

**SPANISH HOTEL-REAL ESTATE FOREIGN INVESTMENT EVOLUTION:
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During a time characterized by accelerated changes in the world economy, the interest in the expansion towards foreign markets seen in various fields of research is justified by the importance the globalization process and the activity of multinationals have reached, proving highly relevant in investment, the labour market, international commerce or global production. Within this context, economies are opening up to the outside, taking advantage of the various social, political and economical changes. The growing competitiveness, the speed of technological innovation, the fast process of economical integration and the power of the south-east Asian economies in an international context are just a few of the factors that have influenced the turn into economical evolution over the last decades. Under these circumstances, services have become one of the main internationalized sectors, making them increasingly globalized activities. If, until a few years ago, it was unthinkable to offer a service outside the home companies' country, technological progress has not only promoted their internationalization through direct investment in foreign subsidiaries, but has allowed these services to be offered without the need for direct investment.

Foreign direct investment (from now on FDI) plays a more and more prominent role in globalized economies and is characterized by a considerable impact on domestic economies – particularly in tourism (Tang et al., 2007) – leading many governments to try to create attractive areas for foreign investors, more so at a time like this, wrought with economical difficulties. Mass market globalization has encouraged FDI as the main force behind developed and underdeveloped economies. Until recently, the flow of foreign direct investment found its epicentre in developed countries. However, the effects of the greatest financial and economical recession since the Great Depression of the thirties have altered this pattern. Perhaps one of the most significant consequences of this crisis is the spectacular plunge in international production and commerce, to which a brutal cut back in FDI was added. This in turn has been hugely affected causing a deep contraction, in spite of the inertia behind the tendencies of the market in times of economical prosperity. With this approach, and due to the fact that the core of the recession is located in developed countries, FDI has suffered an even greater drop in these areas, while in developing countries, the effects of the recession arrived later and are visibly weaker. Governments have been forced to take measures to ease the effects of this recession and a slight recovery has been encouraged, which seems to be linked to the almost 10% increase in FDI towards transition economies. This has managed to counteract the almost 7% drop in the flow of FDI in developed countries (ECLAC, 2011).

In these circumstances, the tourism industry enjoys the greatest growth potential, since it absorbs almost 10% of public and private investment, it increases the intake of currency, it creates new job opportunities, generating almost 8% of the world's jobs, and significantly contributes towards the world's GDP. Despite the singularity of the recession undergone in the last few years since the worldwide financial contraction in 2009, tourism's contribution towards GDP has dropped only a few decimals, reaching 9.3% (WTO). This sector shows a high capacity of economical growth enhancement in the countries in question, which leads to a social-economical development that could considerably increase the wealth and well-being of the destination countries, as well as offering the possibility of reducing unemployment in the recent critical situation of the labour market.

Over a third of global service commerce corresponds to tourism, the flows of international tourists being one of the most dynamic elements of the international economic exchanges of 25 million tourists in 1950, and over 900 million international tourist arrivals today¹. The industry is known for its constant demand transformations, the appearance of new destinations and the much greater personalization of the services offered, all this under the umbrella of service liberalization. Additionally, the ever greater tourism fragmentation and, therefore, of the value chain, simplifies the externalization of some tourism services, which encourages collaboration with related sectors. This causes the mass entry of companies involved in activities related to the tourist sector, such as financial institutions, construction companies and real estate agencies, among others. With these new tendencies shown by industries, the customer acquires more importance in the evolution of both tourist products and prices. It is reasonable to think that the structural character of short and long term international tourist demand and its dynamic nature provide more stability – compared to other sectors of economy – for tourist growth, even in situations of strong economical and financial turbulence such as the one we have been facing since 2008.

Within the Spanish framework, tourism has been one of the main pillars of the economical and social development in the country, reaching in 2009 over 105.39 billion Euros. This represents 10% of the national GDP at current prices, over half of which corresponds to the hospitality. The hotel industry is the most important in tourism and transport sectors, and has itself become a key sector in the economy (World Economic Forum, 2007). Indeed, the Spanish tourism industry, lead by its hotel chains, is responsible for the dynamics of international tourism development as well, largely, as that of Latin America. Furthermore, the hotel sector, the main element of Spanish tourism as regards gross investment per company and leader of the hospitality as regards business volume per company², is of high strategic relevance for tourism as a whole. It also proves to be very dynamic³ in the international field, leading the international expansion of the industry⁴.

Taking advantage of the evolution of airlines, information technologies, and telecommunications, the decrease in seasonality and the ever weaker association of tourism with holidays, the hotel industry has broadened its offers within the international framework. Even though, up to the end of the eighties, manufacturers – more intensive in FDI – appear to have received more FDI, companies dedicated to the service sector also seem to have considerably increased their flow of FDI since the nineties in the shape of mergers and acquisitions. We must underline the fact that the hotel sector is more human capital intensive but also in capital intensive (direct investment), because buildings for hotel use require high levels of expenditure.

¹ According to the predictions of the UNWTO, up to 2020, tourist arrivals will triple world-wide, reaching almost 16 trillion after registering an annual growth rate of 4.1%. The same growth pattern, though more drastic, is foreseen for the gains from international tourism, which during the period 1960-2006, have registered an annual growth rate of 10.6% at standard prices, not including those obtained from international transport.

² The National Institute of Statistics highlights that Spanish travel agencies, during 2008, had an average business volume of almost 2 million Euros and just thirteen thousand Euros of gross investment per company. Hotel chains, in that same year, were leaders of Spanish tourism as regards gross investment with over 119 thousand Euros per company, representing 88% more than travel agencies and 96% more than food chains. The average business volume per hotel is less than 42% of that of travel agencies, but five times that of food chains.

³ As the second international tourist destination, Spain excels thanks to its strong specialization in tourism since, in the eighties, its contribution to the national GDP was around 8%, whereas now it is over 10%.

⁴ Latin American countries, in 2010, received 16% of international arrivals, i.e. 150 million tourists in contrast with the 125 million received in 2006 (15%), and 166 trillion dollars of income from global tourism (20%) as opposed to 13% in 2006 (UNWTO).

Generally, companies have a wide array of options to internationalize their activities, although there are usually differences between companies as well as between industries. Access to the global market can be gained through contractual or equity agreements from franchise, management or lease contracts to direct investment – with partnerships or alone – which, in turn, involve buying or building new establishments. The special ease with which the hotel industry separates elements of capital from know-how allows it to stay in control of foreign activity via contractual agreements without the need to constantly make direct investments. Spanish hotel firms seem to tend towards contractual agreements. Improving contracts, particularly management contracts, by incorporating very detailed clauses to protect both sides, leads them to be even more interesting for the global expansion. However, compared to the rest of the world, the Spanish hotel industry is one that makes great use of FDI strategies, getting involved in the property of buildings, which operate by means of acquisition of foreign hotels.

The analysis of the choice of expansion methods in hotels has caused great interest among national and international researchers. However, the often uneven results and conclusions linked to the factors that affect this decision require a more detailed analysis. This situation of divergence could be due to the different time periods in which the cross-section data is gathered, along with the very evolution of hotel companies' behaviour based on their experience and what they have learnt.

The international expansion of the Spanish hotel chains has registered not only constant growth, but also permanent transformation. During this last decade, chains have expanded and diversified the array of countries in which they operate, as well as taking positions in the urban destinations of mature markets, essentially Europe and the United States. If during 2000 there were almost 100.000 accommodation units and 375 foreign hotels associated with national hotel chains, 88% of which showed a holiday specialization, in 2010 there were over 850 hotels operated by these brands outside the Spanish borders, just 53% with a clearly holiday-oriented policy. As regards the expansion formulas, previous studies have chosen not to analyze leasing as a form of exploitation of foreign hotel facilities, when this phenomenon saw a 17% annual increase during that time. Furthermore, this has been encouraged by the introduction in the tourism sector of companies belonging to other fields of activity – namely construction and real estate – as financial partners in the international expansion of the sector (Ramón, 2010).

Consequently, the main aim of this analysis is to emphasize the evolution of the factors that have influenced the choice of internationalization strategy over the past decade. To this end, we are mainly going to use two great theoretical frameworks of reference mentioned in specialized literature: approaches on the theory of transaction cost and approaches on business abilities and resources. We will also refer to the evolutionary theory or Uppsala model and its derivation towards the theory of business networks, as well as the institutional theory, which we believe all help us to understand the finer details of the process.

Therefore, the major innovations of this investigation are: (a) the longitudinal perspective of the analysis, using panel data and pooled regressions, which allows us to observe the evolution of the internationalization process; (b) the consideration of different approaches in the choice of entry mode into international markets, thus narrowing the results of the analysis aiming to clarify some of the differences in the results of previous studies; (c) studying the determinants of the choice between acquiring or building new hotels abroad; (d) underlining the role of linguistic barriers in the process of making these decisions; (e) exploring the effect of the link forged between Spanish real estate and construction companies in the foreign entry modes selection of the hotel expansion; (g) checking and specifying the differences between the internationalization formulas of holiday or urban establishments; (h) underlining the disagreements between the guidelines for expansion strategy selection depending on the destination areas; (i) including interactions in this analysis to see the combined effect of the different variables; (j) checking the existence of differences in the *modus operandi* of Spanish hotels at times of economical prosperity and recession; (k) introducing the rigidity of labour regulations as a determiner of the type of hotel acquisition.

For this purpose, we have structured the investigation as follows. Firstly, we will explain the international expansion formulas. The peculiarities of the service sector require special attention in order to simplify the understanding of how the internationalization of the hotel industry works and, therefore, its modalities. Furthermore, we will emphasize the comparison between the most used entry modes in the sector under study: management and leasing, on one hand, and acquisition and Greenfield, on the other.

Then, in the third section, we will list the numerous theoretical frameworks, developed since business internationalization has become one of the main fields of research, which will help us to explain the behaviour of hoteliers in their decisions regarding how to access foreign markets. Particularly relevant is the theory of transaction cost, from a cost reduction perspective, due to its broad use in the literature, and the theory of business skills, from the point of view of resources and the possibility of improving management skills, which have been used more and more to complement the transaction cost vision. Along with this, there have been other theories or models able to explain the behavioural guidelines in business internationalization, of which there are several that strike us: (a) some as a prolongation of the transaction cost theory, and we are referring to the agency theory, to the institutional theory and to the real option theory, or (b) as independent theoretical contexts, such as Uppsala with its derivation towards the network model.

The fourth chapter will focus on the evolution of the global tourism framework and its most revealing trends, which seem to explain some of the aspects of Spanish hotel evolution beneath the umbrella of globalization. The targeting of the value chain, the ever greater role of customers and the arrival of new hotel products seem to have their origin in the variations in the funding of the Spanish hotel internationalization process. All this leads us to the main role of the business networks created by firms belonging to different sectors of a national economy. The close links between real estate agencies/construction companies and financial institutions have favoured the creation of strong synergies between Spanish hotels and estate agencies/construction companies. In short, the confluence of real estate and hotel interests in one same project has allowed changes in Spanish hotel strategies that have gradually materialized through the appearance of new joint hotel and hotel-real estate products, especially in Latin America, the Caribbean and the north of Africa.

Chapters five and six make for a more detailed study of the international expansion of the Spanish hotel industry which, as well as being in constant growth, has excelled over the past decade thanks to the transformations it has undergone. The diversification of destinations and of the tourist clientele has encouraged the entry into more mature markets, such as the European or US markets, along with the development of a less experienced aspect in the domestic market. That is, the urban hotel services, a specialization of the world leader, the Anglo-Saxon hotel industry. Therefore, competing with companies and businesses already specialized in urban hotel services might not involve the same perspective as in the case of the holiday aspect, more traditional in the Spanish industry. Chains that venture into this new urban gap in the market must create or consolidate their global brand image, since their competitors show greater guarantees of service quality and success both for customers and for potential partners, which seems to simplify the reaching of contractual agreements, particularly of franchise. Along this line, over the last ten years, Spanish chains have expanded due to contractual formulas operating over 60% of foreign hotel establishments associated with these companies mainly through internal contractual agreements (management or leasing). The huge weight of management and leasing contracts after the mass entry of agents from related sectors, mainly real estate agencies and construction companies, requires further attention, more so bearing in mind that leasing has been ignored in most studies on Spanish hotel internationalization. The spectacular evolution of the world FDI, the relevance of tourism and hotel industries together with the patrimonial inclination of the Spanish accommodation industry and the predominance of international hotel acquisition operations contribute to our doubts as regards the behavioural patterns of Spanish hotels in the internationalization of their companies. More specifically we are looking for answers to questions such as: which factors determine the choice of entry mode into foreign markets and what is the long-term effect?, are different guidelines followed in the decision process according to the type of clientele, the level of economic development of the destination, the continent on which it grows, the language or the economic cycle phase in which they operate? In response to these questions, this investigation aims to bring forward some new contributions to the debate regarding the expansion of Spanish hotel chains in the global market, fine-tuning the previous results on the choice of international entry strategy.

Lastly, we present the main conclusions of the study that could be useful not only in the academic field, but also in the business world, indicating some lines of research that we have left open for future investigations.

With the aim of obtaining the European Doctoral Mention, in the following pages we will summarize our research focusing in the results and the innovations of our study. After exposing the hotel industry characteristics and the foreign entry modes used for its internationalization, a brief theoretical framework gets us to the hypothesis. The methodology and the results of the empirical study carried out precedes our final conclusions.