. The company is also particularly strong in marketing, and there is synergy from strong brands in Cendant's real estate and travel businesses[34].

On the left hand side of the chart, Accor is clearly positioned at a considerable distance from Cendant and Bass. The most important competitive attributes for Accor are international experience and human resource management. The international element is readily explained, as the company is the second most international hotel company in terms of number of countries in which it operates (80+), and is close to Bass on the Internationalisation chart (figure 5.1). Another reason for Accor to count its international experience as a competitive strength lies in its experience in international tourism through its Carlson Wagons Lit travel agency (a joint venture with Carlson Companies of the USA), which has a network of over 5,000 retail travel agencies and is present in over 150 countries, as one of the five leading retail travel agencies in terms of sales. Both Bass and Accor stress their long-term presence in the region - Accor has been in Eastern Central Europe for over a quarter of a century and Bass started in 1980. Bass is the only operator in all five countries in the region and Accor has by far the highest number of

[34] For example this could be though the holiday company "Travellers Advantage", Avis car rental or the timeshare company RCI. Avis are reputed to receive 16 million telephone calls per year, many from customers who have not made hotel arrangements, (TTI, 2001,p. 309).

properties (84). Accor emphasises the importance of human resources throughout its organisation, starting with the company symbol, which fly together as a family/team unit.

Choice and Hilton are in the right hand lower quadrant. Both may be seen to be considerably less internationalised, to have less international know-how, and to have been in the region for much less time than Accor or Bass. Choice only started operating in the region in the last five years, and Hilton has not yet opened a property in the region. It has stated that it has a long-term perspective on starting operations in the region

Hilton's main competitive advantages are perceived in terms of marketing and knowledge of guest needs, along with its reservation system and technology.

Choice is the company that believes it derives the most competitive advantage from economies of supply and also knowledge of the guest needs.

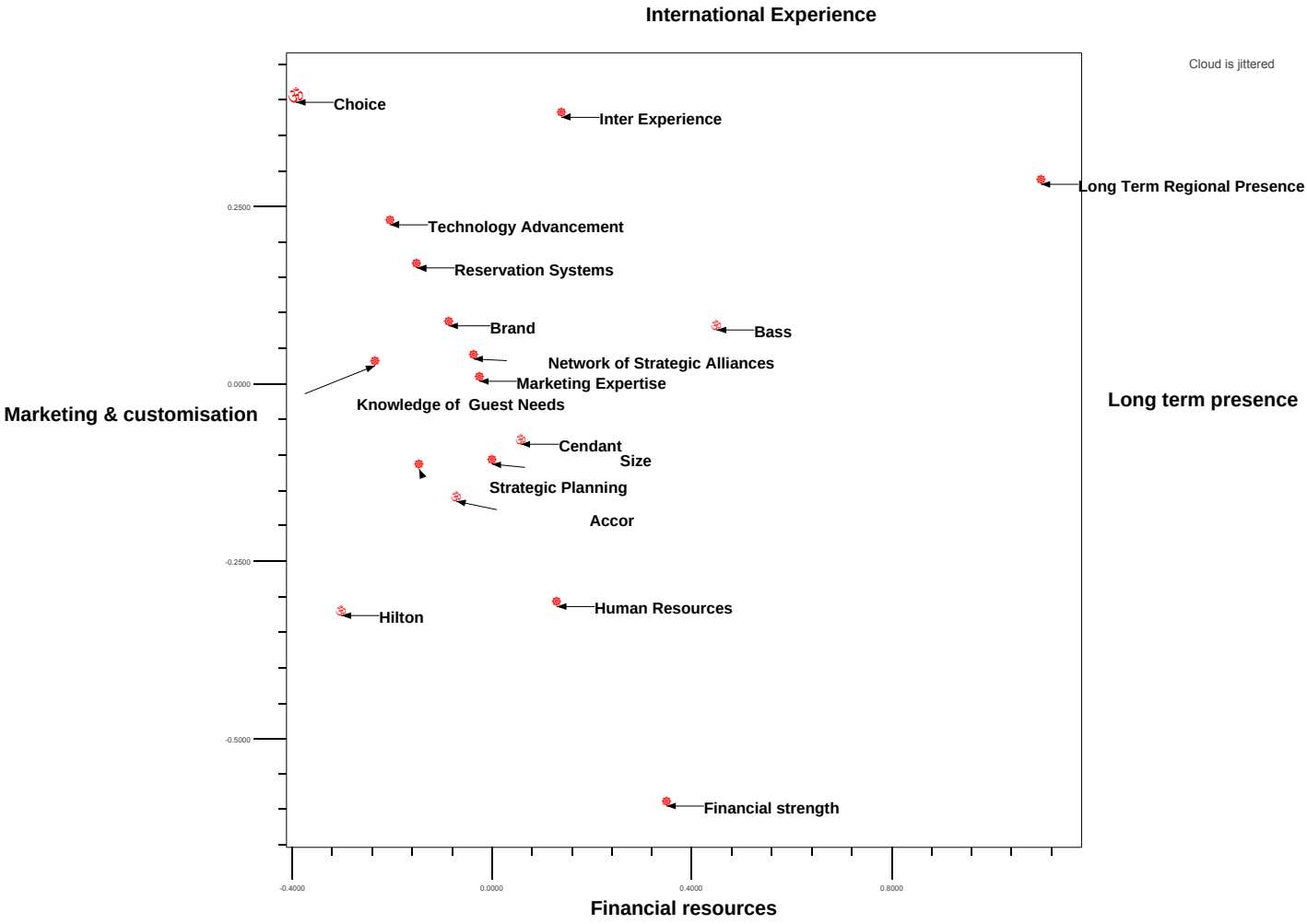
Economies of supply are evident for franchising companies, as almost all revenues derived from additional customers contribute directly to increased profits.

As is very apparent, there are marked differences between the competitive advantages that international hotel companies perceive themselves to possess in relation to their international competitors, and towards competitors indigenous to the region. In terms of plotting the objects, over 50% of the inertia could be accounted for by long-term presence in the region.

5.6.2.2 Correspondence analysis of ownership advantages compared to indigenous operators

Once again, it is interesting to compare the coordinates of the international chart with those in relation to indigenous hotelkeepers. Figure 5.21 shows how the position of the major companies has changed owing to the perceptions of the company strengths against regional chains.

Figure 5.21 Correspondence analysis of ownership advantages compared to indigenous operators



As is shown by figure 5.21, the two most important variables in this instance are the extent of modern management skills & technological advancement on the x-axis, and the degree of international experience on the y-axis. As may be seen, no company has cited long-term presence in the region as being a competitive advantage against indigenous firms (this is also clear from the tables previously reported, whereby "Long-term presence in the region" was seen to be one of the two variables that were statistically significant in the "t" tests of paired means). Bass is the only company in the right hand side of

the chart, some considerable distance away from international competitors. Despite being the second largest chain in the world, Bass does not perceive that it has the same level of competitive advantages from the ownership of certain structural and behavioural advantages. It has almost equal perceptions of international experience, its network of strategic alliances and marketing expertise, but other competitors perceive that they have much stronger specific advantages. Cendant believes that its size as the world's largest chain gives it a strong competitive advantage against smaller indigenous chains. Both marketing expertise and strategic planning are other ownership advantages that are deemed important. Accor also believes that its strategic planning is important, together with the size of the company. Both Hilton and Choice perceive their competitive advantages as being related to modern management skills & technological advancement, with Hilton again aligning with knowledge of guest needs and Choice being closer to technology advancement. Again these positions appear logical as Hilton has one of the strongest histories of attending to international guest needs (having been in operation since1930 and a quoted company since 1946). Choice has invested heavily in technology, with Stay Connect Inc, a hospitality technology services company established in October 2000 to provide high-speed Internet access for both in-room PCs and laptops. Choice has also promoted Internet bookings widely, with US$43.6 million of revenues coming from the Internet in 1999[35].

Finally, the third example of correspondence deals with the region, and the respective views of the hotel companies towards the locational advantages in Eastern Central Europe.

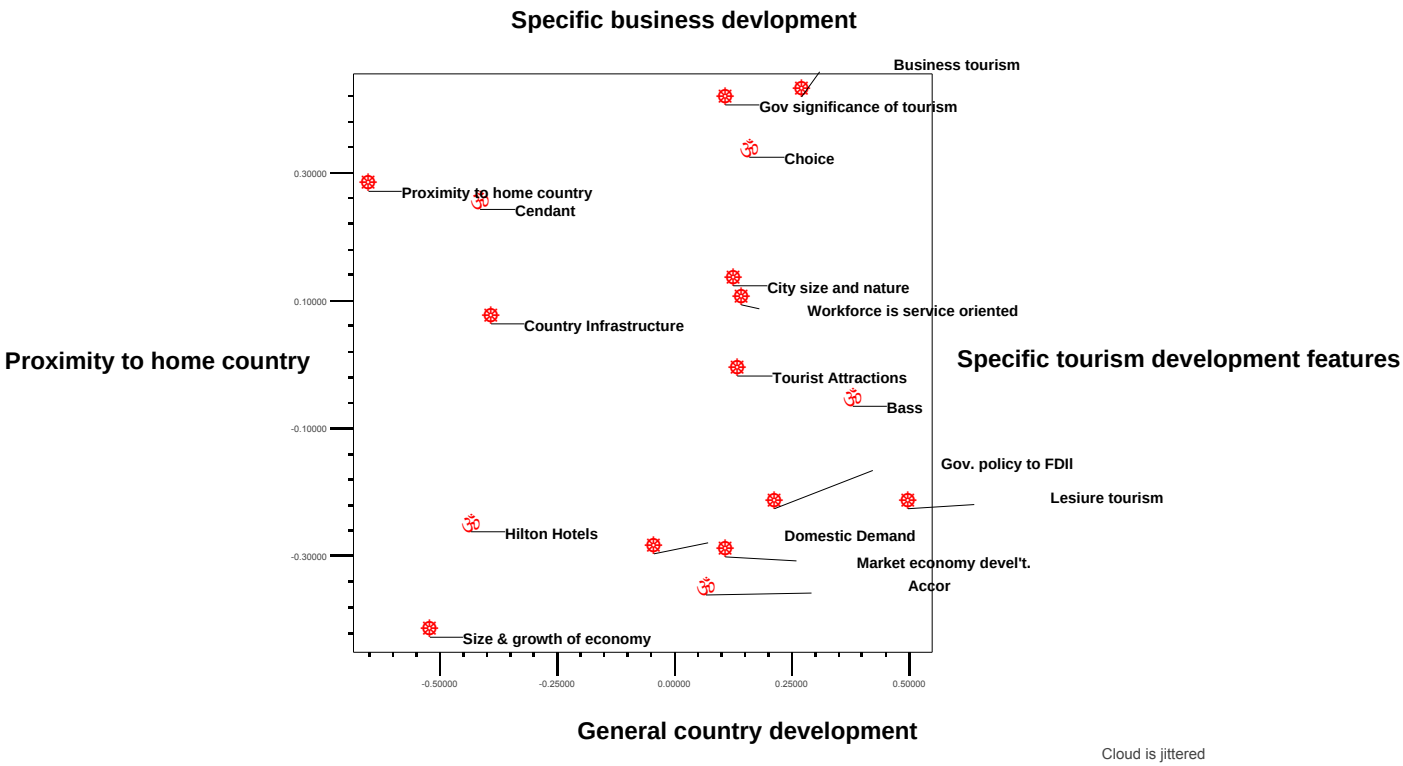
5.6.2.3 Correspondence analysis of Eastern Central Europe's locational advantages

Figure 5.22 provides an overview of the most important variables for the major chains in respect to the region.

It is important to bear in mind that, as with all of the analysis in this chapter, the positions reported are based upon the perceptions reported by hotel executives, and so may not accord with the actual "reality".

[35] Travel and Tourism Intelligence, 2001, p.327.

Figure 5.22 Correspondence analysis of Eastern Central Europe's locational advantages



As illustrated by figure 5.22, from left to right, the x-axis relates to general country features and proximity to specific tourism development features; the y-axis relates to general development and to business segment development.

The five major companies are situated throughout the graph, with Hilton and Cendant more prominently situated closer to the home country variable. This may be explained by the fact that these two companies are the least internationalised, being in only 16 and 24 countries respectively: the perceived wisdom, however, suggests that home country proximity is more important in the earlier stages of internationalisation. Country infrastructure is also considered important for Hilton and even more so by Cendant.

Hilton Hotels also consider the growth of domestic demand to be important for the region. This is thought to be even more important by Accor, together with the degree of market economy development. As

mentioned, this is hardly surprising, as Accor has invested in two domestic chains (Ansonia and Orbits), and with their portfolio of budget and lower–end properties, is targeting the local population as well as an international business clientele.

Bass is in the same quadrant as Accor, although at some distance removed. There are several factors that Bass believes are advantages for the region, including the development of leisure tourism, domestic demand, the presence in the region of world-class tourist attractions, and a workforce that is service oriented. Bass and Choice also believe that the size and nature of the city in which the hotel is located is very important, and Choice is also interested in exploiting business tourism, that is seen to be attractive. Choice further believes that governments in the region have recognised the significance of tourism in the development of the economy.

5.7. Chapter conclusions

This chapter has presented the major findings from the field study. Some of the major elements that are noteworthy are the following:

Internationalisation in the industry was clarified by the construction of an internationalisation matrix. Previously measures of internationalisation took into account number of countries or number of foreign rooms. The matrix developed for this study also considered the overall size of the company, and classified companies according to low, medium or high levels of internationalisation. Several clusters could be identified from the matrix, ranging from large, highly internationalised companies such as the European chains of Accor and Bass to small companies with low levels of internationalisation such as the Asian companies Sunroute Hotel Systems and Fujita Kanko, and a number of large (predominantly US) companies also with low levels of internationalisation. In addition there were two other main clusters of smaller companies one highly internationalised (Four Seasons, Raffles/Swissotel) and one with medium levels of internationalisation that ranged in size from smaller companies such as Shangri-la through to the very large Choice brand.

An analysis of internationalisation among the top 10 industry players from 1995-2001 shows a relatively stable picture, with most chains getting bigger, but remaining at the same level of internationalisation. There is one exception in Choice, which moved from low-level internationalisation to medium-level.

The interval required by a company to go international has shortened dramatically in the hotel industry. Whereas for the older chains (those established before 1930) the average time to establish a foreign operation was over 24 years, for chains established in the last decade this is now only one fifth of that (4.75 years).

Regarding developments in the region, just one third of the chains had any form of representation in Eastern Central Europe and two chains, Accor and Bass, operated the overwhelming number of properties.

Non-equity involvement was strongly favoured, with 62% of the properties being franchised.

Despite the relatively stable political framework in the region, political instability, pervasive corruption and the lack of international demand were seen to be the major barriers to development in the region. Other aspects that were also still considered important were land rights and a perceived lack of local capital.

The following part of the chapter analysed the major OLI advantages from the perspective of the eclectic paradigm.

At a general level the paradigm was of use in determining the ownership and location advantages, but was less successful in establishing the internalisation factors. As mentioned previously, there was only a small number of companies that had established properties in Eastern Central Europe (14 companies, 34% of the sample) and of those 14 companies, only 7 had three or more hotels in the region. Data on reasons for internalisation advantages was, therefore, extremely limited.

Overall the major ownership advantages from the viewpoint of international chains as compared with other international hotel companies were knowledge of guest requirements, strategic planning and reservation systems

Specific ownership advantages as against indigenous hotel companies in Eastern Central Europe were more pronounced: those cited were marketing expertise, reservation systems and technological advancement.

Throughout the analyses, there were marked differences according to the size of the company, the region of origin of the chain, and the level of internationalisation.

In relation to locational advantages, the most significant factors for the region were seen to be the size and nature of the city in which the hotel is located, the infrastructure within the region, and the perception of the region as an attractive business tourism destination.

Chapter 6. Conclusions and implications

6.1 Conclusions

Major issues identified in the research

The overall objective of the study was to investigate the international development of a major service sector industry, the international hotel industry, in a particular location, that of Eastern Central Europe. Specifically, the study sought to identify perceived major competitive advantages of international hotel companies as they expanded in the region. These competitive advantages were to be compared both with other international hotel companies and with indigenous hotel companies in Eastern Central Europe.

Secondly, the study aimed to identify the key locational attributes of Eastern Central Europe from the perspective of international hotel companies

Thirdly, research was to determine the reasons behind the type of market entry strategy in the region, whether by FDI, management contract or franchising.

The scale of the study in terms of the major indicator of size in the hotel industry (number of rooms operated by international hotel chains) make it the largest to date, with almost 4 million rooms in the population and 3.5 million in the sample. All leading international brands were included in the population for the study, and replies were received from the top ten hotel operators. Given the concentration in the industry, 87% of the total international market was included.

Changes in services and service internationalisation

As has been shown in the study, there have been several irrevocable changes in the supply and demand for services within society at large, including an increasing role for technology, greater affluence and leisure time. These factors have had a major impact upon the tourism and hotel industries, with exponential growth in international tourists and increasing “democratization” of tourist destinations worldwide. Eastern Central Europe is increasingly being recognized as a “new” tourist destination for international tourists, with many natural and cultural attractions that are unique to the region.

Despite the fact that services now account for over 70% of economic activity in OECD countries, (OECD, 2001), most of the theories of internalisation have resulted from research undertaken on manufacturing industries (usually large, manufacturing MNEs). The eclectic paradigm was one such model. Originally devised from industrial economics, it has been adapted and applied to a number of service industries,

such as banking and leasing. To our knowledge there have been only two studies on the hotel industry based on the eclectic paradigm: the seminal study of Dunning and McQueen in the early 1980's and that of Kundu in the early 1990's, both of which were world-wide in focus.

We considered it useful, therefore, to evaluate the appropriateness of the model on the hotel industry as a major service business, in relation to a specific tourist location – Eastern Central Europe. Whilst we have mentioned that there is increasing convergence between the development of manufacturing and service industries, there remain clear differences, not least of which is the inability of the hotel industry to be able to export due to its "location-boundness". The location of scenery, climate and physical attractions is also of crucial concern for tourism and the hotel business (Dunning, 1989).

Generically, when companies decide to internationalise, preferred locations are those that offer markets of significant size and also have a close cultural proximity controlled by governments who are seen to impose minimum regulations. Many companies adopt a follow-the-customer philosophy, with oligopolistic market structures being a further spur to the internationalization process (UN, 1993). In the case of the present study, it was considered of value to investigate the relative importance of these factors within the context of the hotel industry and in five countries that had previously been operated as command economies, and are now classified as "economies in transition".

A market sector analysis of the international hotel industry shows that there has been dynamic growth in the sector over the past decade. As with other industries, information technology has changed the method of business operations in the hotel business, with possibilities for personalisation, most often through customer relationship marketing (CRM). The opportunities in using on-line reservation systems are also promising to transform the hotel industry. Although these at the moment account on average for only 2-5% of sales value, they are forecast to rise substantially over the next few years. Two other important trends in the industry have been the emphasis on branding and the separation of hotel companies into hotel operating companies and property owners.

Although Europe remains the favoured destination worldwide, there are wide differences within Europe, and tourist arrivals within Eastern Central Europe have outperformed Western Europe by a factor of four throughout the 1990's (WTO, 2000). This would indicate that the region has potential for hotel development, as the hotel industry is an important sub-set of the overall tourism sector.

Within the region, the post-communist legacy was evident on both the hard and soft side of hotel supply. On the hard side the actual hotel stock was not up to internationally accepted standards in terms of building repair and facilities. Also unacceptable was the low level of service provision with a lack of client focus. The resultant hotel structure consisted of relatively sizeable domestic hotel chains often offered by governments as a "job-lot" to the most attractive buyer. Not surprisingly, there had been very limited business tourism into the region and low-quality mass domestic tourism in coastal and winter destinations.

With an increasing appreciation of the true economic role of tourism by governments, efforts were undertaken to strategically further develop existing and new market niches within the region. As a result, impressive increases could be seen in international tourists and receipts. Despite these increases, however, revenues per tourist still remain significantly below the European average. This may well be due to the lower quality and hence lower prices paid by customers.

Locational strategies

Turning specifically to the locational strategies of the international hotel operators, it is useful to consider their strategies from the aspect of (1) which locations were considered the most attractive and why (2) which mode of market entry was used and (3) which markets the operators were targeting. As shown by Appendix 4.5, of the 14 hotel operators included in the study, two main groups may be discerned:

The majority group belongs to those operators who operate a small number (1-3) of properties in the region. These are located in the main cities of Prague, Budapest, Warsaw and latterly, Krakow (Marriott is something of an exception with 6 properties in the region, due to determined efforts by Marriott to expand in Europe, along with a strong brand name). This strategy is wholly consistent with expansion strategies of hotel companies entering new markets in other parts of Europe.

The **second group** consists of just two companies, Accor and Bass, who together control almost 80% of the properties in the study. These two companies were the largest, most international hotel operators, as shown by the internationalization matrix in 5.1, and both have held a long-term presence in the region.

Accor has by far pursued the most adventurous and long-term strategy in the region, having completed two major mergers and acquisition activity with chains in Hungary (Pannonia) and in Poland (Obis). This strategy is the result of Accor's innovativeness and ability to live with a certain degree of ambiguity within

one of its major brand names. An important factor in this development is the particular structure of the hotel industry due to the legacy of communism. As shown in Chapter Four, the structure of the hotel industry in Eastern Central Europe was the inverse of Western Europe. The hotel industry was heavily concentrated, often with either monopolistic or oligopolistic structures. Accor saw long-term market opportunities by marrying one or more of its brands to sizeable domestic chains.

Accor is one of the few major hotel brands that have attempted to tackle the problem of franchising traditional individual, independent properties. To this end, the "Mercure" brand was created, which was meant to be loose enough to allow quite disparate properties within the chain, whilst at the same time allowing a certain minimum standard so as to keep some modicum of brand integrity. This has resulted in the Mercure brand being widely developed throughout Hungary (especially in Budapest where there are six properties) and throughout Poland.

The final result is that Accor has over 80 properties in the region, and unlike the other international hotel operators, these are widely distributed throughout the countries, often in secondary locations appealing to different market segments (including many mid-market properties). Accor is, therefore, in a unique position, having established a strong brand name and presence in the market that will appeal to the domestic market.

Bass, to a lesser extent, has also been pursuing a more expansionist policy. After a relatively slow start there are now 18 hotels in the region (and Bass is the only company that has representation in all five capital cities). Again Bass seems to have recognized the potential for the domestic demand, and as well as the luxury Intercontinental properties has agreed a master franchise for its mid-market and budget brands (Holiday Inn Garden Court) to hotel development companies (notably Elector) that have plans to develop over 20 Holiday Inn properties in the country by 2006.

Historically, there is evidence of a clear preference for non-equity expansion methods by the hotel industry. This is due mainly to the applicability of franchising and management contracts modalities, and the benefits of marginal costing. The study showed that the majority of international hotel companies have adopted this form of market-entry strategy for the region. Over 76% of the properties in the study are either management contracts or franchised, with the latter dominating with a 62% market share. This shows a higher non-equity rate for the region of nearly 10% compared to the 54.4% reported by Kundu in his worldwide study in 1994. Only 2.3% of the properties are fully owned by the hotel corporations.

International hotel development has been highly concentrated by company and country. Over 80% of the properties have been developed in just two countries, Hungary and Poland. This is due to the Accor deals mentioned earlier, and also to new developments in Poland, as the latent potential is now being recognised.

One of the findings relating to perceptions of the region was that, in the view of hotel executives, Eastern Central Europe is still somewhat volatile politically and suffers from problems of endemic corruption and limited international demand. The majority group operators have, therefore, deliberately decided to expand cautiously with flagship properties in key cities for high value-added international business tourists before considering locating in secondary and tertiary sites with lower-market properties.

Our study shows that this strategy does not exploit the full potential of the region, for two main reasons. Firstly, there is evidence that the deluxe end of the market is reaching saturation point in Budapest and Prague. Secondly, and more importantly, there has been evidence for a number of years of the need in the market to bridge the polarization between the extremely expensive five-star international markets and the very cheap, but far from internationally acceptable domestic provision. This presents market opportunities ideal for the standardised one, two and three-star branded accommodation that could operate at internationally recognized standards for both **domestic and international** leisure tourists.

The survey showed that for European chains, leisure tourism was regarded as important, as seen in Appendix 5.15. These properties would also be appealing to the increasing domestic markets. Rather than slowly establishing a lone bridgehead, a network of budget and mid-sector properties could be created, gaining valuable brand recognition and customer loyalty by being first in the market. Western hotel brands, relatively unknown outside of the major metropolis, could enjoy great advantages and differentiation from the largely domestic supply.

Eastern Central Europe has a total population of more than 65.5 million people, greater than the population of the UK or France. It would seem that, due to both the geographical origin of the chains and the current market segments that they serve, the possibilities of successfully operating in Eastern Central Europe have not been fully appreciated by hotel executives (especially in relation to companies from Asia and the United States).

It would appear from the research that Eastern Europe is physically and culturally alien to many hotel operators. It is of note that two-thirds of the companies had no properties in the region (including Hilton

hotel Corporation, the fifth largest in the world), and of these 27 companies, 50% were not considering opening properties in the region in the short or medium term. Clearly, many hotel operators are either not aware of the potential in the region, or do not consider the region attractive as a location. Another important aspect identified by the research was that the hotel operators in the survey believed that growth in the future would occur in the luxury and mid-market sectors. This perception was a clear bias resulting from the nature of the companies surveyed, with the majority operating brands in the mid and luxury sectors.

Due to the interest generated by the questionnaire, some hotel executives pointed out that other market segments could be pursued, for example the extended-stay market (as operated by US Franchise systems) which consists of properties for international businessmen who have to work in a particular location for a protracted period of time, and who wish to have more of a "home-from-home" experience in contrast to the formality of a standard hotel room.

These types of property could be constructed significantly more economically than full service hotels, and would allow hotel companies to exploit the reduced land and construction costs and thereby effect higher returns.

Obviously, the budget properties such as Formula One, Holiday Inn Garden Court and Courtyard by Marriott would also be eminently suitable for development throughout the region.

Qualities of the chosen model

Was the eclectic paradigm useful in helping to illuminate the responses to the research questions? As may be expected with a model that has been the major theory for international development for over a quarter of a century, there have been criticisms of its accuracy. One charge levelled at the paradigm is that it does not take into account the strategic intent of the company, and that, due to the list of variables, there is little predictive capability.

In this study, however, the paradigm worked effectively in determining the key competitive advantages perceived by international hotel chains. A further advantage was that comparisons could be made with studies in the early 1990s by Kundu, and that of Dunning and McQueen twenty years earlier. The model was therefore flexible and dynamic enough to be able to include specific questions on competitive advantages relating to strategy and the region, yet due to the nature of the interaction between the three

elements of the paradigm, meaningful data was generated by the model, thereby giving concrete responses to difficult issues, and allowing more informed judgement from management.

As shown by the results presented in Chapter Five, the paradigm was able to clearly display both the relative importance of the major company specific variables such as brand name, reservation systems and strategic planning, and was also able to provide comparisons concerning the size of the hotel company, the area of origin of the company and the level of internationalisation of the company. In this respect, it enabled an all-round picture to be developed. Other models - for example the alternative internalisation and network models as described in Chapter Two - would not have permitted this comprehensive approach.

There have been some changes in the perceived ownership advantages. In the present study, the major advantages were identified as being strategic planning, reservation systems and knowledge of guest requirements. However, possible bias in the questionnaire needs to be taken into account in these results, as questions on strategy were not included in previous studies. It is likely that further research would enable these results to be validated.

A particularly useful feature of the research is the demonstration of the importance that company size and region of origin exerts on the results. It was shown that hotel executives from large companies consistently rated their ownership advantages higher than those from smaller chains. Similarly hotel executives from US owned chains consistently rated their ownership advantages higher than those from European or Asian chains. In the case of size, although it is not necessary to be large to be international in the international hotel industry (with a certain cluster of hotel chains being relatively small but very international), it is clear that to truly compete globally in the mainstream hotel business (not as a niche operator such as Four Seasons, who operate in a limited number of deluxe properties), then a certain critical mass is crucial to achieve the economies of scale and benefit from economies of scope. We estimate this to be in the region of 100,000 hotel rooms for “champions league” operators such as Cendant, Choice, Accor, Bass, Marriott and Hilton Corporation. Those companies in the second tier (Hilton International, Sol Melia, and Fairmount) are vulnerable to acquisition. There have been clear examples of increasing concentration-taking place through a “mega-merger” wave, with generic M&A activity totalling $3.4 trillion in 1999. Of these deals, one third were of a cross-border nature, and had

increased from one quarter throughout most of the decade (De Boff and Merman 2001)[36]. In the hotel industry, the past decade has seen increasing concentration, with the major hotel chains now controlling over one-third of all hotel rooms worldwide.

Within Eastern Central Europe, similar trends may be seen in other service industries, such as retailing and leasing.[37] Size, therefore, may be said to be not simply *one* of the ownership advantages, but is *the* ownership advantage that is a prerequisite for successful business. The present study shows that Bass and Accor, second and fourth respectively in terms of number of rooms, control 78.5% of the rooms in Eastern Central Europe included in the sample.

One unexpected finding from the study from the study was in relation to "long-term presence in the region". In this respect, even companies such as Bass and Accor, who operated a number of properties in the region, and had done so for many years, did not believe that they had any particular advantage compared to other international operators. This perception of being at a disadvantage was even more marked, as one might expect, compared to indigenous operators. It would appear that for hotel executives Eastern Central Europe is a different world, with another way of doing things, and although there are specificities of the region with regard to client needs, there is no evidence to suppose that guests in the region are different from guests in other European countries. Given some local content to take account of cultural norms within the country the global brands belonging to the major players will be perfectly acceptable. This has been clearly established with retailing chains from France, Germany and the United Kingdom rapidly establishing out-of-town retailing sites throughout Poland and Hungary.

Secondly, the eclectic paradigm was also extremely effective at identifying the main locational advantages of the region, and equally importantly, the major factors that were considered a competitive disadvantage for the region. This was one of the main reasons for selecting the model, as it was well suited to a tourism-related study. In planning strategies for their future expansion, it is of course valuable for international hotel operators to know that the region is perceived as an attractive business location, and that there are locations within cities of a certain size and nature considered attractive.

One perplexing finding to result from the study was the perception that infrastructure within the region was considered a competitive advantage. This might result either from a misunderstanding of the framing

[36] Concentration has been particularly strong in the US airline industry. The top six airlines controlled 73% of the market in 1978, This had risen to 86% by 1999 (De Boff and Merman 2001 p.23)

of the question, but may also be due to a lack of appreciation of the true nature of the infrastructure within the region that has been identified as not being up to international standard (particularly the rail and motorway network).

Due to the small number of companies actually operating properties in the region, the paradigm, in this instance was less successful in establishing the internalisation factors. Of the 14 companies operating properties in the region, two were straight franchising companies. These two companies (the largest and fifth largest in numbers of rooms controlled) had therefore decided upon their internalisation mode at a company level, deciding that one of their core competencies was in the franchising business.

Detailed information on reasons for internalisation could therefore be drawn only from a relatively small number of respondents. Nevertheless, the main drivers for internalisation were identified as being the economic and financial considerations within the region, the companies' experience internationally, and the availability of investment funds.

6.2 Implications for theory and practice

To the best of our knowledge, this was the first time that the eclectic paradigm was applied to a major service sector in Eastern Central Europe. The study updated generic information with regard to the development of the international hotel industry. An internationalisation index was created that enabled a clear picture of the actual state of internationalisation to be gained. It is evident from the index that, although significant consolidation and concentration has been occurring in the past decade in the industry, hotel chains have not increased their level of internationalisation, and only two major chains, Accor and Bass, are highly international.

An important finding of the study was that the time taken by hotel companies to internationalise has decreased dramatically in the last ten years, reducing by more than half, so that now it takes on average only one-fifth of the time to internationalise as it did for companies before 1930.

The study provided new insights into the evolution of the ownership, location and internalisation advantages since the last significant study of the sector conducted over eight years ago. Results showed that some advantages, such as knowledge of guest requirements and proprietary reservation systems,

[37] For example in Poland seven foreign hypermarket chain operators have a market share of 22%. The number of hypermarkets is set to double from 95 stores to 180-200 stores by 2005.In the Czech leasing market, the 10 largest companies control more than 75% of the volume of Czech leasing (www.usatrade 03.12.2001).

had remained consistent from earlier studies, but also that strategic planning was perceived as an important advantage, especially by North American chains. This high rating for the strategic planning may be attributed to the fact that the questionnaires were completed by directors of international development and marketing, who are responsible for setting and meeting global targets in terms of new properties, and are therefore heavily implicated in the planning process for their companies. It is important to note, however, that if all companies perceive that they have a competitive advantage through their planning, this may, in fact be nullified in reality, as most companies are apparently taking the planning process extremely seriously and therefore comparative advantage will not be possible.

As may have been expected, ownership advantages compared to indigenous hotel operators in Eastern Central Europe were seen to be stronger, and consisted of marketing expertise, technological advancement and again, reservation systems.

It is true that some differences with Kundu's (1994) and Dunning and McQueen's (1982) studies could be due not only to changes in perceptions, but also partly a result of the overall framing of the questions, as the strategic planning of the company had not been taken into consideration in previous studies. Whilst there is room for modification, we believe however that the present questionnaire, developed specifically for the hotel sector in a specific location, could serve as a template for basis in further studies, thereby adding to the understanding of the international development of the industry.

The practical implications from the study are also clear. Firstly, it is apparent from the model that size and region of origin played a major role in the perceptions of the international hotel executives. The literature on internationalisation emphasises size as being a major determinate of internationalisation. This was categorically backed up by the field research. The larger the company, the more confident the hotel executives were of their position. Conversely, the smaller chains perceived that in factors such as ability to form a network of strategic alliances, physical size, and brand name, they were at a significant disadvantage compared to their larger competitors.

In terms of strategic planning and knowledge of guest needs, the perceived gap is much narrower, however. This indicates that smaller companies undertake strategic planning to almost the same level as the larger ones, and that they are as able to analyse and provide for guest needs as the larger hotel corporations.

A final practical aspect that was elucidated by the study is the integration of market entry modes used by international hotel companies. The use of non-equity means of distribution was not surprising. However,

of particular interest was the development of strategic alliances: it was found that over 40% of the firms surveyed had entered into strategic alliances with other hospitality companies. In fact, strategic alliances have been identified as the major method of expansion by hotel companies (Check and Dev, 1993). There has also been a quantum increase in the formation of external networks by companies of all sizes. The old model of "*Which form of involvement?"* has been replaced with "*Which form of involvement in which market?"* with companies such as Bass, Accor and Marriott using several forms of market involvement in the same market. This is mainly due to the fact that, in order to attain truly global distribution of brands and properties, non – equity means methods through strategic alliances, franchising and management contracts are the only means of reaching the required size for effective economies of scale and scope (Contractor and Kundu, 1998,a). In perceived "risky" environments such as Eastern Central Europe, contractual arrangements are extremely attractive, as the high capital costs associated with hotel property development are thus borne by the real estate-companies, and not by the hotel companies themselves *per se*, although there may be a requirement for a minority equity stake so as to gain the contract in the first place. It has also been noted that in contrast to other industries, non-equity development in the hotel industry does not equate to a loss of control, due to the ease of codification of management competencies and systems, and the importance of the right to use the brand name and reservation systems - key attributes that could be withdrawn if franchisees and owners do not comply with minimum standards and procedures.

6.3 Study limitations

Although this study has attempted to shed new light on the development of transnational hotel corporations and Eastern Central Europe, it is limited by a number of factors.

Firstly, the research questions asked in Chapter One were in relation to the perceived issues considered important when a company decided to "go international," i.e. the competitive strengths of transnational hotel corporations as against other international hotel chains, and also as against indigenous hotel operators in the study region. International hotel operators also sought answers regarding the most important locational advantages and the major reasons behind the choice of entry mode.

Although these answers were largely provided, it was unfortunate that sufficient data was not available in relation to the entry mode choice. The lack of data meant that internalisation advantages could not be calculated with the same degree of precision as ownership and location advantages.

Secondly, the study chose to be qualitative in nature, with the advantages and disadvantages entailed by this approach. Some extremely rich data was gathered concerning aspects of internationalization, as well as companies' perceived competitive advantages and views of Central and Eastern Europe. However, despite the fact that the study had one of the largest reply responses by size and number of international hotel companies, it was not possible, for reasons discussed earlier, to have a random sample, and inferential statistics could not be used.

In spite of these limitations, this study has added to our understanding of the manner in which hotel chains internationalise, especially with regard to Eastern Central Europe. There was clear evidence from the study of the importance of size and region of international hotel operators. It is equally clear that some of the largest chains have extremely limited knowledge of Eastern Central Europe.

Overall, although the paradigm could not provide all the answers, it did fulfill the function of being an "intellectual coat hanger"[38] on which the major factors for the development of the international hotel industry in Eastern Central Europe could be placed so as to allow examination of the fabric of development.

6.4 Further research

As with any doctoral thesis, there are several areas that could be examined to complement the research undertaken in this thesis. As discussed in section 6.1, the changing dynamics of the eclectic paradigm in relation to the ownership and internalisation advantages warrants further study, especially in an industry sector such as the hotel business, where strategic alliances and non-equity forms of distribution are the norm. In relation to the internalisation factors, this is an area that could be developed extensively in further studies, especially in relation to the prospects of hotel companies exploiting scope and scale advantages. There have been only a limited number of studies on why hotel companies would choose one form of involvement over another (Contractor and Kundu, 1998$_{,a,b}$), and strategic alliances and the international hotel industry is virtually virgin territory.

Another question alluded to earlier is the importance of size as a competitive advantage. In a location-bound industry such as the hotel business, this question could be addressed from two perspectives. Either size is the main factor in order for companies to be able to compete effectively (and there are clear signs of increasing consolidation), or else the attractiveness of the location is everything (and there are

[38] As quoted in Cantwell and Narula (2001).

obvious indicators of where the future tourism destinations are likely to be over the next 20-30 years). Whilst size has not been seen to be vital for internationalisation (Moen, 1999), and there are examples of highly internationalised, smaller companies such as Four Seasons and Raffles in this study, it has been seen that to compete successfully in the mainstream hotel business (excluding high value-added niche markets) requires a minimum number of rooms in the region of at least 100, 000 rooms.

Finally, in respect to ownership advantages of corporations, it would be interesting to conduct longitudinal studies to monitor changes by hotel companies in their perceived advantages over time.

With regard to locational advantages, longitudinal studies could also be undertaken with regard to perceptions of Eastern Central Europe and the market opportunities identified therein. Comparative studies with other “new” hotel markets such as in South East Asia and South America would also provide rich areas of research activity.

We believe that the study has further contributed to our understanding of the international expansion of an important industry sector in an increasingly significant tourist destination. It is to be hoped that the actual development of the industry will enhance the employment possibilities and improve the services offered to both international and domestic markets, whilst at the same time exploiting market niches mentioned in the text, specifically by focusing on green, rural and spa tourism activities that are sustainable over the long-term, thereby ensuring the attractiveness of the region for future generations.

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8. Appendices

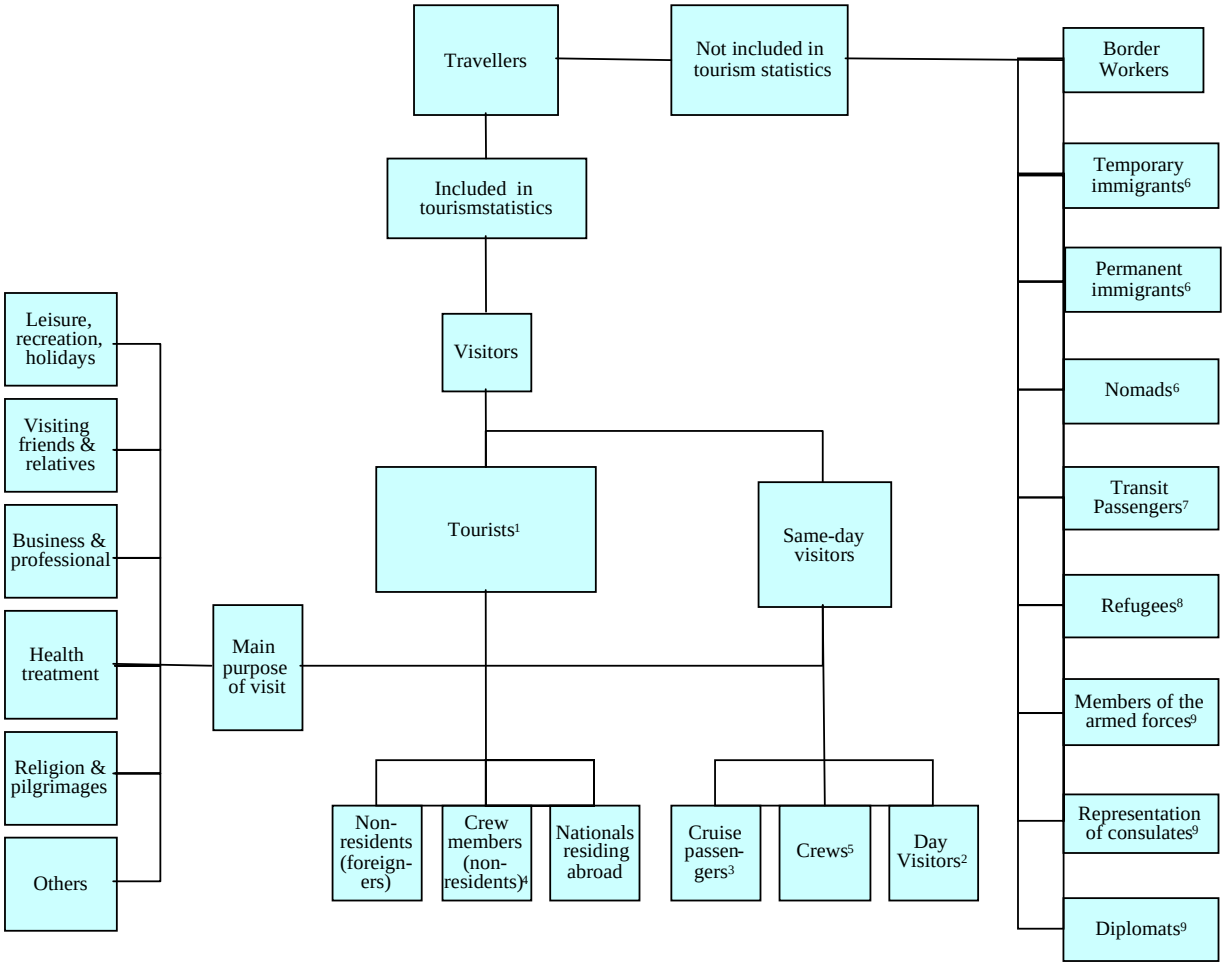
1.1 World's top tourism destinations by international tourist arrivals

Rank	1950	World Share	1970	World Share	1990	World Share	1999'	World Share
1	United States		Italy		France		France	
2	Canada		Canada		United States		Spain	
3	Italy	71%	France	43%	Spain	38%	United States	36%
4	France		Spain		Italy		Italy	
5	Switzerland		United States		Hungary		China	
6	Ireland		Austria		Austria		United Kingdom	
7	Austria		Germany		United Kingdom		Canada	
8	Spain	17%	Switzerland	22%	Mexico	19%	Mexico	15%
9	Germany		Yugoslavia		Germany		Russian Fed	
10	United Kingdom		United Kingdom		Canada		Poland	
11	Norway		Hungary		Switzerland		Austria	
12	Argentina		Czechoslovakia		China		Germany	
13	Mexico	9%	Belgium	10%	Greece	11%	Czech Rep	11%
14	Netherlands		Bulgaria		Portugal		Hungary	
15	Denmark		Romania		Malaysia		Greece	
	Others	3%	Others	25%	Others	33%	Others	38%
Total	**25.3 million**		**165.8 million**		**457.2 million**		**664.4 million**	

Source: World Tourism Organization (WTO) (Data as collected in WTO database October 2000)

1.2 Classsification of international travellers

Classification of International Travellers



[1]Visitors who spend at least one night in the country visited, but less than one year.

[2]Visitors who arrive and leave the same day for leisure, recreation and holidays; visiting friends and relatives; business professional; health treatment, religion, pilgrimages and other tourism purposes, including transit day visitors en route to or from their destination countries.

[3]Persons who arrive in a country aboard cruise ships [as defined by the International Maritime Organization (IMO), 1965] and who spend the night aboard ship even when disembarking for one or more day visits.

[4]Foreign air or ship crews docked or in lay over and who use the accommodation establishments of the country visited.

[5]Crews who are not residents of the country visited and who stay in the country for the day.

[6]As defined by the United Nations High Commissioner for Refugees, 1967.

[7]Who do not leave the transit area of the airport or the port, including transfer between airports or ports.

[8]As defined by the United Nations High Commissioner for Refugees, 1967.

[9]When they travel from their country of origin to the duty station and vice-versa (including household servants and dependants accompanying or joining them).

Source: World Tourism Organization as found in OECD, Tourism Policy and International Tourism in OECD Countries (OCDE/GD(97)173, Paris, 1997.

3.1 Number of rooms in hotels and similar establishments worldwide 1992-1998

Hotel rooms ('000)	1992	1994	1996	1998	1999	2000	2001	2002
The Americas	4406	4467	4801	5164	5576	5782.312	5996.258	6218.119
Asia Pacific	2490	2753	3102	3487	3772	4002.092	4246.22	4505.239
Europe	5314	5498	5819	5935	6396	6517.524	6641.357	6767.543
Middle east	163	179	195	221	238	250.852	264.398	278.6755
Africa	365	382	410	425	459	471.393	484.1206	497.1919

Source TTI, 2001

3.2 Sources of business for selected European cities, 1999

City	Domestic	Europe	USA & Canada	Asia	Middle East	South America	Other
Amsterdam	10.2	47.8	25.9	7.9	2.5	1.3	4.8
Berlin	58.5	23.8	8.5	3.7	1.4	1.2	2.9
Budapest	3.2	65.7	17.3	5.8	4.9	1	2.5
London	28.8	17.4	29.6	7.6	4.8	0.9	10.9
Madrid	42.2	27.4	12.6	4.1	1.2	6	6.5
Moscow	12.5	51.4	26.1	5.1	1.5	0.7	2.7
Paris	8.3	27.9	32.8	17.7	5	3.8	4.5
Prague	4.6	63.9	15.5	5.4	6	0.9	3.7
Rome	26.2	21.4	32.8	9.1	1.8	2.4	6.3
Warsaw	23.9	54.7	12.5	3.1	2	0.3	3.5
Zurich	17.3	39.9	17.9	11.1	3.6	3.4	8.1

Source: TTI 2001

3.3 Major hotel group ownership, and nature of hotel operation, 2000

	Corporation	Company H.Q	Type of company	Parent company/ Major shareholders	Year Est'd.	Type of Hotel involvement
1	Cendant Corp	US	Public	Quoted company	1997	Franchise (100%)
2.	Bass Hotels & Resorts	GB	Division of public company	Bass PLC	1998[39] (New)	Franchise (89%) Management contracts (6%)
3	Marriott Int'l	US	Public	Marriott Int'l	1998[40] (New)	Franchise (53%) Management contracts (40%)
4	Accor	F	Public	Accor group 5 shareholders own 17% of shares	1967	Own Franchise (18%) management contracts (14%)
5	Choice	US	Public	Quoted company	1980	Franchise (100%)
6	Hilton Hotels Corp[41].	US	Public	Quoted company	1919	Franchise (80%) Management contract (10%) Owner
7	Starwood Hotels & Resorts	US	Public	Starwood	1995	Franchise (42%) Management contracts (28%)
8	Carlson Hospitality Worldwide	US	Private	Carlson Companies Inc.	1962	Franchise (94%) management contract Owner
9	Hyatt Hotels/Hyatt Int'l	US	Private	Pritzker family	1969	Management contract (100%)
10	Wyndham International	US	Public	Quoted company		Management contract Franchise
11	Sol Melia	E	Public	Sol Melia Escarrer family owns approx. 50%	1956	Management contract(48%) Owner (36%) Franchised 12% Leased (4%)
12	Societé de Louvre	F	Public	Quoted company Taittingger famly majority shareholder	1976	Management contract (57%) Franchise 38%) Owner
13	Hilton Int'l	GB	Division of public company	Hilton Group PLC		Management contract (90%)
14	Forte Hotels	GB	Public	Granada	1935	Owner Management contract

(Sources: Hotels 2000, Tti, 1997, 2001, Mather and Todd, 1999).

[39] Bass existed before as a brewing concern with hotel interests, including the Holiday Inn brand. Previously the hotel division was known as Holiday Inn Worldwide Group. It re-branded as Bass Hotels and Resorts when the brewing interests were divested.

[40] Marriott has also been in existence for over 70 years, but was almost completely an American domestic hotel chain until the late 1980's.

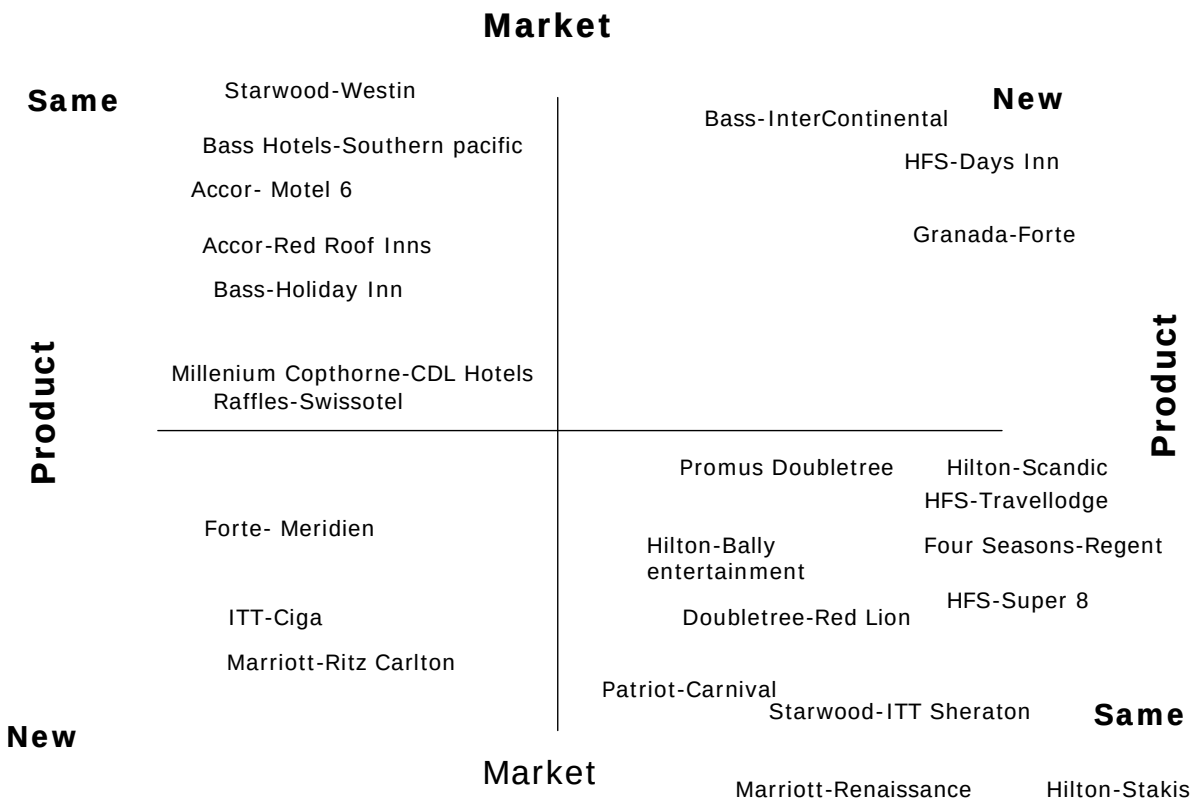
[41] There are two companies that use the brand name Hilton. In an acquisition in 1987 the UK gaming company Ladbrokes purchased Hilton hotels and the brand name outside the USA, and became Hilton International. The Hilton Hotel Corporation continued to trade with the Hilton name in the USA. There was recently a type of strategic alliance between the two companies to facilitate better synergy of the brand name and reservation systems.

3.4 Strategic options of International hotel M&A activity 1987-2001

YEAR	COMPANY ACQUIRING	COMPANY ACQUIRED	VALUE	STRATEGIC OPTION	FROM	TO
1987	Ladbroke PLC	Hilton International	$1.07 billion	New product, new market	US branded hotel company	UK gambling company
1987	Aoki Corp.	Westin	$540 million	New product, new market	US brand hotel company	Japanese manufacturing company
1988	Seibu/Saison	Inter-Continental	$2.2 billion	New product, new market	US luxury hotel company	Japanese diversified company
1988	Wharf International Holding	Omni	$135 million	New product, new market?	N.K.	Japanese manufacturing company
1989	New World Holding	Ramada	$540 million	New product, new market?	US hotel company	Hong Kong diversified company
1989	Bass PLC	Holiday Inn	$125 million	New product, new market	US franchise hotel company	UK Brewing
1990	Accor SA	Motel 6	$1.3 billion	Current products, new market	US budget hotel company	French hospitality company
1991	HFS	Days Inn	$250 million	New market, new product	Major US franchise hotel brand	US franchise company
1992	Four seasons	Regent (25% stake)	$122 million	Current product, current market	Up-market US hotel company	Canadian luxury hotel company
1993	HFS	Super 8	$125 million	Current product, current market	Major US hotel franchise company	US hotel franchise company
1994	ITT Sheraton	Ciga	$530 million	Current products new markets	Italian luxury hotel company	Japanese hotel company
1994	Forte	Meridien	$445.9 million	Current products new markets	Up-market French hotel company	UK hotel company
1994	Starwood	Westin	$1.58 billion	Current product, current market)	US Real Estate Investment Trust- first hotel purchase	US up-market hotel company
1995	HFS	Travelodge& Knights Inn	$185 million	Current product, current market	UK and US? budget hotel franchise	US franchising company
1995	Marriott	Ritz Carlton (49% stake)	$200 million	Current products new markets	US luxury hotel company	US mid-/budget hotel company
1996	Hilton	Bally Entertainment	$3 billion	Current product, current market	US hotel & gaming company	US hotel company
1996	Granada	Forte	$5.9 billion	New product, New market	UK hotel company	UK media company
1996	Doubletree	Red Lion	$1 billion	Current product, current market	US hotel mid-market hotel company	US mid-market hotel company
1997	Starwood	ITT Sheraton	$8.23 billion	Current product, current market	Japanese diversified company	US REIT hotel company

YEAR	COMPANY ACQUIRING	COMPANY ACQUIRED	VALUE	STRATEGIC OPTION	FROM	TO
1997	Marriott	Renaissance	$1.6 billion	Current product, current market	Hong Kong diversified company	US hotel company
1997	Promus	Doubletree	$4.64 billion	Current product, current market	US hotel company	US hotel company
1997	Patriot	Carnival Hotels	$1.024 billion	Current product, current market	US REIT	US hotel company
1998	Bass	Inter-Continental	$2.9 billion	Current products in new markets	Japanese diversified company	UK brewing & hotel company
1999	Millenium & Copthorne, UK	CDL Hotels Asia-Pacific, Singapore	$890 million	Current products in new markets	Hong Kong diversified company	UK hotel company
1999	Hilton Group	Stakis	$2.34 billion	Current product, current market	UK hotel company	UK hotel company
1999	Accor	Red Roof Inns	$1.1 billion	Current product, current market	US budget hotel company	French hotel company (already with budget hotels in US)
2000	Bass Hotels and Resorts	Southern Pacific Hotels	$205 million	Current products in new markets	Japanese hotel company	UK international hotel company
2000	Bass Hotels & Resorts	Bristol Hotels & Resorts	$157 million	Current product, current market	US mid-market hotel company	UK international hotel company
2001	Hilton International	Scandic Hotels	$612 million	Current product, current market	Scandinavian regional hotel company	UK international hotel company
2001	Raffles Hotels	Swissôtel	$347 million	Current product, current market	Swiss international up-market hotel company	Singaporean international up-market hotel company
2001	Bass Hotels & Resorts	Post House hotels	$218 million	Current product, current market	UK international hotel company	UK international hotel company.

3.5 Examples of market and product development in the international hotel industry



3.6 Forms of diversification by hotel operators

	Related						Diversification								Unrelated
	Restaurants	Casinos	Conference Centres	Cruise liners	Elderly living	Time-share	Golf courses	Managed Apparts	Real estate	Travel Agency	Airline	Car rental	Distribution services	Banking	Luxury goods
Company															
Cendant						X						X			
Bass						X									
Marriot International					X	X							X		
Accor										X		X			
Starwood		X				X									
Carlson Hospitality Worldwide	X			X	X	X				X					
Hilton Hotels		X	X			X									
Hyatt Hotels		X					X								
Hilton International		X		X			X	X							
Societé de Louvre									X					X	X
Club Mediterranée				X							X				

3.7 Major hotel operators, brands and market segments

Rank	Name	Domicile	Room count	Hotels	Countries
1	Cendant Corp	US	542,630	6,315	13

Brands:
9 brands: Days Inn, Howard Johnson, Ramada Travelogue & Thriftlodge, Knights Inn, Super 8 Motel, Villager Lodge, and Wingate Inn.

Market segmentation

Operates almost exclusively in the mid-priced, economy brand segments. Cendant believes that 75% of the total hotel demand in the US is for under $100 per night. All of Cendant's brands are in this category, having neither a hard budget nor luxury brand

Recent strategy:

Cendant's three main business areas are real estate (39% of total revenue), travel services such as lodging, time share, car rental and vehicle management (32%), and series of diversified services (29%). Cendant has become the largest hotel group in the world by being a "pure" franchising company. It does not have nay equity in its properties, but services franchisees by supporting them in a variety of activities.

Is a franchising company, with 99% of hotel room's franchised. Four star, three stars, two stars. International coverage is weak, (although it has over 30,000 rooms outside the US, the home country accounts for 95% of its hotels, and 94% of its rooms). Owns some of the most popular brands in the hotel business (Howard Johnson, Days Inn). Is the largest chain in the world, grew room count by 2.6% last year.

Became more international by expanding into ten new countries last year, but still very Ameriocentric, and in only 23 countries, therefore great potential. Starting to see Howard Johnson Brand franchised in Europe. But the group is lacking a well-recognized international brand. Expansion occurs through finding partners who will buy master franchises from Cendant.

Synergies exist between company's hotel brands and Avis car rental and RCI; world's largest timeshare brand.

Rank	Name	Domicile	Room count	Hotels	Countries
2	Bass Hotels & Resorts	UK	471,680	2,886	95

Brands10 brands including Holiday Inn (including Holiday Inn Express), Garden Court, Crowne Plaza Hotels, Staybridge suites, Intercontinental Hotels, Forum Hotels

Market segmentation

Extremely wide mix, from five stars, four stars, through to upper economy (No "hard budget").

Recent strategy:

Has broad international coverage (locations in nearly 100 countries) the worldwide distribution and brand recognition give the group a major competitive advantages. 95% of Bass rooms are non-equity (franchise 89%) and management contracts (6%). Have two of the largest brands in Holiday Inn and Inter-Continental. Also acquired Bristol hotels in 1998, and Forte Post House in 2001. Have huge financial resources (paid cash for Inter-Continental). Although prefer non-equity, are prepared to invest in brands (USD 800 million in Inter-Continental brand 1998-2000).

Weaknesses-image of "holiday Inn" brand as roadside, mid-market brand does not fit with luxury sector (Bass's answer was to create separate "Crowne Plaza and Intercontinental brands". There are large variations in properties in US-which results in difficulties in maintaining brand integrity. Have too many hotels brands (10), which causes confusion.

Rank	Name	Domicile	Room count	Hotels	Countries
3	Marriott Int'l	US	355,900	1,880	53

Brands

11 hotel brands: Marriott Hotels, Resorts and Suites, Renaissance Hotels & Resorts, Ramada International, New World, Ritz-Carlton Hotels & Resorts, Conference Centers, Towneplace Suites, Courtyard by Marriott, Residence Inn by Marriott, Fairfield Inn by Marriott, Springhill suites, Residence Inn, Marriott

Market segmentation

One of the few companies to operate in all segments apart from the hard budget. Operates in five star, four star, three star, and extended stay.

Recent strategy:

Is primarily a hotel management company with a variety of operating options (management contracts, franchises, joint ventures, and marketing service agreements). Strong business base (especially for four and five star and courtyard properties), Strong, clear brands. Strong management and strategy to first expand in primary destinations worldwide with upper-scale brands. Once these will be established they will move into secondary locations and only in this stage the mid-market hotels will be introduced. Have ambitious expansion targets to add over 140,000 rooms in the period 1998-2000. Expansion will be carried out through long-term management and franchise agreements, as well as through co-branding opportunities. Diversification into timeshare, senior living residences and distribution services.

Rank	Name	Domicile	Room count	Hotels	Countries
4	Accor	France	354,652	3,234	76

Brands

Many brands in hospitality Sofitel, Novotel, Mercure, Atria, Hotelia, Jardins le Paris Hotels, Ibis, Etap, Formula 1, Motel 6, Red Roof Inns, Coralia, Thalassa International

Market segmentation

Is focused heavily on the mass-market. Although operates four, three, two and one star, it has relatively few upscale hotels, (100 Sofitels) which struggle to achieve brand equity and to compete within the global market. . Geographically, brand distribution is not widespread. Only two countries have six brands apart from (Belgium and Germany) France. Therefore are substantial growth possibilities

Recent strategy

A multifaceted company involved in hotels, travel agencies, restaurants, casinos, catering and on board train services. The hotel portfolio includes ownership, management contracts and franchises. Accor pursues one of the most creative strategies of any hotel company. They are widely international, and have pursued one of the most aggressive acquisition strategies in the USA and in Eastern Europe. Is based 70-75% on domestic market, 25-30 international. Accor may also suffer from their earlier policy of multi-branding, without the public at large being aware of the Accor name. In times of brand equity, this is something that should be addressed with urgency.

In key cities located in developed countries Accor will expand through organic development or acquisitions, while in medium size cities it will look for joint ventures, management contracts and franchises. In emerging countries, expansion will be sought through management contracts and eventually joint ventures.

Rank	Name	Domicile	Room count	Hotels	Countries
5	Choice Hotels Int'l	US	338,254	4,248	34

Brands

8 brands: Clarion, Quality, Comfort Inn and Suites, Sleep Inn, Econo Lodge
Rodeway Inn, Mainstay Suites, Flag Choice

Market segmentation

Is second largest franchise company in the world. Is still heavily reliant on the US market (86% of rooms). Four of the 8 brands only operate in the US or Australia. Very much active in the mid-sector market, with no representation in the upper brackets.

Recent strategy:

Despite ambitious expansion plans (Stated to have 1 million rooms by 2010, and 10,000 hotels) has much less international coverage for size of company than competitors. The company may also be limited by franchising nature of company in new markets such as Asia, where acquisition is seen to be the major method for expansion, resulting in owners looking more cautiously on franchise agreements, as this restricts opportunities for sale.

Rank	Name	Domicile	Room count	Hotels	Countries
6	Hilton Hotels Corp.	US	290,000	1,700	11

Brands

8 major brands: Hilton Hotels (in USA), Conrad Hilton Hotels (outside USA), Hilton Garden Inns, Hilton suites, Doubletree, Embassy suites, Homewood suites by Hilton Hampton Inn, Red Lion.

Market segmentation

Before the acquisition of Promus very much focused on five, four and three star business hotels. Now also extended into budget and mid-market

Recent strategy:

HHC divested itself of gaming operations into a publicly held company in 1998. Also with the acquisition of Promos Hotel Company it tripled the number of rooms that it held overnight. This resulted in the previous hotel ownership emphasis of the corporation changing to non-equity involvement. It is one of the most recognised brands, especially for business. Although one of the major companies well over 90% of the hotel stock is in the USA. Brand synergies not fully exploited by Hilton Hotels and Hilton International.

Rank	Name	Domicile	Room count	Hotels	Countries
7	Starwood Hotels & Resorts	US	217,651	716	72

Brands

6 major brands. The Luxury Collection Westin Hotels & Resorts, Sheraton Hotels & Resorts, Four Points St Regis and the W brand

Market segmentation

Is one of the leading international companies in terms of up-market brands (Sheraton and Westin). 96% of hotels in up market or luxury tiers have no budget hotels. Predominantly, business hotels. Geographically wide coverage. Starwood products are lacking clarity and they are struggling to keep consistency in its brands due to the number of franchised hotels, which represent four fifths of their total portfolio.

Recent strategy

Starwood gained entry into the major league of hotel companies as a REIT, which in 1998 acquired two major brands in the business in the case of Westin and Sheraton. It is an owner, manager and franchiser. It aims at becoming a global leader in the full-service, up-market and luxury hotel sector. Its expansion will be

opportunistic by acquiring, merging, developing, managing or franchising hotels. It has been very active in harmonising the brand offering strategies for he different brands. Growth, after the initial acquisitions has been very controlled**.** Although it is a major company, it may be vulnerable to takeover from one of the big three (Bass, Marriott or Accor). Starwood has the potential for growth, but it needs to finish the integration process of the acquired companies in order to create a consistent brand image and to achieve the critical mass needed to take advantage of economies of scale. Despite having a strong brand name in Sheraton, quality often seen to be variable, and does not have the consistency of product of either Hilton or Marriott.

By developing the brand "W" Starwood was the first among the largest hotel companies to take advantage of integrating the concept of boutique hotels in its group.

Rank	Name	Domicile	Room count	Hotels	Countries
8	Carlson Hospitality Worldwide	US	114,161	616	50

Brands

Radisson Hotels (Plaza, Suites and Resorts), Radisson Edwardian, Regent International, Country Inns & Suites,

Market segmentation

Upper and upper middle market sector. Geographically spread in the US, Asia, Latin America and Europe (By Radisson SAS brand especially)

Recent strategy:

Agreed strategic alliance with Olympus Hospitality of USA, thereby seeking new properties especially in Asia and Middle East. The Radisson name has somewhat been left behind in the race by other top ten players. The company is still heavily weighted towards the US market (over 60% of rooms). Growth has been steady rather than spectacular.

Rank	Name	Domicile	Room count	Hotels	Countries
9	Hyatt Hotels/Hyatt Int'l	US	85,743	195	45

Brands:

5 major brands: Hyatt Regency, Hyatt Resorts, Camp Hyatt, Park Hyatt, and Grand Hyatt

Market segmentation

Hyatt hotels are mainly up-market business and leisure. The majority of the properties are in the US, with 15 hotels in eight different European counties. None of the countries dominates, only nine countries that have over 1,000 rooms.

Recent strategy:

Expansion has been slow in recent years. Hyatt does normally not franchise. As a private company, it can take a longer-term view of its activities. Over the next two years there are 41 projects in the pipeline, in the USA, (5), Asia (15), Europe (4), Middle East (4), and Central/South America (3). If it were not a private company, Hyatt would be vulnerable to take-over by one of the major PLC brands such as Bass, Accor or Hilton.

Rank	Name	Domicile	Room count	Hotels	Countries
10	Wyndham International	US	73,215	303	13

Brands

Three brands: Wyndham Hotels & Resorts, Wyndham Luxury Resorts and Summerfield Suites by Wyndham

Market segmentation

Focuses upon mid-market business and leisure traveller

Recent strategy.

Wyndham came out of the Patriot-American expansion in the late 1990s, and now has its own identity. It has a relatively low international coverage, and narrow product line. Despite the fact that it has a reasonable number of rooms, it could well be a target for acquisition by one of the major players such as Accor, Bass or Hilton.

Rank	Name	Domicile	Room count	Hotels	Countries
11	Sol Melia	Spain	69,178	260	26

Brands:

11 brands and sub brands: Melia Hotels & Resorts (including Gran Melia, Melia Hotels, Melia Comfort) Sol Hotels (Sol Elite, Sol Hotels, Sol Club, Sol Inns and resorts), Paridisus Resorts, Garden Villas.

Market segments:

Moving from mainly leisure-based tourism to balance of business and leisure. Five, four and three star hotels. Sol Melia's branding is difficult to follow on the market place. Geographically has expanded into Latin America and Asia Pacific. Mix: Europe 65%, Latin America/Caribbean 22.2%, Asia-pacific 7.1%, Africa 4.9%, Middle East 0.9%.

Recent strategy:

Sol Melia is one of the fastest growing Europe-based hotel groups owning, managing and franchising a wide range of hotels. It is market leader in Latin America. Sol Melia has been actively expanding in recent years, stating an expansion plan of 55 hotels and 15,00 rooms by 2003. Sol Melia positions itself as a uniquely southern-Latin chain, but has to either merge with another company or become part of vertical integration by a tour operator/travel agency to enable it to withstand the consolidation in the industry. Management and franchise agreements are the main forms of expansion.

Rank	Name	Domicile	Room count	Hotels	Countries
12	Société de Louvre	France	65,970	990	22

Brands:
Concorde, Campanile, Bleu Marine, Première Classe, Clarine

Market segmentation:
Five, four, three star business hotels, mid market two and budget hotels aimed at car-based traveler. Strongly France and Euro centric (over 60% of the hotel stock is in France and 98.4% of the hotels stock is in Europe).

Recent strategy:

SdL is a public company quoted on the Paris stock exchange, but which is primarily in the hands of the Taittinger family group. Historically growth is organic, with limited international growth. It is likely that most of the emphasis will remain on developing the brands within France

Rank	Name	Domicile	Room count	Hotels	Countries
13	Hilton Int'l	UK	61,1889	217	52

Brands:
Hilton International Hotels, Hilton National (UK), Vista (in USA)

Market segmentation

Predominantly five and four star business with some three star in the UK. Geographically highly dispersed 44.6% Europe, North America 5.4%, Asia Pacific 19.1%, Latin America 10.1%, Middle east 13.1%

Recent strategy
Hilton has recently adopted a more aggressive expansion strategy. Hilton opened 26 hotels 199-200, and has stated a doubling of that number from 2001-2002. They are expanding mainly through management contracts and seeking a greater development of the Hilton brand. Are also moving into related diversification in the form of management apartments, villas ands resorts, (for example the Dreamland Golf Resort n Cairo, The Royal Residences in Jeddah)

Rank	Name	Domicile	Room count	Hotels	Countries
14	Forte Hotels	UK	58,636	449	48

Brands:
Five brands: Le Meridian Hotels & Resorts, Posthouse, Heritage, London Signature Hotels, Travelodge (in Europe, Middle East and Africa).

Market segment:

Some five and four star, but mainly mid-market business, with budget business and leisure under the Travelodge banner. Heavily Euro-centric (85%), followed by Middle-east, 4.4%, Asia Pacific 4.0%, Latin America/Caribbean, 2.7% Africa

Recent strategy:

In 2000, Granada PLC merged with the catering group Compass. Following hostile reaction by shareholders, they then de-merged and left the hotels under the control of Granada Compass. Granada Compass have been selling off the main brands throughout 2001, selling Posthouses to Bass, and heritage hotels to MacDonald Hotels in the UK. They will certainly not be listed as a major player in the 2001 ratings.

Sources: Lausanne Hospitality Consulting; industry and consultancy reports; own research.

3.8 Percentage of rooms of international associated hotels abroad by type and date of involvement.

PERIOD	PARTIAL OWNERSHIP	LEASING	FRANCHISE OR MANAGEMENT CONTRACT
Before 1964	21.8	45	33.2
1975-1985	6.7	2.7	90.6
1998	34.6	N.k.	65.4

Sources: Dunning &McQueen 1982, table 8,p.1, Contractor and Kundu, 1998, p.2.

4.1 Sources of business in selected European cities, 1999, (% of total roomnights)

City	Domestic	Europe	USA/ Canada	Asia	Middle East	South America	Other
Amsterdam	10.2	47.8	25.9	7.9	2.5	1.3	4.8
Berlin	58.5	23.8	8.5	3.7	1.4	1.2	2.9
Budapest	3.2	65.7	17.3	5.8	4.9	1	2.5
London	28.8	17.4	29.6	7.6	4.8	0.9	10.9
Madrid	42.2	27.4	12.6	4.1	1.2	6	6.5
Moscow	12.5	51.4	26.1	5.1	1.5	0.7	2.7
Paris	8.3	27.9	32.8	17.7	5	3.8	4.5
Prague	4.6	63.9	15.5	5.4	6	0.9	3.7
Rome	26.2	21.4	32.8	9.1	1.8	2.4	6.3
Warsaw	23.9	54.7	12.5	3.1	2	0.3	3.5
Zurich	17.3	39.9	17.9	11.1	3.6	3.4	8.1

Source:TTI, 2001p.17[42].

4.2 Tourist arrivals in Eastern Central Europe 1988-2004 (thousands)

	1988	1989	1991	1993	1995	1997	1999	2004	%growth 1999/2004
Czech Republic		7079	7565	11500	16500	17400	16410	17435	6.2
Hungary	10563	14490	21860	22804	20690	17248	18357	18727	2
Poland	2495	3293	11350	16930	19215	19514	17940	18647	3.9
Slovakia		957	623	653	903	808	942	1280	35.9
Slovenia			250	624	732	974	884	n.k	

Source: Euromonitor 1995, 2001, WTO, 2000.

[42] These figures have remained fairly consistent over the past three years, with the exception of Prague, whose domestic market share was 8.1% in 1997.

4.3 International tourism receipts

(excluding international transport, US$ million)

									%growth
	1988	**1989**	**1991**	**1993**	**1995**	**1997**	**1999**	**2004**	**1999/2004**
Czech Republic	608	492	714	1559	2875	3700	4121	4292	4.1
Hungary	532	542	1002	1181	1723	2570	2936	3945	34.3
Poland	206	202	2800	4400	6600	8700	8185	8739	6.8
Slovakia		89	135	390	620	535	714	836	2.9
Slovenia			275	734	1082	1275	1005		

Source: Euromonitor 1995, 2001, WTO, 2000.

4.4 Major international hotel groups represented in the region, June 2001.

Country	City (ies)	Hotel Company /brand	Type of market entry
Czech Republi	Brno Prague Karlovy Vary (Karlsbad)	Holiday Inn Holiday Inn Inter Continental (core brand plus Forum), Hilton International, Rasisson SAS Marriott (and Marriott Executive Residence) Accor (4) (Mercure brand(2) and Ibis brand (2), Movenpick, Penta, Rognor; Vienna International (3) And check who operates: Don Giovanni Grand Hotel Bohemia Palace Pariz Praha Renaissance Savgy Felix Hotel Vienna International	Franchise Franchise Franchise Franchise
Hungary	Balatonfoldvar Budapest	Pannonia (Accor- Mercure brand) Accor:(Etap brand, Novotel brand-Budapest Centrum, Ibis brand (2), Pannonia (Accor- Mercure brand (4)) Hilton International (2) Hyatt Atrium Inter-Continental Marriott Kempinski (Hotel Corinvu) Radisson SAS (Beke) Forte Agip Meridien	Joint venture Franchise Joint venture Franchise Franchise FDI Joint venture Franchise Joint venture Management

		Four Seasons Park Plaza Check : Gellert Grand Hotel Hungaria Thermal Hotel Margitszigeu	contract Management contract
	Siofak	Pannonia (Accor- Mercure brand (4))	
	Kerviz	Rognor	
Poland	Warsaw	Inter-Continental (core brand and Forum brand) Holiday Inn Marriott Accor (Novotel & Mercure brands) Kempinski Sheraton Hyatt Regency Accor (Ibis brand)	Franchise Franchise Franchise Joint venture (85%) MC
	Cracow	Scloessle Hotel Group (Ober-Haus)	
	Gdansk	Accor (Novotel brand)	Franchise
	Olystyn	Accor (Novotel brand)	Franchise
	Poznan	Accor (Novotel brand)	Franchise
	Wroclaw	Accor (Novotel brand)	Franchise
	Wollin Island	Accor (Novotel brand)	Franchise
	Szczecin	Radisson	
Slovakia	Bratislava	Holiday Inn Inter-Continental (Forum brand)	Franchise Franchise
Slovenia	Ljubljana	Holiday Inn Inter-Continental	Franchise

Source:Trew 1997, p.63, & HVS 1997, p.1) authors own research.

4.5 International hotel corporations choice of destinations and locations

Corporation	Location	Number of rooms	Opening date	Comments
Holiday Inn	Warsaw Ljubljana Brno Bratislava	336 133 205 164	1989 na 1993 1996	Franchise Franchise Franchise Franchise
Radisson SAS	Budapest (Beke) Szczecin	238 369	1988 1992	
Marriott	Warsaw Budapest Budapest (Ramada) Budapest Prague (Renaissance) Prague	484 340 162 na 309 300	1989 1993 1992 1997 1991 1999	 renovated 1992
Hilton	Budapest Prague	323 788	1997 1995	Franchise
Inter-Continental	Budapest Prague Prague (Forum) Warsaw Victoria Warsaw (Forum) Cracow (Forum) Ljubljana	400 365 531 370 738 276 236	1981 1974 1988 1976 1974 1988 1997	Franchise (formerly Forum) Franchise Franchise Franchise Franchise Franchise
Hyatt	Budapest	355	1982	Franchise
Movenpick	Prague	437	1996	
Sheraton	Warsaw	355	1996	
Forte	Warsaw (Bristol) Budapest Forte Agip	196 163	1993 1993	
Accor	Gdansk (Novotel) Olstyn (Novotel) Poznan (Novotel) Warsaw (Novotel) (Mercure) Wroclow	162 97 150 146 250 145	1975 1975 1975 1975 1992 1975	Franchise Franchise Franchise Franchise Franchise

Corporation	Location	Number of rooms	Opening date	Comments
	Cracow (Ibis) (Novotel)	214	1993	
Pannonia /Accor Joint Venture	Budapest Centrum (Novotel)	324	na	
	Buda (Mercure)	396	na	
	Budapest Korona (Mercure)	433	na	renovated 1994
	Budapest Emke[i] (Mercure)	72	na	renovated 1994
	Budapest Metropol (Mercure)	102	na	
	Budapest Flora (Mercure)	48	na	
	Budapest Nemzeti (Mercure)	78	na	
	Budapest Volga (Ibis)	313	na	
	Budapest Aero (Ibis)	139	na	
	Budapest West (Etap)	104	na	
	Siofok Balaton (Mercure)	137	na	renovated 1995
	Siofok Europa (Mercure)	138	na	renovated 1995
	Siofok Hungaria (Mercure)	137	na	
	Siofok Lido (Mercure)	137	na	
	Balatonfoldvar Neptun (Mercure)	210	na	
Vienna International	Prague Savoy Prague Palace Prague Diplomat Prague Club Karlsbad Dvorak Wolin Amber Baltic	60 124 387 100 87 192	1994 1995 1990 na 1990 1991	
Four Seasons	Prague	78	2001	
Hotel Alcron	Prague	210	1998	
Kempinski	Warsaw Prague	200 100	1999 1999	

Source: Trew, 1997, pp.68-69; Bartl (1997) own research.

5.1 Questionnaire

Section 1 **Background Company Information**

1. Name and position of person completing questionnaire:
Name _____Position _____

2. Company Name and Headquarters address:

_____
_____

3. Is the Company part of a portfolio of a larger group ?, If "yes" name and country of origin of parent group:

Name _____Country _____

4. Please check appropriate box:

a) the **core** business of the group is the operation of hotels ❑
b) the group has diversified into related industries (eg, "close" service sectors, travel, tourism) ❑
c) the group has diversified into unrelated industries (eg industrial products, construction, information technology) ❑

5. Please indicate number of properties and location:

a) total number of hotels _____
b) total number of rooms _____
c) location of properties *Europe:* _____*USA:* _____ *Americas (other than US):* _____
Asia: _____*Africa:* _____ *Other (please specify location)*: ____

6. In which year was the Company established ? _____
In which year did the Company set up its first **foreign** operation: by foreign direct investment, management contract or franchising ? _____

7. In US$, what were your total sales earned from hotel operations in 2000 ?

a) domestic hotels US$: _____ b) foreign hotels US$: _____

8. Based on hotel sales revenues, how is your revenue split between different market segments ?

a) luxury ____ % b) mid-range ____ % c) budget ____ % d) other, (please specify) _____

Over the next decade, which segments appear to offer the most growth opportunity to your company ?

a) luxury ☐ b) mid-range ☐
c) budget ☐ d) other, (please specify) _____

9. For 2000, how much of total sales revenue from hotel operations was spent on training and marketing activities ?

Training	*% of worldwide hotel operations revenue*	*Marketing*
_____	a) for all hotels	_____
_____	b) for foreign hotels (outside domestic country)	_____
_____	c) for hotels in the study region	_____

(The study region countries are Poland, Hungary, the Czech Republic, Slovakia and Slovenia).

10. Does your company presently have, or intend to have in the near future, any strategic alliances ? (An alliance is defined as a long-term agreement, e.g., joint ventures, sales/supply agreements that are designed to advance the sustainable competitive advantage of the participating firms).

No ❑

Yes ❑ How many within the group ? _____How many external to the group _____

i) If "yes", how much as a percentage of total hotel operation sales for 2000 may be apportioned to the strategic alliance:

Companies **within the group**: Up to 25% ❑ 25-50% ❑ 51-75% ❑ Over 75% ❑

Companies **outside the group**: Up to 25% ❑ 25-50% ❑ 51-75% ❑ Over 75% ❑

ii) Is the most important strategic alliance, (in terms of revenue generated), with:

a) an airline company ❑ b) a tour operator ❑ c) a travel agency ❑

d) another hospitality company ❑ e) company in another industry sector ❑

11. Please name your major competitors:

_____

_____

_____

Section 2 **Your Company Competitive Advantage**

12. Only a few years ago the study region, (Poland, Hungary, the Czech Republic, Slovakia and Slovenia) was viewed with great excitement by potential hotel developers. Since then the situation appears to have changed dramatically. Please share with us your view of the **perceived competitive advantage of your company** in developing properties in the region. (This is irrespective of your actual presence in the region as it is the perception that is of interest). On the scale indicated below, please quantify the competitive advantage that you perceive that your Company has over both established international competitors and against local independent hotel companies in the study region. (Ranking: – 5 indicates that the item is considered a significant competitive disadvantage, through to neutral, 0, to + 5 which may be considered a significant competitive advantage). **Please circle one for each**.

	Your Competitive advantage																					
	As against Established International Competitors											As against Local Independent hotel companies in the study region										
	Significant disadvantage						Significant advantage					Significant disadvantage						Significant advantage				
a) Your Company size	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
b) Your Company's International experience	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
c) Your long term presence in the region	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
d) Your network of strategic alliances	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
e) Strength of your brand name	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
f) Your human resources	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
g) Your marketing expertise	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
h) Technological advancement of your company	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
i) Financial strength of your company	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
j) Strategic planning of your company	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
k) Your reservation system	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
l) Your knowledge of guest requirements and tastes	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
m) The economies of your joint supply, (for example purchasing, finance and marketing)	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
n) Your economies of scale	-5	-4	-3	-2	-1	**0**	1	2	3	4	5	-5	-4	-3	-2	-1	**0**	1	2	3	4	5
o) Any other factor(s) that is considered important, (please specify)																						

13. How is your Company represented in the study region ?

a)Not at all ❑ b)Fully owned properties ❑ c) Partly owned properties ❑

d) Management contract ❑ e) Franchise agreement ❑ f) Other (please specify) ❑

Please answer either question 14 or questions 15, 16 and 17.

14. If "not at all", are you considering starting operations in the Region?

a) Immediately ❑ b) Medium term ❑ c) Long term ❑

15. Why did the Company decide to enter ?

a)As part of the Company's strategic plan ❑ b) Because a suitable opportunity arose ❑

16. In what year did you commence operations in the Region ? _____

17. Are you **expanding** ❑ or **not expanding** ❑ **?**

Section 3 **Location - Specific Advantages**

18. As mentioned in section 2, the region was initially viewed with great expectation. The eagerness to establish properties may have been due to the inherent attractiveness of the location. Using the same scale as in the previous section, please quantify the perceived advantages of operating hotels in the study region, in developed countries and in developing countries. (The study region countries are Poland, Hungary, the Czech Republic, Slovakia and Slovenia).
(Ranking: - 5 indicates that the item is considered a competitive disadvantage, through to neutral, to + 5 which may be considered a significant competitive advantage). **Please circle one for each**.

Source of Perceived Advantage	Developed Countries		Developing Countries		Countries in the study region	
	Significant disadvantage	Significant advantage	Significant disadvantage	Significant advantage	Significant disadvantage	Significant advantage
a) Size and growth rate of economy	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
b) Government policy towards of incentives and regulations	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
c) Degree of market economy	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
d) Perception of region as an attractive tourist **leisure** destination	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
e) Perception of region as an attractive tourist **business** destination	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
f) There is significant growth in domestic demand	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
g) Belief that workforce is service oriented.	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
h) Countries have significant tourist attractions that are of international standards	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
i) Government recognises significance of tourism in the development of the economy.	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
j) Size and nature of the city in which the hotel is located	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
k) Importance of country infrastructure	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
l) Geographical proximity to host country	-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5		-5 -4 -3 -2 -1 **0** 1 2 3 4 5	
m) Other locational advantages; Please state:						

19. What do you perceive as being the major factors preventing you from developing properties in the region ? Please rank the following from 1-5 (a #5 score is most important, a #1 score is least important)

a) Unclear property rights	❑	b) Lack of local capital	❑	c) Difficulty in maintaining quality	❑
d) Lack of local demand	❑	e) Lack of international demand	❑		
f) High operating costs	❑	g) Political instability	❑	h) Pervasive corruption	❑
i) Lack of local partners	❑	j) Lack of infrastructure	❑	k) Other (please specify) _____	

Thank you for completing the first three sections. The fourth and final section is intended **only for companies that are actually operating properties in the region**.

If your company **has** properties in the region, (either owned, management contract or franchise), please **do** complete the final section. If your company does not operate any hotels in the area, kindly return the completed questionnaire either in the enclosed envelope or by fax. My sincere thanks for your consideration in assisting in this research.

This information will be treated in the strictest confidence, and will not be divulged to another person, group or organization. The data will form part of collated information only which will be used solely for educational industry research.

Section 4 **Internalization advantages**

20. Please describe the configuration of your company organization in the study region countries. (If your Company uses more than one form of business organisation within individual countries, please state the most common form utilised):

	Number	**of**	**Properties**	
	Fully owned	Partly owned	Management contract	Franchise
Czech				
Slovakia				
Hungary				
Poland				
Slovenia				

21. What were the major reasons determining whether your company chose to own, manage or franchise hotels in the region ? Listed below are some possible reasons why companies choose certain methods of foreign market entry and ownership. Please check the box that corresponds with **the dominant influencing factor** that determined your Company's mode of market entry and involvement in each of the five countries in the Region.

	Czech	**Slovak**	**Hungary**	**Poland**	**Slovenia**
To maintain desired levels of quality					
Because of economic and financial conditions within the host country:					
Due to the experience of the company in international business:					
Due to the availability of investment funds					
To minimize regulation and day-to day transaction costs					
To exploit economies of scope					
Due to the perceived need for diversification					
To utilize parent company expertise, (e.g. marketing, property development or related services):					

Another criteria that is considered important (please specify).

This information will be treated in the strictest confidence, and will not be divulged to another person, group or organization. The data will form part of collated information only which will be used solely for educational industry research.

5.2 International distribution of rooms of major hotel companies

Company share by rooms 2000/2001(% of total rooms)

Country	Cendant	Bass	Marriott	Accor [1]	Choice [1]	Hilton Hotel	Starwood	Carlson	Hyatt	Sol Melia
Australia		1.4	0.5	3.8		0.2	1.5	1.9	2.9	
Austria			0.4							
Belgium				1.3		0.1				
Brazil				2.6						
Brazil										2.6
Canada	4.4		1.8		5	0.8	5.6	4.4		
China		1.9	2.5			0.2	1.2		3.1	
Colombia										1.2
Costa Rica										1
Croatia										15.3
Denmark								1.6		
Egypt		0.4				0.4	1.2			
France				27.8	1.7		1.4		0.6	0.7
Germany		3.2		7.6	0.7		2.9	3.4	1.4	1.6
India	0.1		2.7		0.3					
Indonesia		0.3		1.1				1.1	3.4	2.3
Ireland					0.1	0.1	2			
Israel										
Israel	0.2									
Italy				1.1			4.8	0.5		
Japan			0.7						2.8	
Malaysia			0.6						1.7	
Mexico	0.5	2.1	0.7			0.6	2.7		2	3.8
Netherlands		0.5		1.4						
New Zealand					0.4					
Norway								3.9		
Phillipines	0.1									
Poland				2.9						
Portugal				0.7						2.3
Puerto Rico						0.3				
Saudi Arabia		0.7							0.9	
Singapore						0.2				
Soth Africa		1.6								
South Korea		0.4							1	
Spain										43.1
Sweden								2.9		
Tunisia										6.8
Turkey		0.3				0.2				1.7
UAE			0.3							
UK	0.3	2.8	2.2	1.9	1.1		1.4	2.2	0.7	
Uraguay										
USA	94.1	64.7	79.6	33.2	85.6	96.5	53.2	60.8	63.4	
Others	0.3	19.7	8	14.6	5.1	0.4	22.1	17.3	16.1	17.6
Total	100	100	100	100	100	100	100	100	100	100

Source: TTI (2001)

5.3 Merger & Acquisition activity, 2000

Portfolio	Location	Hotels	Rooms	Buyer	Seller	Price ($)
Swallow Hotels	UK	38	5,074	Whitbread	Swallow	937,883,200
Krasnapolsky	Netherlands	64	10,002	NH Hotels	Krasnapolsky	463,053,000
Allegro Resorts	Caribbean	24	6,800	Occidental	Allegro	400,000,000
Tryp Hotels	Spain	60	9,700	Sol Meliá	Tryp	344,448,000
Bedrock portfolio	US	16	3,271	Barceló USA	Hampstead Group	325,000,000
Sofitels	US	2	704	FINOVA	Accor	189,000,000
SPHC Group	Australia, Asia, Pacific Islands	59	na	Bass Hotels & Res.	SPHC	183,330,000
Regal Hotel Group	UK	115	7,755	London Vista	Regal	177,897,880
Bonaparte Hotel Group	Italy / UK	8	745	Grupo Fusi	Bonaparte	146,492,529
Rafael	Europe / US	6	1,223	Mandarin Oriental	Rafael	142,500,000
AmeriSuites Hotel Port.	US	12	1,609	Hosp. Ventures LLC	Prime Hospitality	
Malmaison	UK	6	752	MWB	Wyndham	111,552,040
Marriott properties	US	8	1,068	Hosp. Prop. Trust	Marriott Int.	109,133,192
Aman Resorts	Thailand, Indonesia, Philippines, US, French Polynesia, Morocco, France	11	398	Lee Hing Dev.	Colony Capital	102,000,000
Gran Dorado	Netherlands, Belgium, Germany	40	8,664	Pierre et Vacances	Gran Dorado	96,307,200
Homewood Suites	US	7	989	RLJ Dev. LLC	Hilton Hotels Corp.	95,000,000
Orbis Hotel Group	Poland	55	10,439	Accor	Privatisation	74,884,500
Provobis	Mostly Sweden	na	na	Scandic	Provobis	70,563,600
Don Pedro	Spain	29	5,000	Airtours	Don Pedro	66,500,000
Express properties	UK	8	600	London & Regional	Premier Hotels	66,050,550
Oriel Hotels	UK	8	na	Premier Hotels	Oriel	58,800,000
St David's Hotels	UK	2	337	De Vere Hotels	Bridgemere	51,561,033
Andrew Weir Hotels	UK	6	536	Hanover Int.	Andrew Weir	49,988,383
Plaza Atlantic Park Hot.	France	5	635	50% acquisition	Plaza Atlantic	48,173,594
Palm Desert properties	US	2	390	CNL Hosp. Prop.	Wyndham Int.	43,445,000
Hotetur Club	Spain	19	3,300	Airtours	Hotetur Club	40,320,000
All Seasons	Asia	27	3,825	Accor	Thakral Holdings	18,500,000
Choice properties	Denmark	7	na	Choice Hot. Scand.	Beyer & Kjaer	17,780,000
Lecebne Lazne Marianske Lanze	Czech Republic	15	na	Danubius	Lecebne	14,350,000
Rest Inn Hotel Chain	Australia	4	301	TAHL	Rest Inn	9,312,000
Hotellus	Various	16	na	Pandox	Hotellus	na

Source: TTI (2001)

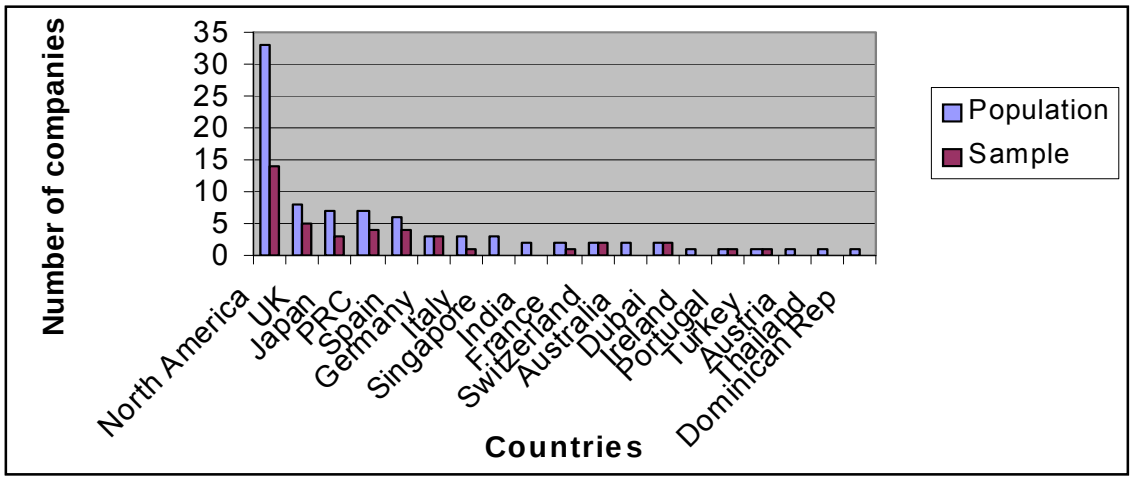
5.4 The population for the study

Rank	Name	Country	Rooms	Rank	Name	Country	Rooms
1	Cendant Corp	USA	548'641.00	44	Pan Pacific Hotels & Resorts	USA	7'395.00
2	Bass Hotels & Resorts	UK	496'005.00	45	Taj group of hotels	India	7'256.00
3	Marriott Int'l	USA	404'792.00	46	New Otani	Japan	7'005.00
4	Accor	France	389'437.00	47	Kempinski AG	Germany	6'410.00
5	Choice Hotels Int'l	USA	349'392.00	48	Olympus Hospitality Group	USA	6'329.00
6	Hilton Hotel corp	USA	314'628.00	49	Okura Hotels	Japan	6'223.00
7	Starwood Hotels	USA	215'207.00	51	Allegro Resorts Management	Dom. Rep	6'000.00
8	Carlson(Radisson/SAS)	USA	119'710.00	50	Jolly Hotels	Italy	5'905.00
9	Hyatt	USA	87'969.00	52	Rhiga Royal Hotels	Japan	5'846.00
10	Sol Melia	Spain	82'733.00	53	Rydges Hotel Group	Australia	5'725.00
12	Hilton Int'l/Scandic	UK	80'000.00	54	Ian Schrager Hotels	USA	5'500.00
11	Societé de Louvre	France	66'091.00	55	Jurys Doyle Hotel Group	Ireland	5'445.00
13	Granada Compass	UK	63'678.00	56	Oberoi Group	India	5'421.00
14	Wyndham Int.l	USA	49'470.00	57	Dusit Thani	Thailand	5'368.00
15	Meristar	USA	48'058.00	58	Meritus Hotels & Resorts	Singapore	5'340.00
16	US Franchise systems	USA	32'722.00	59	Century Int'l Hotels	PRC (HK)	5'332.00
17	Interstate	USA	31'167.00	60	Mandarin Oriental	PRC (HK)	5'177.00
18	Fairmont	Canada	29'714.00	61	Warwick Int'l hotelés	PRC (HK)	5'000.00
19	Prince Hotel Group	Japan	26'304.00	62	Park Plaza Worldwide	USA	4'568.00
20	Tiu group (Riu Hotels)	Spain	25'450.00	63	Great Eagle Hotels	PRC (HK)	4'113.00
21	Millenium & Copthorne	UK	24'200.00	64	Sonesta Hotels, Resorts & Cruises	USA	4'100.00
22	Barcelo Hotels	Spain	21'463.00	65	Rotana Hotels	Dubai	3'570.00
23	Lodgian	USA	21'400.00	66	Outrigger Hotels & Resorts	Australia	3'500.00
24	Iberostar	Spain	20'556.00	67	JHM Hotels	USA	3'440.00
25	NH Hoteles	Spain	20'426.00	68	Grand Hotels & Resorts Int'l	USA	3'345.00
26	Airtours Hotel Group	UK	20'000.00	69	The Castle Group	USA	3'176.00
27	Shangri-La Hotels	PRC(HK)	19'202.00	70	Starhotels SPA	Italy	3'042.00
28	Fujita kanko	Japan	19'000.00	71	IPE Tourismo	Portugal	3'000.00
29	Nikko Hotels	Japan	17'986.00	72	Marco Polo Hotels	PRC (HK)	3'000.00
30	Royal Host	USA	16'000.00	73	Peninsula Group	PRC (HK)	2'984.00
31	Omni Hotels	USA	15'000.00	74	Turin Hotels	Italy	2'900.00
32	Dorint Hotels & Resorts	Germany	14'465.00	75	Principal Hotels	UK	2'820.00
33	Ocean Hospitalities	USA	13'644.00	76	Ridgewood Hotels	USA	2'800.00
34	Columbia Sussex Corp.	USA	13'631.00	77	Park Lane Hotels	USA	2'800.00
35	ANA Hotels	USA	13'335.00	78	Orient Express Hotels	UK	2'560.00
36	Occidental hotels	Spain	13'070.00	79	Furama Hotels Int'l	Singapore	2'432.00
37	Four Seasons	Canada	12'298.00	80	Dedeman Hotels & resorts	Turkey	2'311.00
38	Steigenberger Hotels	Germany	11'930.00	81	Benchmark Hospitality	USA	2'133.00
39	Sunroute Hotel systems	Japan	11'359.00	82	Dolce Int'l	USA	2'110.00
40	Raffles/Swissotel	Switzerland	9'089.00	83	Austria Hotels	Austria	1'639.00
41	Tishman Hotel Corp	USA	8'523.00	84	Jumeirah Int'l	Dubai	1'500.00
42	Loews Hotels	USA	8'041.00	85	RF Hotels	UK	1'250.00
43	Movenpick	Switzerland	7'869.00	86	Orotels	Switzerland	410.00
Subtotal			**3'813'655.00**		**Subtotal**		**176'180.00**
					Total rooms		**3'989'835.00**

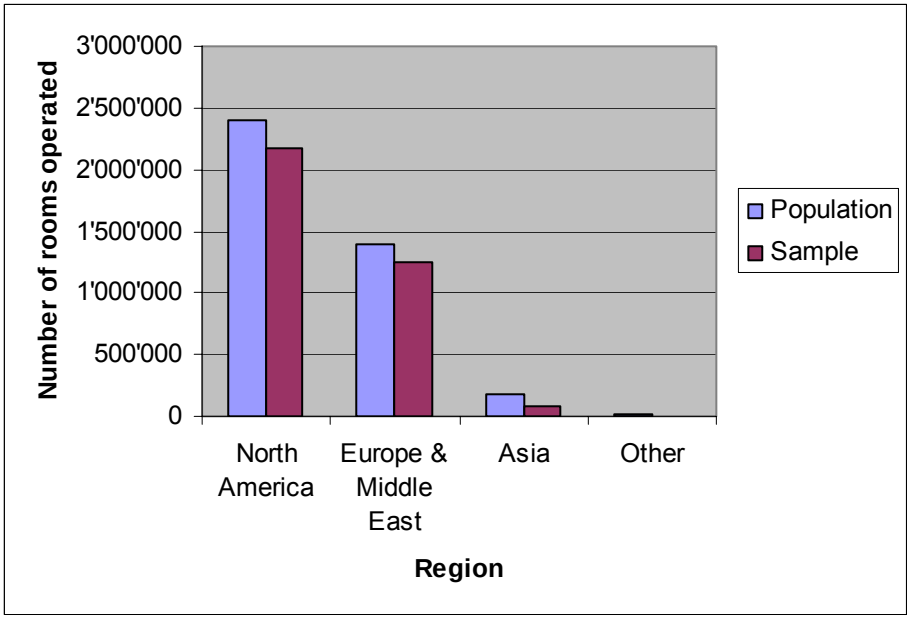
5.5 Key characteristics of the sample

Rank	Name	Country HQ	Number of countries	Total Rooms	Total Hotels	Year Est'd
1	Cendant Corp	US	24	548'641.00	6429	1990
2	Bass Hotels & Resorts	UK	100	496'005.00	3092	1952
3	Marriott Int'l	US	58	404'792.00	2198	1927
4	Accor	France	88	389'437.00	3488	1967
5	Choice Hotels Int'l	US	41	349'392.00	4371	1980
6	Hilton Hotel Corp	US	16	314'628.00	1867	1930
7	Starwood Hotels	US	80	215'207.00	687	1995 (1970)
8	Carlson Hospitality (Radisson SAS)	US	61	119'710.00	657	1938
9	Hyatt	US	41	87'969.00	196	1957
10	Sol Melia	Spain	29	82'733.00	337	1954
11	Hilton International	UK	50	80'000.00	276	1919
12	Granada Compass	UK	55	63'678.00	457	1958
13	US Franchise systems	US	5	32'722.00	400	1995
14	Interstate	US	4	31'167.00	160	1970
15	Fairmont	Canada	5	29'714.00	70	1906
16	Riu Hotels	Spain	7	25'450.00	90	1977
17	Millenium & Copthorne	UK	13	24'200.00	88	1996
18	Barcelo Hotels	Spain	14	21'463.00	101	1962
19	NH Hoteles	Spain	7	20'426.00	40	1960
20	Shangri-La Hotels	PRC (HK)	10	19'202.00	37	1971
21	Fujita kanko	Japan	1	19'000.00	81	1955
22	Omni Hotels	USA	3	15'000.00	38	1958
23	Dorint Hotels & Resorts	Germany	11	14'465.00	85	1959
24	Four Seasons	Canada	20	12'298.00	48	1961
25	Steigenberger Hotels	Germany	6	11'930.00	71	1930
26	Sunroute Hotel systems	Japan	4	11'359.00	86	1970
27	Raffles/Swissôtel	CH	14	9'089.00	34	1995
28	Tishman Hotel Corp	USA	3	8'523.00	14	1982
29	Loews Hotels	USA	2	8'041.00	19	1946
30	New Otani	Japan	3	7'005.00	22	1964
31	Kempinski AG	Germany	11	6'410.00	23	1887
32	Great Eagle Hotels	PRC (HK)	6	4'113.00	7	1996
33	Rotana Hotels	Dubai	3	3'570.00	19	1992
34	IPE Tourismo	Portual	2	3'000.00	50	2000
35	Marco Polo Hotels	PRC (HK)	4	3'000.00	7	1986
36	Peninsula Group	PRC (HK)	4	2'984.00	8	1928
37	Turin Hotels	Italy	2	2'900.00	14	1991
38	Dedeman Hotels & resorts	Turkey	2	2'311.00	12	1965
39	Jumeirah Int'l	Dubai	2	1'500.00	6	1997
40	RF Hotels	UK	4	1'250.00	7	1996
41	Orotels	CH	2	410.00	2	1976

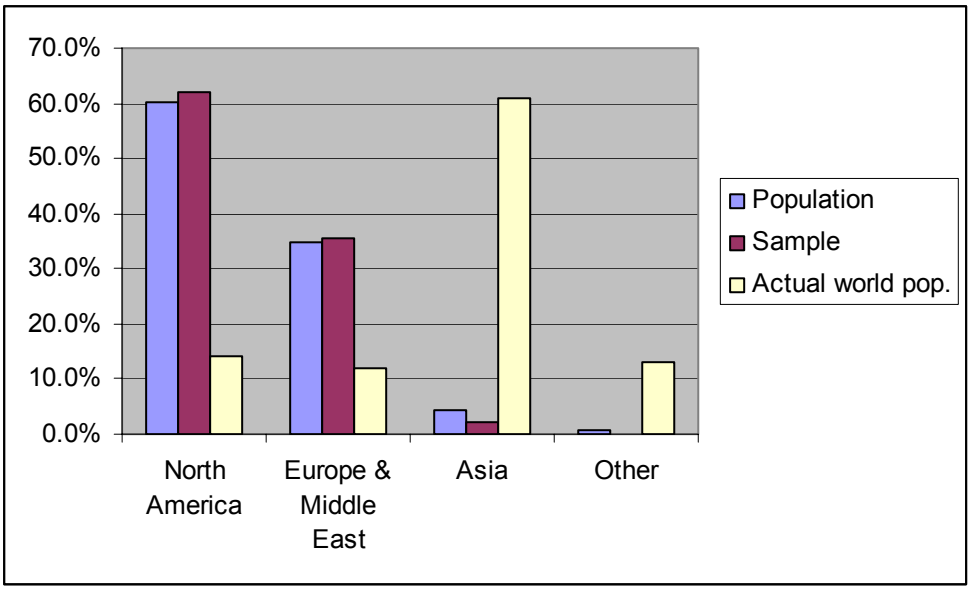
5.6 Representation in population & sample by country



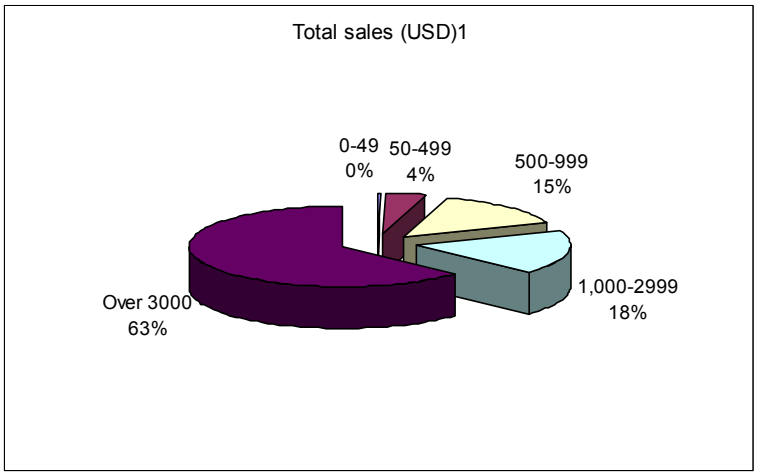
5.7 Representation in population & sample by number of rooms



5.8 Comparison of population & sample of the study (by numbers of rooms per region) and the current world population in %.



5.9 Concentration of sales revenues by size of chains (US$ mn)



5.10 Establishing the Internationalisation matrix

The Internationalisation matrix was established in the following way:
1.*The number of countries* that a hotel company was present in was ranked from 1-3 with the following scale:

Table 1: Ranking of countries

RANK	CRITERIA
1	Representation at the most or equal in 24 countries
2	Representation between 24 and 50 countries
3	Representation at least or more 50 countries and more

2. The *Foreign propensity index* of the company was assessed and ranked accordingly (the FPI is calculated by dividing the number of foreign rooms by the total number of rooms).

Table 2: ranking of foreign rooms

Rank	Criteria
1	FPI <25
2	25 < FPI <50
3	50 < FPI

3. The Index was then weighted as follows:
Code International rooms x 60 + Code Country x 40
100 100
4. The internationalisation was then re-coded as follows using the quarters of the frequencies in the sample:

Table 3: Recoding international rooms

RANK	CRITERIA
1	FPI <15
2	15 <FPI <35
3	35<FPI<62
4	62<FPI

The level of internationalisation index was recoded as follows:

Table 4: Level of Internationalisation Index

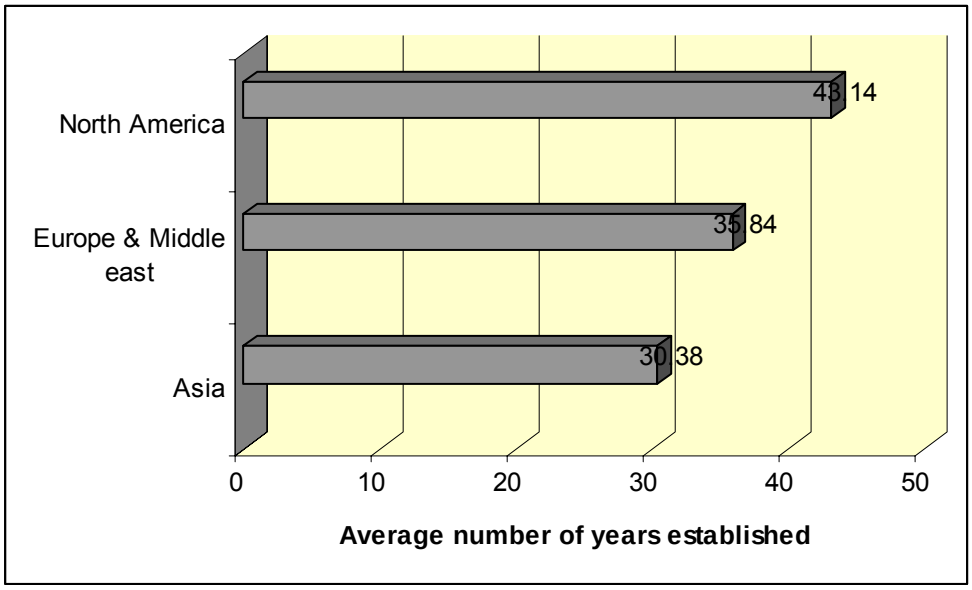
Rank	Criteria
1	If index < 2 & overall index < 1.60
2	If index < 3 & overall index < 2.6
3	Recode index 3 or more & overall index 2.20.

Country_index * Recode_Internationalization Crosstabulation

Count

		Recode_Internationalization				Total
		1.00	2.00	3.00	4.00	
Country_index	1.00	9	5			14
	2.00		5	4		9
	3.00			6	11	17
Total		9	10	10	11	40

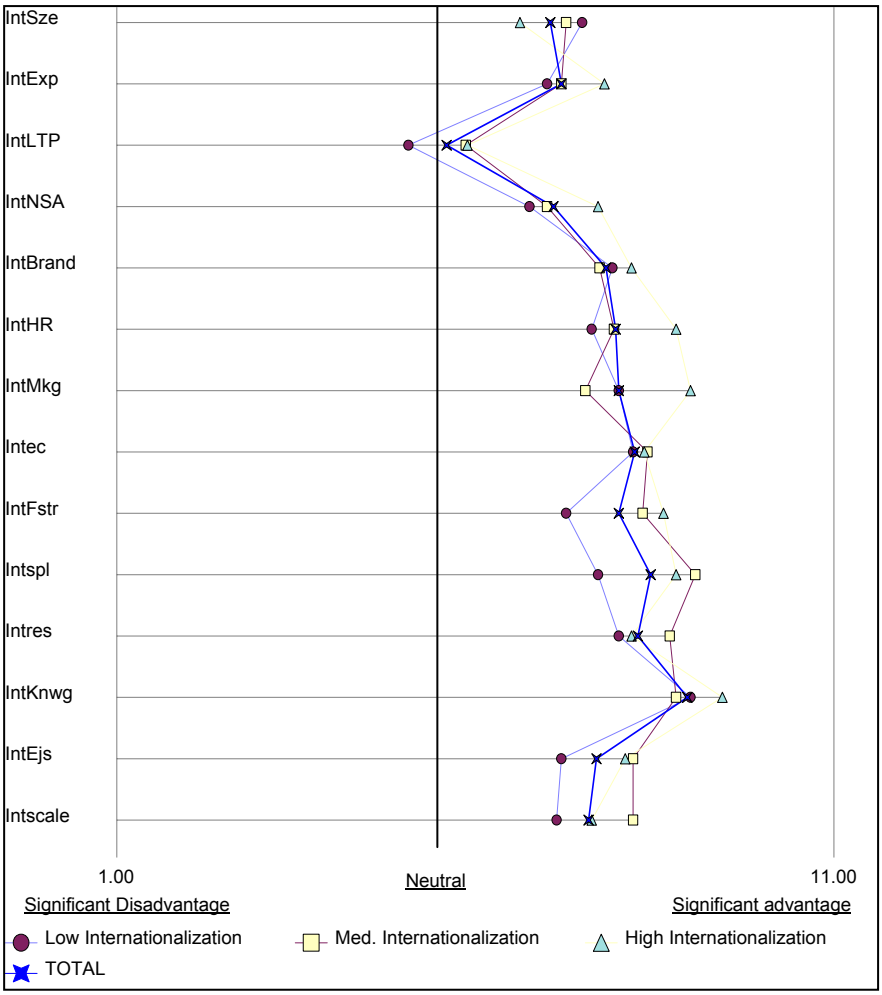
5.11 Age of company by region



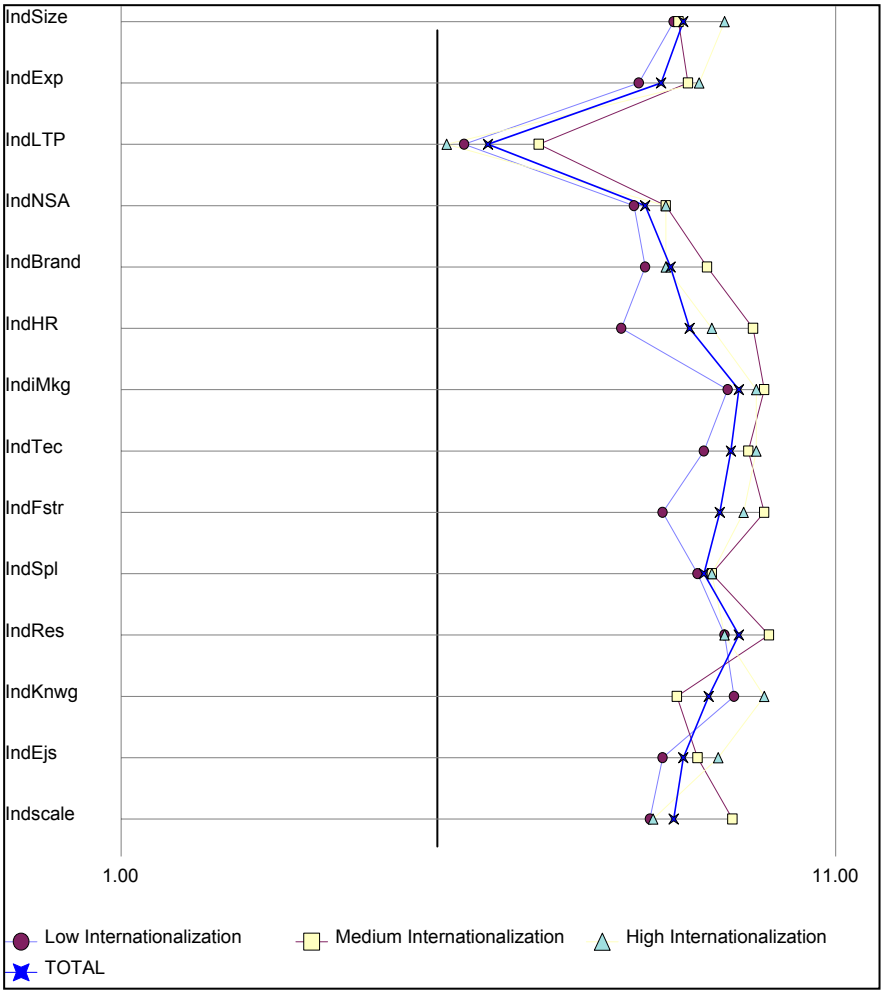
5.12 Companies represented in Eastern Central Europe

	DOMESTIC CHAIN	INTERNATIONAL CHAIN	INCLUDED IN SAMPLE
Accor		X	X
Alliance		X	
Barcelo Hotels		X	X
Bass Hotels & Resorts		X	X
Cendant		X	X
Choice Hotels Europe		X	X
Corinthia Hotels Int'l	X		
Danubius Hotels	X		
Dom Pedro Hotels		X	
Dorint Hotels		X	X
Eravis Hotels	X		
Compass Forte		X	X
Groupe Enerverguere		X	
Four Seasons		X	X
Hilton International		X	X
Hunguest Hotels	X		
Hyatt Hotels & Resorts		X	X
K&K Management		X	
Kempinski Hotels		X	X
Klub Hotels Balaton	X		
Marriott Int'l		X	X
Mol Hotels	X		
Movenpick Hotels		X	
Orbis Company	X		
Orea Hotels	X		
Ost Gromada	X		
Radisson SAS		X	X
Starwood Hotels		X	X
Total	8	19	14

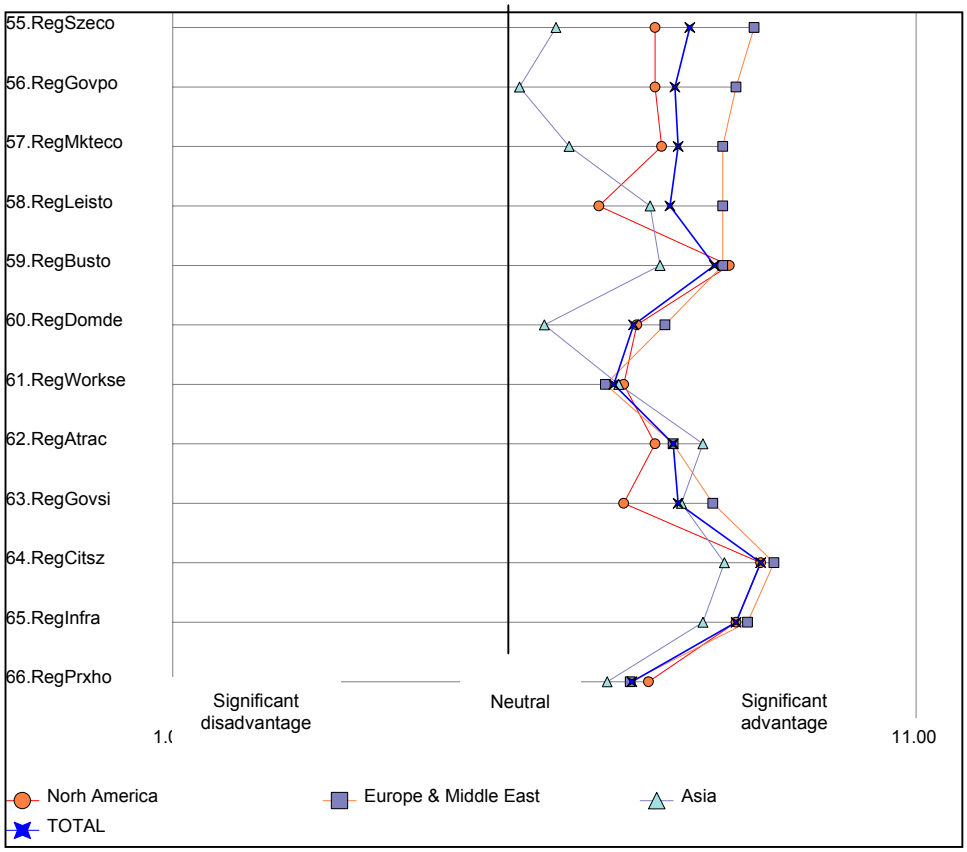
5.13 Ownership advantages as against international hotel operators by level of internationalisation



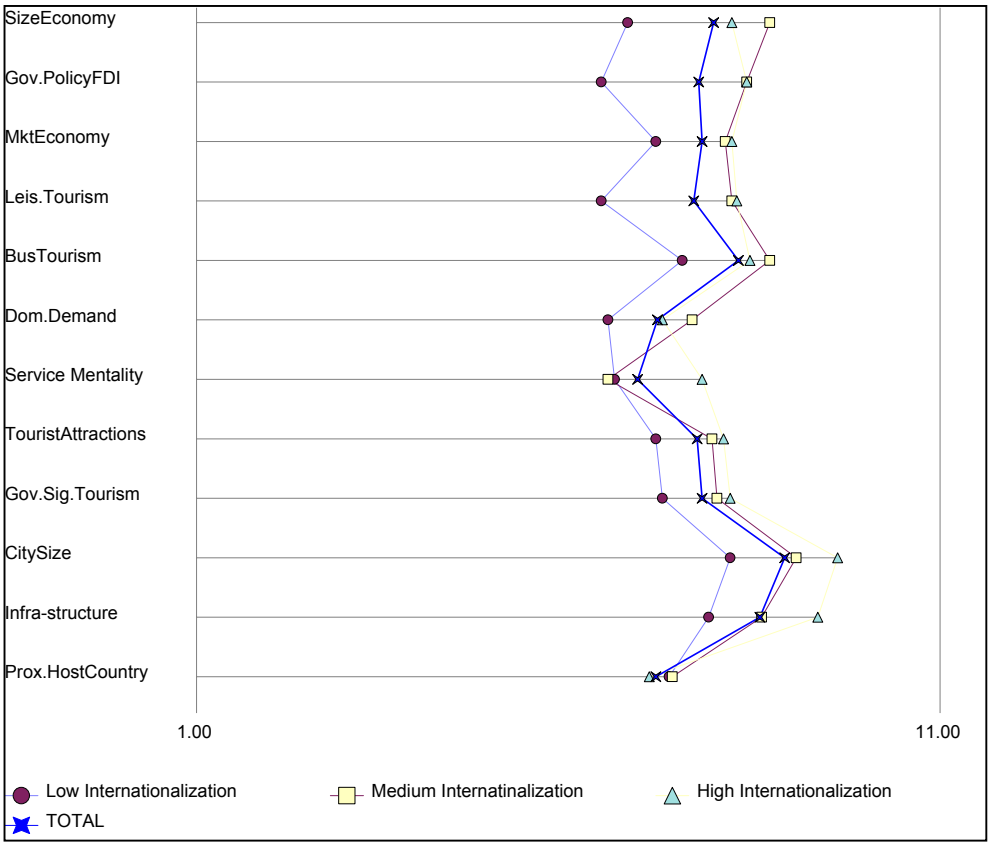
5.14 Ownership advantages as against indigenous hotel operators by level of internationalisation



5.15 Location-Specific advantages for Eastern Central Europe by origin of headquarters



5.16 Location specific advantages for Eastern Central Europe by level of internationalisation



5.17 Internalisation reasons by country

Reason	Czech	Slovakia	Hungary	Poland	Slovenia	Total
Maintain desired levels of quality	1	1	1	1	1	5
Economic and financial conditions within host country	2	1	2	2	1	8
Experience of the company in international business	1	1	2	2	1	7
Availability of investment funds	2	1	1	1	1	6
Minimize regulation & day-to-day transaction costs	1	1	1	1	1	5
Exploit economies of scope	1	1	1	1	1	5
Perceived need for diversification	1		1	1		3
Utilize parent company expertise)	1		1	1		3
Total	**10**	**6**	**10**	**10**	**6**	**42**

5.18 Details of inertia from correspondence analysis

Company specific advantages (Ownership advantages) as against international hotel companies

Row Scores:

COMPANY	Marginal Profile	Dim 1	Dim 2
1 Cendant	.214	-.057	.253
2 Bass	.211	-.094	.252
3 Accor	.186	.761	-.285
4 Choice	.216	-.096	.230
5 Hilhotel	.173	-.512	-.599

Contribution of row points to the inertia of each dimension:

COMPANY	Marginal Profile	Dim 1	Dim 2
1 Cendant	.214	.004	.118
2 Bass	.211	.012	.116
3 Accor	.186	.683	.130
4 Choice	.216	.013	.099
5 Hilhotel	.173	.288	.538
	---	---	
	1.000	1.000	

Contribution of dimensions to the inertia of each row point:

COMPANY	Marginal Profile	Dim 1	Dim 2	Total
1 Cendant	.214	.013	.182	.194
2 Bass	.211	.058	.304	.362
3 Accor	.186	.907	.093	1.000
4 Choice	.216	.071	.303	.375
5 Hilhotel	.173	.498	.501	.999

Column Scores:

VARIABLE	Marginal Profile	Dim 1	Dim 2
1 Szeeco	.078	-.682	.171
2 Govpol	.070	-.849	.069
3 Mkteco	.089	-.021	-.142
4 Leistou	.082	.085	-.132
5 Bustour	.091	.341	.030
6 Domdem	089	-.087	.135
7 Workser	.070	.534	.926
8 Touratt	.093	.076	-.142
9 Govsig	.093	-.349	-.001
10 Citsize	.082	.209	.235
11 Infras	.087	.170	-.609
12 Proxhost	.076	.531	-.361

Contribution of column points to the inertia of each dimension:

VARIABLE	Marginal Profile	Dim 1	2
1 Szeeco	.078	.230	.020
2 Govpol	.070	.319	.003
3 Mkteco	. 089	.000	.015
4 Leistour	.082	.004	.012
5 Bustour	.091	.067	.001
6 Domdem	.089	.004	.014
7 Workser	.070	.126	.517
8 Touratt	.093	.003	.016
9 Govsig	.093	.072	.000
10 Citsize	.082	.023	.039
11 Infras	.087	.016	.277
12 Proxhost	.076	.136	.086
	--------	--------	
	1.000	1.000	

Contribution of dimensions to the inertia of each column point:

VARIABLE	Marginal Profile	Dim 1	2	Total
1 Szeeco	.078	.851	.039	.890
2 Govpol	.070	.837	.004	.841
3 Mkteco	.089	.014	.487	.501
4 Leistour	.082	.359	.625	.984
5 Bustour	.091	.807	.005	.811
6 Domdem	.089	.259	.452	.711
7 Workser	. 070	.308	.680	.988
8 Touratt	. 093	.100	.255	.355
9 Govsig	. 093	.931	.000	.931
10 Citsize	. 082	.144	.135	.279
11 Infras	. 087	.064	.605	.670
12 Proxhost	.076	.380	.129	.509

Company specific advantages (Ownership advantages) as against indigenous companies

Row Scores:

COMPANY	Marginal Profile	Dim 1	2
1 Cendant	.209	.103	-.053
2 Bass	.209	.494	.107
3 Accor	.193	-.029	-.136
4 Choice	.182	-.353	.425
5 Hilt. Co	.207	-.265	-.301

Contribution of row points to the inertia of each dimension:

COMPANY	Marginal Profile	Dim 1	2
1 Cendant	.209	.024	.010
2 Bass	.209	.563	.041
3 Accor	.193	.002	.061
4 Choice	.182	.250	.564
5 Hilt. Co	.207	.161	.323
		1.000	1.000

Contribution of dimensions to the inertia of each row point:

COMPANY	Marginal Profile	Dim 1	2	Total
1 Cendant	.209	.153	.026	.178
2 Bass	.209	.925	.028	.953
3 Accor	193	.019	.273	.292
4 Choice	.182	.518	.481	.999
5 Hilt. Co	.207	.492	.407	.899

Column Scores:

VARIABLE	Marginal Profile	Dim 1	2
1 Size	.073	.032	-.090
2 Expernc	.071	.167	.396
3 LTP	.047	1.121	.297
4 Netstrat	.076	-.026	.047
5 Brand	.073	-.077	.089
6 HRM	.074	.132	-.312
7 Mktg	.078	-.032	-.001
8 Techadv	.074	-.219	.214
9 Finstgh	.070	.325	-.612
10 Strplan	.070	-.181	-.145
11 Ressytm	.078	-.105	.195
12 Knwguest	.071	-.200	.050
13 Ecosupp	.073	-.265	-.031
14 Ecoscale	.073	-.265	-.031

Contribution of column points to the inertia of each dimension:

VARIABLE	Marginal Profile	Dim 1	2
1 Size	.073	.001	.010
2 Expernc	.071	.022	.192
3 LTP	.047	.658	.072
4 Netstrat	.076	.001	.003
5 Brand	.073	.005	.010
6 HRM	.074	.014	.124
7 Mktg	.078	.001	.000
8 Techadv	.074	.039	.059
9 Finstgh	.070	.081	.449
10 Strplan	.070	.025	.025
11 Ressytm	.078	.009	.051
12 Knwguest	.071	.031	.003
13 Ecosupp	.073	.056	.001
14 Ecoscale	.073	.056	.001
	---	---	
	1.000	1.000	

Contribution of dimensions to the inertia of each column point:

VARIABLE	Marginal Profile	Dim 1	2	Total
1 Size	.073	.046	.226	.272
2 Expernc	.071	.152	.547	.699
3 LTP	.047	.948	.043	.991

4 Netstrat	.076	.188	.390	.577
5 Brand	.073	.069	.059	.128
6 HRM	.074	.190	.682	.872
7 Mktg	.078	.103	.000	.103
8 Techadv	.074	.454	.279	.733
9 Finstgh	.070	.304	.691	.995
10 Strplan	.070	.385	.159	.544
11 Ressytm	.078	.294	.651	.946
12 Knwguest	.071	.446	.018	.464
13 Ecosupp	.073	.818	.007	.825
14 Ecoscale	.073	.818	.007	.825

Summary of multiple points in chart #3

Dim1	Dim2	Actual label or name
-.26	-.03	Ecosupp
-.26	-.03	Ecoscale

Location specific for Eastern central Europe

Row Scores:

COMPANY	Marginal Profile	Dim 1	2
1 Cendant	.231	-.085	.197
2 Bass	.232	-.266	.321
3 Accor	.153	-.419	-.591
4 Choice	.151	.672	-.118
5 Hilt. Co	.232	.189	-.051

Contribution of row points to the inertia of each dimension:

COMPANY	Marginal Profile	Dim 1	2
1 Cendant	.231	.014	.100
2 Bass	.232	.136	.269
3 Accor	.153	.221	.600
4 Choice	.151	.561	.024
5 Hilt. Co	.232	.068	.007
	---	---	
	1.000	1.000	

Contribution of dimensions to the inertia of each row point:

COMPANY	Marginal Profile	Dim 1	2	Total
1 Cendant	.231	.131	.519	.650
2 Bass	.232	.439	.468	.907
3 Accor	.153	.406	.591	.997
4 Choice	.151	.944	.021	.965
5 Hilt. Co	.232	.607	.032	.639

Column Scores:

VARIABLE	Marginal Profile	Dim 1	2
1 Size	.076	-.309	-.167
2 Expernc	.074	-.324	-.386
3 LTP	.049	-.678	1.012

4 Netstrat	.076	-.309	-.167
5 Brand	.076	-.309	-.167
6 HRM	.079	-.249	-.336
7 Mktg	.074	-.086	-.097
8 Techadv	.072	.251	.158
9 Finstgh	.069	-.115	.341
10 Strplan	.069	.338	.017
11 Ressytm	.074	.341	.156
12 Knwguest	.070	.430	.018
13 Ecosupp	.070	.467	-.017
14 Ecoscale	.072	.439	.038

Contribution of column points to the inertia of each dimension:

VARIABLE	Marginal Profile	Dim 1	2
1 Size	.076	.059	.024
2 Expernc	.074	.064	.123
3 LTP	.049	.186	.567
4 Netstrat	.076	.059	.024
5 Brand	.076	.059	.024
6 HRM	.079	.040	.100
7 Mktg	.074	.004	.008
8 Techadv	.072	.037	.020
9 Finstgh	.069	.007	.089
10 Strplan	.069	.064	.000
11 Ressytm	.074	.071	.020
12 Knwguest	.070	.107	.000
13 Ecosupp	.070	.126	.000
14 Ecoscale	.072	.114	.001
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	1.000	1.000	

Contribution of dimensions to the inertia of each column point:

VARIABLE	Marginal Profile	Dim 1	2	Total
1 Size	.076	.761	.163	.924
2 Expernc	.074	.379	.393	.772
3 LTP	.049	.376	.615	.991
4 Netstrat	.076	.761	.163	.924
5 Brand	.076	.761	.163	.924
6 HRM	.079	.426	.570	.996
7 Mktg	.074	.289	.270	.558
8 Techadv	.072	.705	.204	.909
9 Finstgh	.069	.124	.796	.920
10 Strplan	.069	.929	.002	.931
11 Ressytm	.074	.740	.113	.853
12 Knwguest	.070	.852	.001	.853
13 Ecosupp	.070	.994	.001	.995
14 Ecoscale	.072	.892	.005	.897

Summary of multiple points in chart #5

Dim1	Dim2	Actual label or name
-.31	-.17	Size
-.31	-.17	Netstrat
-.31	-.17	Brand

5.19 «t» test of means

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Interna_Experience	7.28	39	2.837	.454
	Indigen__Experience	8.56	39	2.864	.459
Pair 2	Interna_Long_term_presence	5.94	34	3.004	.515
	Indigen__Long_term_presence	6.15	34	3.006	.516
Pair 3	Interna_Net_Strategic_alliances	7.43	37	2.754	.453
	Indigen__Net_Strategic_alliances	8.35	37	2.860	.470
Pair 4	Interna_Reservation_system	8.32	37	2.450	.403
	Indigen__Reservation_system	9.65	37	1.844	.303
Pair 5	Interna_Knowledge_guest_needs	9.03	38	1.700	.276
	Indigen__Knowledge_guest_needs	9.24	38	1.979	.321
Pair 6	Interna_Economies_joint_supply	7.79	38	2.601	.422
	Indigen__Economies_joint_supply	8.87	38	2.146	.348
Pair 7	Interna_Economies_of_scale	7.68	38	2.537	.412
	Indigen__Economies_of_scale	8.74	38	1.968	.319
Pair 8	Interna_SIZE	7.18	39	3.025	.484
	Indigen__SIZE	8.87	39	2.397	.384
Pair 9	Interna_Brand_name	8.08	38	2.454	.398
	Indigen__Brand_name	8.71	38	2.588	.420
Pair 10	Interna_Human_resources	8.29	38	2.180	.354
	Indigen__Human_resources	8.97	38	2.573	.417
Pair 11	Interna_Marketing_expertise	8.29	38	2.052	.333
	Indigen__Marketing_expertise	9.66	38	1.849	.300
Pair 12	Interna_Technological_advance	8.53	38	1.899	.308
	Indigen__Technological_advance	9.55	38	1.719	.279
Pair 13	Interna_Financial_strength	7.97	38	3.027	.491
	Indigen__Financial_strength	9.39	38	2.343	.380
Pair 14	Interna_Strategic_planning	8.53	38	2.153	.349
	Indigen__Strategic_planning	9.16	38	1.966	.319

Map 1 Number of properties in Eastern Central Europe