Tourism Management 61 (2017) 368–379

Contents lists available at ScienceDirect

Tourism Management

journal homepage: www.elsevier.com/locate/tourman

Institutions and transaction costs in foreign-local hotel ventures: A grounded investigation in the developing Pacific

T.S. Stumpf [a, *], Nancy Swanger [b]

[a] School of Business, Humboldt State University, Siemens Hall 111, 1 Harpst Street, Arcata, CA 95521, USA
[b] School of Hospitality Business Management, Washington State University, Todd Hall 342, PO Box 644736, Pullman, WA 99164-4750, USA

HIGHLIGHTS

- Investigates how to develop a workable hotel business in a challenging industry and institutional context.
- Collected and analyzed data from 48 interviews using grounded theory method.
- Develops grounded theory called the *Insider-Outsider Connections and Partnerships* (IOCP) process approach.
- Delineates contrasts between IOCP and status quo approaches to foreign-local hotel business ventures.
- Explains how IOCP involves working within the institutional reality to economize transaction costs.

ARTICLE INFO

Article history:
Received 17 June 2016
Received in revised form
1 February 2017
Accepted 4 February 2017

Keywords:
Grounded theory method
Hotels
Pacific islands
Tourism
Transaction cost economics

ABSTRACT

This research investigates how to develop a viable hotel venture where the barriers to both tourism and business development are substantial. To this end, 48 interviews were conducted in a Pacific Island country which lacks a viable tourism industry, while being ranked one of the most difficult places to do business on the planet. Data were collected and analyzed using grounded theory method in conjunction with transaction costs economics as meta-theoretical lens. The grounded theory developed is characterized by a process approach to hotel development called *Insider-Outsider Connections and Partnerships* (IOCP). As opposed to the status quo approach to foreign-local hotel ventures predicated on idealistic presumptions regarding formal institutions, the IOCP elucidates how transaction costs associated with such ventures can be economized by recognizing, valuing, and utilizing informal institutions. These findings regarding working within, rather than ignoring, the institutional reality provide a revitalized platform for hotel practitioners and researchers alike.

1. Introduction

In that most industries with the potential to advance increased economic self-reliance in developing Pacific Island countries (PICs) have proven ineffectual over time, tourism has emerged as one of the only economic activities characterized by a comparative advantage (Connell, 2007). Despite this theoretical advantage, some PICs have been unable to develop tourism into a viable industry. In addition to various intrinsic barriers to tourism development, such PICs are often characterized by environments considered particularly unfavorable to business development. Despite this gamut of challenges, some hotel businesses in these low-performing PICs have managed to remain viable. How these hotels are made to work when the broader tourism industry is not, and in the face of the often-touted ease of doing business constraints, has yet to be systematically studied and accounted for. As such, hotel entrepreneurs have been afforded no practical or theoretical guidance on how to develop workable businesses in such challenging contexts.

Previous research suggests the idiosyncratic nature of business management and tourism development in PICs is recalcitrant to generically applied management theory (Cahn, 2008; Choy, 1992). Some prior studies have suggested only broad success factors for general business management in PICs, and have lacked a focus on service industry businesses like hotels (Fairbairn, 1988; Yusuf, 1995). The lack of theoretical understanding in this area is especially problematic in that service industries related to tourism and

* Corresponding author.
E-mail addresses: tyler.stumpf@humboldt.edu (T.S. Stumpf), swanger@wsu.edu (N. Swanger).

http://dx.doi.org/10.1016/j.tourman.2017.02.004
0261-5177/

hospitality have been targeted as a major component of the economic development formula going forward for most PICs. Moreover, research on developing island tourism destinations has typically focused on detailing constraints while ignoring solutions (Scheyvens & Momsen, 2008). This has resulted in a body of problem-centric research that is heavy on pessimism, but lacking in practicality.

To address this problematic knowledge gap, this grounded investigation examines how to develop a viable hotel venture in a Pacific Island country where the barriers to developing tourism are substantial, and which is characterized as one of the least hospitable places for doing business in the world (World Bank, 2016). The structure of this paper is as follows. First, an overview of the tourism and ease of doing business contexts in the focal area of this grounded investigation is provided. Second, the methodology is presented, including how grounded theory method was used in conjunction with transaction cost economics as meta-theoretical lens for the data collection and analysis. Next, the findings of the theory development process are discussed, with special provision for how the grounded theoretical insights contrast the status quo approach to hotel management and development typically advocated for in developing contexts like PICs. The paper concludes by outlining some implications for this solutions-oriented theoretical perspective for both hotel researchers and practitioners in this little understood part of the world.

2. Literature review

2.1. Tourism in PICs

Few places in the world have come to symbolize the archetypal tourism experience like the tropical islands of the Pacific. The earliest accounts from 18 to 19th century explorers, authors, and artists helped to create the allure of escape to the quintessential "South Seas paradise" to the Western world. This image of "waving palms, white sand beaches, balmy breezes, and (of course) gentle, exotic, erotic, and welcoming people" (Harrison, 2003, p. 6) was reinforced by the advertising campaigns of transportation companies who carried the earliest waves of tourists to the Pacific. Over subsequent decades, the combination of appealing image, advances in aviation technology and infrastructure, and growing prosperity in major tourist markets created a focus on tourism as the most promising industry for many Pacific Islands (Harrison, 2003).

At the same time, most PICs are characterized by histories of colonial control stemming from the "imperial adventures of European powers" (Hall & Page, 1996, p. 5). During the 1970–80s, most PICs gained their political independence from their former colonizers, and have since faced increased expectations to assimilate into the global political-economic system while achieving increased economic self-reliance. While lacking many of the resources traditionally utilized in export-based economic development, PICs are thought to have the important intrinsic resources for tourism. Specifically, those resources which normally cannot be exchanged, namely social, cultural, and environmental attractiveness (Mihalic, 2002), are plentiful in most PICs and can be valued at a premium through tourism. Thus, the "invisible export" of tourism is considered the most conceivable driving force behind future job creation and economic growth in PICs (Hezel, 2012).

2.2. Tourism in Micronesia: the 'haves' and 'have nots'

East Asia-Pacific is the fastest growing region for international tourism, with arrivals expected to reach 397 million by 2020 (UNWTO, 2012). PICs have capitalized on this regional tourism growth trend to varying degrees. Despite the successes of some in translating a comparative advantage in tourism into positive economic activity, for others "successful tourism remains elusive as ever; a panacea for development that has proven illusory" (Connell, 2007, p. 12). The gap between those that have, and have not been able to develop viable tourism industries is exemplified in the North Pacific. While tourism often conjures up idyllic images of the South Pacific (Crocombe, 2007), a substantial portion of tourism activity occurs in those Pacific Islands north of the equator. Three of the four Pacific "honey pots" (Fagence, 1996, p. 96) are still located in the North Pacific (Guam, Saipan, and Hawaii), while only one is in the South (Fiji).

Of the three top destinations in the North Pacific, two (Guam and Saipan) are located in the sub-region of Micronesia. However, in Micronesia a wide and salient gap can be observed between the tourism development 'haves' and 'have nots'. In addition to the major tourism destinations of Guam and Saipan, the Republic of Palau in western Micronesia is currently recognized as one of the fastest growing tourism destinations in the world, and tourism currently accounts for over 50% of the country's gross domestic product (Asian Development Bank, 2015). In contrast to the experiences of Guam, Saipan, and Palau, tourism has not developed into a viable industry for other countries of the Micronesia sub-region. One such country is the Federated States of Micronesia (FSM).

2.3. The FSM: an overview

The FSM is a sovereign nation comprised of roughly 708 islands (65 inhabited) which span roughly 1,161,300 square miles of ocean. The FSM has identified agriculture, fisheries, and tourism as the target sectors for driving increased economic self-reliance (Federated States of Micronesia Development Partners Forum, 2012). Despite tourism being singled-out as the sector with the greatest potential, the FSM has continually underperformed as a tourism destination. Tourist arrivals to the FSM consistently hover between 17,500 and 22,000 annually (Asian Development Bank, 2015). Such low tourist numbers are far short of the 42,000 arrivals required to achieve the 65% hotel occupancy rate considered to be successful utilization of its hotel capacity (Federated States of Micronesia Economic Summit, 2004).

2.3.1. Ease of doing business

The FSM is also ranked as one of the most difficult places to do business on the planet based on the World Bank's Ease of Doing Business Index, which collects data on a country's regulatory environment for business. These data are then used to suggest reforms thought to promote vibrant private sectors and economic development. In 2015, the FSM ranked 146th out of 189 countries on ease of doing business, and in 2016 dropped to 148th. Notably, the FSM ranked 185th in protecting investors, 181st in enforcing contracts, and 189th in registering property (World Bank, 2016).

A productive private sector is considered a cornerstone of the FSM's economic future, particularly involving businesses like hotels given the identification of tourism as the economic activity with the greatest potential going forward. Foreign capital has been emphasized in this area given the internal resource and technical constraints in the FSM (Federated States of Micronesia Development Partners Forum, 2012). For instance, the country's strategic development plan states that "the development of hotel capacity - new or refurbished - is the area within tourism most likely to attract foreign investment," and "attracting foreign capital to the hotel sector in the FSM will be integral to the future expansion of tourism" (Federated States of Micronesia Economic Summit, 2004, p. 231). Fundamental to all this, according to the plan, is improving the ease of doing business climate for foreign hotel investors via institutional reform. As the plan states, "the climate for and attitude