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Foreign direct investment patterns of global hotel chains☆

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ABSTRACT

The hotel industry is a key sector in the twenty-first century. Even in the context of a global financial crisis, the hotel industry is consolidating global brands, expanding geographically, and diversifying its services offer. American and French traditional powerhouses have consolidated their position, although emerging economies in Asia and Latin America have also enabled the creation of powerful hotel chains. This study focuses on the largest hotel chain worldwide to shed new light on foreign direct investment (FDI) decisions (i.e., location choices), namely the choice of location according to the customer. This study uses the fuzzy set qualitative comparative analysis method, drawing on Miles and Snow's (1978, 2003) typology, to examine statistical data on countries, tourists' nationality, and customers of Accor global hotel group. The present study analyzes the configurations of countries' economic development and geographical and cultural distance that lead to FDI decisions in the recent expansion of global hotel chains, thereby extending the application of gravitational theories to multinational enterprises' FDI decisions.

1. Introduction

The hotel industry is a typical illustration of the location boundedness and simultaneity of production and consumption that characterize the service sector (Darder, Villar-Garcia, Pla-Barber, 2011). The service marketing literature emphasizes the implications of the high degree of intangibility and immateriality of services, because these characteristics lead to heterogeneity in the services delivered across time and space (Edvardsson, Gustafsson, Roos, 2005; Lovelock, Gummesson, 2004). Different customers (and even the same individual) can experience and evaluate the same output or received service differently. In the hotel industry, managers face significant challenges when seeking to guarantee the quality and differentiation of service delivery. Therefore, a uniform brand image can be an important driver in global brand strategies. Developing a global hotel brand is extremely important, especially in turbulent political and economic contexts (Martin, Isozaki, 2013).

Location boundedness has made hospitality one of the most heavily globalized industries. The expansion of hotel firms may be due to the follow-the-customer motive—travelers to distant and less familiar locations may prefer reliable, known services, and brands. Therefore, domestic providers enjoy a competitive advantage in locations to which their customers travel in significant numbers. Dunning and McQueen (1982) suggest that international hotels might follow their multinational company clients abroad. This pattern requires different managerial approaches regarding a business-to-business or business-to-consumer perspective. In addition, tourism potential attraction and travel and tourism welcomeness are important locational factors that explain the hotel industry's internationalization (Assaf, Josiassen, Agbola, 2015).

The capital-intensive nature of the hotel industry has also provided a productive laboratory for the testing of different entry modes that may help in circumventing political risk and cultural distance (Martorell, Mulet, Otero, 2013). Some entry modes (e.g., management contracts) with full separation between ownership by a local investor and management by the international brand provider rarely exist in other industries. Besides foreign direct investment (FDI) through green field investments or acquisitions, joint ventures, franchises, and strategic alliances are also common. Advertising spillover and the importance of reservation centers have led to the emergence of global brands, which hotel industry internalizes and shares through various cooperation modes.

Many US hotel chains have enjoyed significant expansion overseas after World War II with the spread of air transport and many American citizens traveling abroad for leisure or business. The postwar European economic recovery also has allowed a quick expansion of foreign traveling, leading to the creation of large hotel groups in France, the United Kingdom (UK), and Spain. These groups gain experience in domestic multi-localization before venturing abroad. The recent economic expansion of Brazil, India, Russia, and China (BRIC)—especially the economic recovery of the latter—has led to the emergence of many new large hotel groups. A Hotels Magazines, survey

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of the 325 largest hotel groups shows that each of the top 16 groups own or manage hundreds of hotels with more than 100,000 rooms. Although nine of these groups' headquarters are in the United States, five are in China, one is French, and another is in the UK.

Academic interest in the foreign expansion of hotel groups begins relatively late. Dunning and McQueen's (1982) ownership, location, and internalization (OLI) explanation of hotel internationalization is a seminal study of this industry. The increasing share of the service sector in national economies and in FDI soon attracts the attention of researchers of multinational enterprises (MNE). Broader service-sector analyses such as Erramili, Krishna, and Rao's (1990) or industry specific studies of banking (Goldberg, Johnson, 1990), and advertising (Terpstra, Yu, 1988) provide potential explanations of manufacturing MNE processes. These explanations include Buckley and Casson's (1998) internalization theory and Dunning's (1988) eclectic approach. Service firms can develop proprietary knowledge and better exploit that knowledge through internal management and control rather than through market mechanisms.

Another key contribution to the study of manufacturing and service MNEs location strategies comes from the Uppsala school of international business (Johanson, Vahlne, 1979). The study of the internationalization process of Scandinavian MNEs allows the identification of incremental stages and the concept of psychic distance. As local firms expand abroad, they try closer and more familiar locations first, before venturing on to more geographically and culturally distant locations.

These theoretical models have provided a framework for more recent studies on the internationalization of hotel chains. Kundu and Contractor (1999) base their study of location choices on the location advantages of host countries, including market size (i.e., gross domestic product [GDP] and population) and inward tourism flows, as Dunning (1988) conceptualizes in his eclectic paradigm. Through a survey to hotel chains investing in eastern Central Europe, Johnson and Vanetti (2005) find that knowledge of guest requirements, strategic planning, and reservation systems are the major ownership advantages that hotel operators identify. More recently, Liu, Guillet, Xiao, and Law (2014) analyze attitudes regarding hotel room-reservation policies among Chinese and Western tourists. Participants consider the size and nature of target cities and regional infrastructure as location advantages. Researchers have also analyzed the key issue of foreign market entry modes in the context of hotel chains. Quer, Claver, and Andreu (2007) study 127 entries of Spanish hotel chains, finding that cultural distance discourages equity entry modes. Spanish hotels have made greater resource commitments in Latin America because this continent is culturally closer to Spain. Overall, researchers focusing on the location advantages of countries as a key determinant of MNEs' FDI have always based their work on Dunning's (1988) eclectic paradigm, along with ownership and firms' core competencies management. In 2000, Dunning (2000) updates the OLI theory and its links to research on internationalization motives. Research on determinants of FDI, especially regarding multinational global hotels, has grown at a dynamic rate, as more recent studies such as Assaf et al. (2015) and Falk (2016) exemplify.

The present study focuses on a largely internationalized hotel group, Accor, to analyze the location patterns of the most active foreign investor among the largest world hotel chains. The present study's contribution to the existing literature is threefold. First, the method incorporates the predictions of a gravitational model, which is a powerful tool in the context of foreign trade, but not very common when analyzing FDI decisions. Second, the study tests cultural proximity through the role of language proximity drawing on Melitz's (2008) open-circuit data. Last, this study extends conventional analytical tools by using Miles and Snow's (1978, 2003) typology and fuzzy set qualitative comparative analysis (fsQCA).

After this introductory section, Section 2 addresses the main hypotheses regarding location choices in the hotel industry. Section 3 presents an overview of recent trends in tourism and FDI in the hotel industry. Section 4 provides a descriptive map of the data set that this study analyzes. Section 5 presents and discusses the results of the data analysis. Finally, Section 6 summarizes the main conclusions, including recommendations for researchers and practitioners.

2. Location choices

2.1. Market size

Market size is as a key determinant of FDI location preferences. Even though early FDI theories, such as Aliber's (1970) interest rate differential theory, predict that capital flows move predominantly from rich to poor countries, overwhelming evidence exists that host countries' market size triggers much larger flows. The United States is the largest recipient of FDI, and China has climbed upwards in inward FDI rankings, in tandem with its massive economic growth. This confirms that host countries' market-seeking motivations are more important than efficiency or cost considerations are when selecting a destination market (Kundu, Contractor, 1999).

Service industries are no exception to this tendency. Goldberg and Johnson (1990) and Terpstra and Yu (1988) observe that advertising and banking MNEs, respectively, gravitate toward countries with larger GDPs. Therefore, the pattern one expects is that the amount of hotel investment will be larger in target countries with higher GDPs.

However, host countries' domestic markets may not be the only or even the main magnet for investment decisions in a country. The client-following behavior in manufacturing, which is even more evident in service MNEs, may also be an important motive. Nigh, Cho, and Krishnan (1986) study the foreign expansion of U.S. banks, finding that U.S businesses' presence in host markets strongly relates to the U.S banks creation of local branches, whereas local business opportunities are irrelevant. Esperança and Ghulamhussen (2001) observe that multinational banks investing in the United States follow both home country firms and diasporas. These banks, therefore, tend to locate new branches close to the subsidiaries and residences of their home country firms and citizens. One expects hotels to follow this pattern because they have expanded in tandem with the rising mobility of the home country or town's citizens.

Researchers have largely neglected this phenomenon in the case of the hotel industry. Kundu and Contractor (1999) blame the lack of comparable data on international business travelers for the absence of empirical studies of the initial Dunning and McQueen (1982) hypothesis, which suggests using the size of total inward FDI as a proxy for business people traveling to host countries. The obvious limitation of this approach is a failure to measure the client-specific knowledge of hotel groups. Spanish hotel groups expanding overseas may enjoy a competitive advantage in servicing Spanish business people, but these hotels' services may be less compatible with business people from other nationalities. Furthermore, an exclusive focus on hotel chains' relationship with business travelers neglects other types of foreign visitors such as tourists, with whom hotel groups may also enjoy a privileged relationship that could be even more valuable in distant locations. Therefore, one expects large hotel investments to gravitate toward countries where the country firms' FDI stock and the number of the home country's tourists is large.

2.2. Distance

Past studies have included geographical distance as a determinant of foreign market entry modes, although researchers have not always found evidence of this factor's effect on links between host and parent countries (Falk, 2016). Studies have tested gravitational models, in particular, in the context of foreign trade, showing that foreign trade relates positively to the relative size of the economies involved, and negatively to their geographical distance (Frankel, Rose, 2000).

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