



Attracting international hotels: Locational factors that matter most



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HIGHLIGHTS

- We assess the factors that attract international hotels to tourism destinations.
- T&T welcomeness and the quality of infrastructure are the most significant factors.
- The level of corruption and crime rate make a destination less attractive.

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ABSTRACT

With the increased international competition facing hotel chains, it is essential that the next destination they enter is the most attractive option possible. The host destinations too have a keen interest in strategically positioning themselves in order to attract international hotels since their presence has several positive effects. Using, for the first time, actual on-location data we investigate the factors that matter most for international hotels when selecting host destinations. Specifically, we identify 23 factors that make a destination an attractive (or unattractive) location for international hotels. We then rank these. The results show that welcomeness, infrastructure, and crime rate are the three most important factors that influence the location of international hotels in host destinations.

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1. Introduction

In recent times, the growing importance of the tourism industry globally has renewed interest in investigating which locational factors attract international hotels to tourism destinations (Ramón Rodríguez, 2002). This stems from the direct and indirect benefits that international hotels confer on the local hotel industry and the local economy in general. For instance, the hotel industry in China has gained significantly from direct inward foreign investments by international hotels both in terms of capital assets and management know-how (Gu, Ryan, & Yu, 2012). In China and other destinations, international hotels have assisted in the creation of jobs, advancement of technologies and improvement of living standards (Gu et al., 2012; Go, Pine, & Yu, 1994). There is also growing evidence that through a spill-over effect, international hotels make the

local hotel industry more competitive and assist by bringing in “more highly diversified hotel products as defined by brands and market segments” (Gu et al., 2012, p. 58). Domestic hotels can benefit from the presence of international hotels both by learning their managerial practices and through recruiting some of their staff. Research on the MICE industry³ suggests that the presence of premium international hotels is an important factor when deciding where to hold their congress, conference, or other business meetings (Wan, 2011). The reputation and brand image of international hotels can also help destinations improve their international attractiveness and competitiveness (Assaf & Josiassen, 2012; Laws, 1995; Tsai, Song, & Wong, 2009).

Consequently, it is logical that destinations wish to attract international hotels. However, as hotels have become more selective in their destination choice due to the recent financial crisis and other economic challenges, one important issue to address is how hotels choose destinations, and the related question of how destinations can make themselves more attractive to international hotels.

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³ MICE refers to meetings, incentives, conferencing, and exhibitions.

Research devoted to this issue has identified several locational factors that hotel executives consider when selecting a particular destination. These factors include, among others, the size and nature of the city in which the hotel is located, the political stability of the region, the infrastructure within the region, and the perception of the region as an attractive business location. A seminal paper by [Dunning and Kundu \(1995\)](#) was the first to highlight these locational factors using the opinions of hotel executives from the US and other international destinations as their data. Recent research by [Johnson and Vanetti \(2005\)](#) also identified related factors using the opinions of major hotel executives from Eastern Europe as their data.

Building on these two studies, the present paper aims to offer an important extension to the current literature. We aim to test the locational factors that make a destination a preference site for international hotels using actual on-location data drawn from a large sample of international tourist destinations. Though research by [Dunning and Kundu \(1995\)](#) and [Johnson and Vanetti \(2005\)](#) identified key locational factors that hotel executives consider when going international, they (a) did not rank the factors nor (b) use concrete data. Hence, little is really known about the actual, rather than the perceived, strength and nature of the relationship between these locational factors and the destination choice of international hotels. In other words, while the literature provides executive opinion data about the locational factors of interest to international hotels, our aim here is to go one step further and collect concrete data on these factors and test and rank their importance in making a destination more attractive to international hotels. Such findings would have important implications for both hotel operators and tourism destinations. For hotel operators, for example, the findings will provide more precise guidance regarding their next locational choices; for destinations, the findings will help them to focus resources (such as time, expertise, and brand equity) on the most significant locational factors.

To achieve the above, we adopt in this study a three-stage approach. First, we build on the existing literature, in particular studies by [Dunning and Kundu \(1995\)](#) and [Johnson and Vanetti \(2005\)](#), to identify the locational factors that hotel operators consider when selecting an international destination. Second, we conduct interviews with hotel executives to validate these factors and potentially identify any locational factors that may have emerged since the two studies were carried out. Third we collect hard data on all these locational factors and test whether and to what extent they contribute to the presence of international hotels in a particular destination. Our goal is to identify the most critical locational factors that make a destination more or less attractive to international hotels. We use a unique sample of international destinations across several periods of time. From these destinations, we collect concrete data on the various locational factors previously identified and on the degree of concentration of international hotels at these destinations. Then, we develop a regression model to test how each of these locational factors has contributed to the concentration of international hotels at the destination. Specifically, we examine an updated and large sample of 123 international destinations spanning the years 2007–2011.

The remainder of this paper is organized as follows: Section 2 presents the research framework. Section 3 presents the research design and analysis. Section 4 elaborates on the methods and the data. Section 5 presents and discusses the results, and finally Sections 6 and 7 highlight the implications and provide directions for future studies.

2. Research framework

Several theories have been proposed in the literature to explain firms' internationalization and locational strategies. Economists

have largely focused on the theory of foreign direct investment (FDI) and related sub-theories such as market imperfection theory, international production theory, and internationalization theory ([Byckley, 1983, 1988](#); [Hymer, 1970](#)). Recently, network theory has also started to gain increased popularity ([Burton, Kahler, & Montgomery, 2009](#)).

Central to these theories is firms' constant search for new market opportunities, and firm internationalization which is defined "as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries" ([Morgan & Katsikeas, 1997, p. 70](#)). The international production theory and internationalization theory specifically argue that the motivation of a firm to internationalize will depend on the resource advantages available in its home market in comparison to host locations. Firms, for instance, are more attracted to markets that possess unique advantages in terms of locations and other related resources, or which have flexible government policies or markets ([Dunning & Kundu, 1995](#)). Importantly, firms' internationalization behaviour also depends on the benefits they receive from further internationalization activities. Firms will continue to internationalize "until the benefits of further internationalization are outweighed by the costs" ([Johnson & Vanetti, 2005, p. 1079](#)). Importantly, with more internationalization activities, the networks⁴ that the firm develops with its various stakeholders (e.g. customers, suppliers, competitors, governments) become more integral to its success in international markets.

Seminal papers by [Dunning \(1993\)](#) and [Johnson and Vanetti \(2005\)](#) have built on the above theories to analyze the locational strategies of firms in international markets. These theories, however, are not specifically focused on locational factors that help attract firms to international markets. Consequently, [Dunning \(1993\)](#) and [Johnson and Vanetti \(2005\)](#) developed an eclectic paradigm to explain the locational choice of hotel companies in such markets. This paradigm was introduced by John Dunning in a series of papers ([Dunning, 1993](#); [Dunning & McQueen, 1982](#)), in which he claims that the international activities of multinational firms are determined by three main pillars: ownership advantages (O), location advantages (L), and internationalization advantages (I).⁵ Hence, while internationalization theory does focus on the choice of location, the eclectic paradigm is seen as more holistic as it addresses three broader factors. The ownership advantages (e.g. size of the firm, and international experience) refer to the advantages of a firm seeking to engage in international activities, while the internationalization advantages refer to the advantages that companies "derive from the modality of foreign involvement selected when going international" ([Johnson & Vanetti, 2005, p. 1081](#)). Finally, the location advantages are mainly derived from destination-level analysis, and include specific host destination advantages (e.g. quality of infrastructure, restrictions and regulations and political stability, etc.) that can potentially affect firms' internationalization activities and their investment behaviour ([Dunning, 1993](#)). The eclectic paradigm has been rigorously tested in the hotel industry and is perfectly suitable for the study of location as it has location as one its three main pillars.

Follow [Dunning \(1993\)](#) and [Johnson and Vanetti \(2005\)](#), we select the eclectic paradigm as our main theoretical framework for the present research. As mentioned, our main objective is to use concrete data to rank the locational factors that matter the most for hotel firms when selecting international host destinations.

⁴ As underlined by the network theory, networks can take many forms, such as strategic alliances, joint ventures, joint research and developments.

⁵ For this reason, the eclectic paradigm is also known as the OLI paradigm.

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