



Drivers and barriers to entry for new hotel start-ups



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ABSTRACT

This paper quantifies the impact of location attributes on hotel creation by identifying drivers and barriers to entry in the Spanish hotel sector. The methodology is based on the use of count models. The efficiency of labour in a tourist destination is a driver of new hotel start-ups, but the initial investment and idle capacity are relevant barriers to entry. Regarding the existence of externalities, the incumbents' effect on new hotel start-ups depends on their behaviour and average age in the tourist destination.

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1. Introduction

Entrepreneurship in the hotel sector has boosted its development, with effects on the level of competitiveness in tourist destinations (Ateljevic & Page, 2009; Mottiar & Ryan, 2007). New hotel start-ups can reduce prices and increase the level of competition (Enz, Peiró-Signes, & Segarra-Oña, 2014), so incumbents have incentives to create barriers to entry in order to maintain their profits (Conlin & Kadiyali, 2006). Thus, barriers to entry in the hotel sector could arise from incumbents' desire to reduce local competition or increase collusion opportunities; for example, through idle capacity or chain affiliation (Conlin & Kadiyali, 2006; Zhao, 1994).

Also, institutions may act through policy regulation by limiting the growth of the hotel sector, because excessive growth can cause negative externalities in the population (Aguiló, Riera, & Rossello, 2005; Urtasun & Gutiérrez, 2006a). In fact, land regulation is a common barrier to entry in the hotel sector, which could contribute to increasing monopolistic competition through the unique location advantage of incumbents (Suzuki, 2013). In sum, most attractive tourist destinations will face higher entry demands but, at the same time, incumbents and

sometimes institutions will have more incentives to create barriers to entry (Ribes, Rodríguez, & Jimenez, 2011; Sainaghi, 2011; Urtasun & Gutiérrez, 2006b).

Entrepreneurship has been widely analysed in the hotel sector, mostly focused on studying the individual characteristics of an entrepreneur (Jaafar, Abdul-Aziz, Maideen, & Mohd, 2011; Li, 2008). However, there are few studies that have analysed the role of the tourist destination characteristics in hotel creation. Moreover, previous literature is focused on particular locations with special characteristics, without considering differences among tourism destinations (Baum & Haveman, 1997; Croes, 2010; Suzuki, 2013). For example, in a study of Beijing hotels, Yang (2012) concluded that agglomeration effects can attract hotels to a particular tourist destination. Suzuki (2013) focused on barriers to entry by studying land use regulation in Texas, where six hotel chains account for about 90% of the number of midscale chain hotels.

This paper studies the impact of location on new hotel start-ups in Spain. In particular, we have identified what factors related to location attract new entrants (drivers) and what can impede or reduce their entry into the market (barriers to entry). In addition, this study quantifies the impact of location attributes on hotel creation. We have employed information about 8992 hotels in 97 tourist destinations in Spain during the period 2005–2011.

There are three aspects to the main contributions of this research. First, there are no previous studies that examined the effect of location on hotel creation in Spanish tourist destinations. Moreover, in a

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descriptive analysis of the Spanish hotel sector, we have found that the most attractive locations do not show a greater number of new hotel start-ups. We have also found that some of these locations have regulations that cause barriers to the creation of certain types of hotels, such as limitations on creating low-quality hotels or land use regulations. These barriers, the existence of opportunities in the tourist destination, and incumbents' behaviour can explain differences in the number of new hotel start-ups.

Second, Spain has heterogeneous tourist offerings and legislation due to its political decentralisation. This causes differences in regional policies that may affect the development of hotels and barriers to entry. Consequently, the results for the Spanish market could be of interest because they reflect different tourist destinations. Moreover, the Spanish hotel industry has a relevant position in the global tourism context, so it can generate relevant results for other economies. Spain is the European leader and ranks second worldwide in obtaining international tourism receipts, having reached 57 billion USD in 2015 according to the World Tourism Organization (UNWTO, 2016).

The third contribution is related to the quantification of the individual impact of the following factors related to location on entry activity: profitability, externalities, collaboration, efficiency, investment, idle capacity, and average hotel age. These variables represent different dimensions of tourist destinations that have been identified as drivers and barriers to entry. Accordingly, the results of this empirical analysis may be used as an indicator of the attractiveness of each tourist destination to new hotel start-ups and identify the causes of this attractiveness.

The paper is structured as follows. After this introduction, the second part reviews previous literature about entrepreneurship in the hotel sector. Then, we present the hypothesis, the variables, and the methodology in the third and fourth sections, including a descriptive analysis. In the fifth section, we show the results. The sixth section summarises the main conclusions.

2. Literature review

The literature on entrepreneurship in the hotel sector has focused on analysing what determines the decision to be an entrepreneur (Jaafar et al., 2011; Li, 2008). In this research line, some studies focus on analysing intrapreneurs and evaluating the effects of location through the characteristics of the economic environment, such as the unemployment rate and market size (Carlsson et al., 2013; Figueroa-Armijos, Dabson, & Johnson, 2012; Justo & Díaz, 2012; Li, Ching-Yick, & Zhao, 2009; Martínez-López & Vargas-Sánchez, 2013). Therefore, Russell and Faulkner (2004) emphasise that entrepreneurship in the tourism sector is influenced by the location's level of development. Also, Skokic, Lynch, and Morrison (2016) find that low competition levels attract new entrants. Consequently, those locations with better conditions and lower barriers to entry will have, a priori, higher rates of new hotel start-ups.

By focusing on the entry decision in a specific location or tourist destination, previous literature points out some factors affecting new hotel start-ups. In particular, we can identify three aspects: demand, supply, and the incumbents' response. Firstly, regarding demand aspects, previous studies find that they affect entry decisions. Among others, factors such as customer profile influence the hotel type decision, such as urban vs. rural, which could limit opportunities for new hotel start-ups (Egan, Chen, & Zhang, 2006; Egan & Nield, 2000).

Secondly, supply factors of tourist destinations such as accessibility options could also affect entry decisions of new hotels (Shoval, 2006; Thrane, 2007). Furthermore, hotel concentration increases agglomeration economies, which could attract new hotels and enhance the development of the tourist sector (Baum & Haveman, 1997; Hallin & Marnburg, 2008; Kalnins & Chung, 2004; Yang, 2012). However, according to Aguiló et al. (2005), negative externalities appear in markets with an excessive agglomeration of hotels, such as noise, pollution, or higher rates of crime. In fact, Urtasun and Gutiérrez (2006a) find a maximum threshold in the development of the hotel sector, where the effects of

negative externalities begin to be stronger than effects of positive ones. Therefore, entry opportunities in a tourism destination will decrease with higher agglomeration levels when the threshold is reached.

Thirdly, incumbents' response to new entrants can play a key role by limiting entry to a tourist destination. Lado-Sestayo, Otero-González, Vivel-Búa and Martorell-Cunill (2016) show that those tourism destinations with a high level of market concentration increase hotel performance and profit margin stability. For this reason, there are higher incentives to deter entry in these markets (Bain, 1951, 1956; Mason, 1939, 1949; Wang & Fesenmaier, 2007). Thus, market concentration can affect hotel creation (Lee, Lee, & Hsu, 2000; Pan, 2002).

In order to reduce entry into a tourist destination, incumbents can affiliate, reducing local and multimarket competition. For example, Fernández and Marín (1998) found that multimarket contact increased prices in a sample of 2221 hotels of three or more stars in Spain in 1996. Moreover, the theoretical model proposed by Bernheim and Whinston (1990) supports this hypothesis of collusive behaviour of hotels in multimarket competition. Likewise, in some cases hotels also have incentives to affiliate because this favours efficiencies due to scale economies (Demsetz, 1973; Sinclair & Stabler, 1997; Williamson, 1975, 1985; Zhao, 1994). Consequently, this can improve performance and opportunities for collusive behaviours (Lado-Sestayo, Otero-González, Vivel-Búa & Martorell-Cunill, 2016; Wang & Fesenmaier, 2007).

Another effect of collaborative behaviour between incumbents is how they can influence institutions in order to raise legal barriers to entry (Rodríguez & Murdy, 2006; Suzuki, 2013). In this sense, entrepreneurs point out that competition is the most critical business challenge faced in the hotel sector, as Ahmad (2015) found in a sample of hotels in the United Arab Emirates. In fact, the effect of new entrants on prices can be a serious threat to incumbents, as Enz et al. (2014) show in a sample of 3494 new entrants in the lodging industry in the United States.

In sum, it is well established in the literature that hotel performance, and hence attractiveness to entrants, is highly dependent on location factors. Thus, the characteristics of the tourism destination are important factors that hotels closely evaluate in their entry decisions (Aissa & Goaid, 2016). However, location decisions are limited to the availability of entry opportunities and consider the demand, offer, and expected response of incumbents (Assaf, Josiassen, & Agbola, 2015).

In conclusion, using the theoretical framework of the above-mentioned literature, this paper empirically tests how location factors affect entry intensity in the hotel sector. Apart from considering factors analysed in previous studies focused on other sectors, we have also included efficiency as a determinant. In this regard, previous research finds that efficiency affects competition in a location, but there is no evidence of its effect as a barrier to entry. Likewise, due to the importance of affiliation in the hotel sector, it is important to analyse the effect on entrance of efficiency and barriers to entry that can arise in affiliation processes.

This paper also quantifies the effect of externalities on entry intensity. In particular, we analyse the existence of a threshold on the effect of externalities on new hotel start-ups. Finally, this paper uses a sample of different tourist destinations, which reflect different regulations and customer profiles, such as sun and beach, historic, or rural. This is novel in the literature, because previous studies are limited to the same market and regulation conditions.

3. Hypotheses

The objective of this paper is to identify how factors related to tourist destinations affect new hotel start-ups. Regarding the hypothesis, the main objective of entrants is to maximise their profits. Thus, we expect a positive relationship between the existence of attractive opportunities in a tourism destination and entry intensity. We consider that attractive opportunities at the tourist destination can be proxied by the existence of profits in incumbents (Naudé, Gries, Wood, & Meintjies, 2008; Porter, 2008).

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