



# Attractiveness of municipalities in South-Western Poland as determinants for hotel chain investments



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## HIGHLIGHTS

- Identification of the location factors.
- Forming a ranking of the municipalities.
- Presentation of recommendations for the municipalities.

## ARTICLE INFO

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## ABSTRACT

The selection of a location for a hotel is a decision of paramount importance, and requires a consideration prior to any investment being made. The choice of an appropriate location can meet demand, contribute to the local economy and aid guest satisfaction. This article attempts to identify the principal factors determining the location of hotels belonging to a chain. The data cover a period from 2000 to 2009 in three municipalities in the Lower Silesian, Opole and Silesian Voivodeships in Poland. The results indicate that the following factors were crucial for investors; namely, land prices, level of economic development, and the degrees of internationalization and urbanization at the site.

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## 1. Introduction

In the hotel industry, the most important decision to be undertaken during the pre-investment stage refers to the actual site of the hotel. This is crucial not only for hotel performance but also for potential hotel guests and tourism destinations (tourist reception area). Location influences the costs and revenues of the hotel, and impacts upon hotel profitability (Aissa & Goaid, 2016) and other economic performance indicators (Chung & Kalnins, 2001; Lado-Sestayo, Otero-González, & Vivel-Búa, 2014; Parte-Estebana & Alberca-Olivera, 2015; Sainaghi, 2011; Sohrabi, Vanani, Tahmasebipour, & Fazli, 2012). The decision as to the location of the hotel shapes costs of land acquisition, hotel construction expenses and maintenance costs – expenditures for human and capital resources, raw materials, external services, transport and fiscal burdens (Baum & Mezas, 1992; Silva, 2015). Location also influences the size and seasonality of tourism demand (Guizzardi & Bernini, 2010; Moliner, Claver, & Molina, 2011), as well as the prices of hotel

services (Abrate, Capriello, & Fraquelli, 2011; Rigall-I-Torrent et al., 2011), which are directly reflected in financial income. Crucial in the process of selecting a location is also the fact that such a decision is long-term in nature and is burdened with a high risk of changes in conditions for conducting business activity in a given destination (Yang, Luo & Law, 2014).

Even more than the facilities on offer, location is the most crucial factor determining the decision of choosing a hotel by guests (LeBlanc & Nguyen, 1996). This is caused by the fact that it is associated with safety, convenience of reaching tourist attractions or business destinations, the charm of the place itself or its surroundings (Chu & Choi, 2000). And finally, it notably impacts upon the satisfaction of guests staying at the hotel (Goranczewski & Puciato, 2011; Sim, Mak, & Jones, 2006). Moreover, running hotel chains, especially those owned by multinational corporations, brings many benefits for tourist reception areas, while it contributes to the growth of tourist traffic (Rogerson, 2012), more frequent organization of business events (Wan, 2011), a growth in direct investments, a rise in the number of available jobs (Gu, Ryan, & Yu, 2012), and consequently, it improves investment attractiveness, the image of the area, and living standards of the local community

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(Assaf & Josiassen, 2012; Tsai, Song, & Wong, 2009).

Chain hotels willing to expand their service potential in a given market usually undertake two alternative methods: direct and indirect strategies for investments (Kundu & Contractor, 1999; Martorell, Mulet, & Otero, 2012; Ramon Rodríguez, 2002). The first is based on capital and involves direct involvement of hotel groups in a given market, which means building facilities and launching a new hotel by committing their own resources. While, the second strategy entails implementation of a hotel business in cooperation with other business entities based for example on: leases, licensing agreements, strategic alliances, joint ventures or franchising.

Hotel groups that choose to invest their capital directly in a given country (region or locality) create a list of potential locations, which is developed based on their standards for localization, shared identity and/or previous experience. The subsequent step, which seems to be crucial for the whole process and which is the major research concern of this paper, is specification on localization factors and hence certain specific characteristics of the particular locations, which also have an impact on capital expenditures and on the profitability of economic activity. The investor analyzes potential sites for setting up a hotel, having regard to the analysis of measures depicting various factors of location. After gathering relevant statistical data and their analysis, particular locations of sites are ranked and the most prosperous are selected.

Despite the fact that there are many published studies referring to issues of chained-brand hotel location determinants (e.g., Johnson & Vanetti, 2005; Kundu & Contractor, 1999; Zhank, Guillet, & Gao, 2012), there is a gap in research on the markets of Central and Eastern Europe, which are still less developed; however, they are rapidly growing. A good example is the market in Poland, where the dominant position is still held by the so-called independent hotels, i.e. sites independent of any hotel group or chain, owned by domestic entrepreneurs operating in the small and medium-sized enterprise sector. In the year 2014, independent hotels represented 85% of all hotel facilities located in Poland, and they offered 63% of accommodations available in the hotel database (2014 Market Review Report: Hotel Market in Poland). The subject matter of previous studies was restricted to the issue of the identification of key factors for hotel location and on this basis rankings were created, which listed the most attractive places for investments. In addition, location factors for hotel start-ups were rarely analyzed and the focus was usually placed explicitly on facilities that were already in business. This factor seems to be important because of both the possible changes in the importance of individual location factors for investors, as well as changes in their values. One of the major objectives of this study is to reduce these specific research gaps.

In the context of the remarks presented in the introduction section, the main cognitive objective of the article is an attempt to define the most important factors determining the place of location for chained-brand hotels. The study attempts to undertake a comprehensive assessment of the issue of determining the rationale for the location of hotels; the study also aims to create a ranking of the most attractive communes for potential investors and to present certain general recommendations for the proposed activities of local authorities seeking to improve the investment attractiveness of the analyzed territorial units.

Due to the limited accessibility and high costs associated with collecting statistical data, the spatial extent of the research was limited to the area of South-Western Poland, namely the Lower Silesian, Opole and Silesian Voivodeships. These regions are differentiated according to their cultural, social, economic and natural attributes and they have various levels of tourism attractiveness. The large regional diversity of this part of the country enables certain reasonable assumptions about all Poland to be

stated.

The time period of the research covered the years 2000–2009. The purpose for adopting the year 2000 as the beginning period for the analysis was the assumption that this year represented the end of the transformation of the political system in Poland. Two circumstances influenced the choice of the year 2009 as the end period for the analysis. The first, caused by crises, is that in 2009 in Poland for the first time since 1989 there was observed a decline in hotel financial performance, both in terms of both hotel guest numbers and occupancy rates. The second reason is that since 2010 a sharp growth in the hotel market in Poland can be observed. In 2014 the number of available beds in hotels increased by approx. 38% compared to the year 2009. Most facilities launched at that time in Poland are chained-brand hotels of standard or high quality. There were even higher growth dynamics related to the demand for hotel services, which in 2014 increased by more than 50% compared to 2009 (Hotel market in Poland. Report 2015). This was boosted by the good performance of the Polish economy, the inflow of financial funds from the European Union directed mainly toward investments, and the organization of several major events, including the UEFA European Championships in 2012. According to the author, performing an assessment of determinants governing the decision of selecting locations for hotels launched in Poland after 2009, i.e. in the period when the economic environment was changing very fast, could result in misleading conclusions.

The structure of the article is as follows. Section 2 gives an overview of the most crucial nomenclature on issues concerning chained-brand hotel location determinants. Section 3 deals with a detailed description of the research test methods used in the study. Section 4 represents my own empirical studies and a discussion of the results of other authors' research. Section 5 summarizes issues evaluated in the paper and provides practical recommendations, as well as suggested directions for further research on the problems of estimating hotel location determinants.

## 2. Literature review

In general, it can be stated that all chained-brand hotel location factors identified in the course of the literature study can be divided into four main groups: the level of economic growth, the level of economic, political, legal and cultural stability, the degree of internationalization of the economy, and specific factors related to the hotel industry market. In the case of international hotel chains, these factors are analyzed at local, regional and national levels. However, according to national chains, a local or, optionally, regional perspective seems to be important.

Significant meaning for the process of new hotel location, assigned in the nomenclature as the level of economic growth (Adam & Amuquandoh, 2013; Assaf, Josiassen, & Agbola, 2015; Baum & Haveman, 1997; Chen, 2010; Demirbag, Tatoglu, & Glaister, 2007; Johnson & Vanetti, 2005; Kundu & Contractor, 1999; Luo & Yang, 2012; Martorell et al., 2012; Puciato, 2012; Ramon Rodríguez, 2002; Shu & Dai, 2002; Zhank et al., 2012), arises from the fact that, among others, the size of GDP and dynamics are highly correlated with such factors as effective demand, the amount and price stability of production factors, access to modern transport infrastructure and information technology, and the quality of human capital and its costs. Perspectives for developing a new chained-brand hotel depend largely on the factors mentioned above. Due to the previously indicated reasons, hotel groups are mostly interested in investing their capital in countries (regions, communes) with the highest level of economic development or in places, where such a level of development is almost reached or in the very near future will be reached.

Research by Alegre and Cladera (2006), Assaf et al. (2015),

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