THE IMPACT OF MACROECONOMIC COUNTRY-SPECIFIC FACTORS ON INTERNATIONAL EXPANSION OF US HOTEL CHAINS

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While our understanding of the issues surrounding foreign direct investment (FDI) in tourism is limited (Endo, 2006), even less is known about the role of FDI and other macroeconomic variables in the lodging segment of the tourism industry. This research fills this gap by examining the population of U.S. hotels with international operations with respect to FDI, Market Interconnectedness and Tourist Flows in foreign countries. Additional examination is performed separately on high-income and middle-income countries. Study findings suggest that Market Interconnectedness is highly significantly and positively correlated with presence of U.S. hotel firms abroad, while FDI and Tourist Flows are not. However, results somewhat differ with respect to high-income and middle-income countries.

Keywords: hotels; hotel chains; lodging; FDI; market interconnectedness; tourist flows

JEL Classification: L83, M1, O1

INTRODUCTION

Establishing a network of foreign operations and increasing brand familiarity abroad is an important part of a firm’s global strategy. Firms go abroad for a variety of reasons, as explained by the different theories of the multinational firm (Dunning, 1988). Multinationality, which refers to the extent to which firms operate abroad, not only builds the image of
the firm but also enables the firm to reap the benefits of economies of scale and scope (Hitt et al., 1997).

While most of the studies dealing with the topic of multinationality are focused on the industrial manufacturing sector, the service sector has grown rapidly in the last two decades. Most high-income countries depend on this sector for a major contribution to their GDP (Botti et al., 2007; Brida et al., 2010; Claveria & Datzira, 2009; Curtis & Kokotos, 2009). Service industries from these countries constitute an increasing percentage of foreign direct investment (FDI) abroad (Boddewyn et al., 1986; Yilmaz & Altintas, 2008). The globalization trend is particularly significant in the hotel sector. The hospitality industry is one of the service industries that have been involved in exporting services beyond national boundaries (Miller, 1989). With high rates of expansion and growth mainly through the use of non-equity modes (Erramilli, 1996; Erramilli et al. 2002, 1997, 1995, 1993), such as franchising and management service contracts (MSCs), lodging companies are increasingly entering the markets of middle-income countries. The growth of the Internet and e-commerce has given further impetus to the development of this industry. Yet, despite these developments, there is a paucity of research involving FDI in tourism (Endo, 2006).

Many factors influence the investment decisions of U.S. multinational firms abroad. According to Erramilli et al. (1997) “U.S. firms derive ownership advantages from their size, experience, and technological and marketing superiority. Perhaps having operated in the most-developed and sophisticated home market, many U.S. firms generate unique skills that give them absolute advantage over firms in almost all foreign host locations” (p. 735). These have been referred to as firm-specific factors and have been used to explain FDI behavior of U.S. firms (Dunning, 1980) and, more recently, to rationalize the FDI behavior of Spanish hotel firms (Rodriguez, 2002). Other factors that are outside the control of the firm also influence investment patterns. These are termed location-specific factors (Erramilli et al., 1997).

The importance of the environmental forces on decision-making (Burns & Stalker, 1961) has been studied by several strategic management researchers. The practice of environmental ‘scanning’ is important for identification of trends that may have organization- and industry-wide significance (Teare & Olsen, 1992). The main focus of this study is to highlight the macroeconomic country-specific factors that are significant to scanning the international environment. We use prior literature and theories to draw out these various factors that affect hotel firms’ FDI decisions.
A distinguishing feature of services (as opposed to manufactured products) is their simultaneous production and consumption. Therefore, we restrict our study to the service sector and the assumptions of this study may not necessarily be generalizable to the manufacturing sector. The rest of the paper is organized as follows; we introduce the distinctiveness of the U.S. hotel sector and a literature review of the studies that have been conducted and the theoretical underpinnings of the study. Then we develop hypotheses and empirically analyze them. Finally, we discuss the results and the implications of this study.

OVERVIEW OF THE U.S. HOTEL INDUSTRY

The U.S. hotel market is a mature industry as compared to that of other countries. In addition, there is ample evidence which indicates that culture has a significant influence on management practices and entry modes. In order to control for these effects for multinational firms hailing from different cultures, we focus on U.S. hotel firms, which are also most likely to have substantial investments abroad. Despite the large number of lodging companies (over 100), the U.S. lodging market is dominated by roughly ten multi-brand hotel chains operating in different market segments. These top-level hotel firms (some U.S.-based and others foreign-based) have between 380 and 6,630 hotel units, and between 92,000 and 554,000 rooms (Hotels’ Corporate 300 Ranking, 2006).

Although the growth in the hotel sector initially began with equity forms of ownership, the last two decades have seen growth primarily through non-equity modes such as franchising and MSCs. Also, recent years have witnessed increased FDI as a means of expansion. Hence, the largest 7-8 U.S.-based hotel chains are now ‘global hotel chains’. In this study, a global hotel chain is described as having presence abroad either via equity participation, franchising or MSC (Contractor & Kundu, 1998).

The primary motivations for international expansion of hotel firms, as illustrated by Teare and Olsen (1992), are saturation of the domestic markets and thus the need to increase levels of growth and profits, development of brand loyalty, and protection from fluctuating economies.

LITERATURE REVIEW

There have been studies that have focused solely on the service sector. Previous researchers have applied different theories to explain international expansion in the service industries. Some of the commonly used theories are transaction-cost theory or transaction-cost economics.
(TCE; Erramilli et al., 1998), market entry studies (Buckley & Casson, 1988), and the organizational capability perspective (Erramilli, 2002).

Within services, the main focus of TCE is on one transaction (one market entry) at a time. The choice of organizational mode is that which minimizes transaction costs, thus improving the organizational performance. For the world as a whole, over 65% (Contractor & Kundu, 1998) of all foreign hotel properties are under non-equity modes of operation (28.4% franchised, 37% MSCs). Within the TCE framework, entrepreneurs are likely to enter foreign markets somewhere between the pure market and hierarchy (FDI) endpoints of the TCE continuum. The pure market entry strategy implies that the entrepreneur directly contacts foreign buyers and conducts the transaction based upon the prevailing market price. Although such a method minimizes costs and the threat of opportunism, it also assumes that the entrepreneur possesses the requisite expertise to maneuver through foreign government regulations (Bilkey, 1978).

In the analysis of strategic modes of entry, Contractor and Kundu (1998) suggest that in entering foreign markets, both environmental (i.e. market or country-specific) and firm-specific (i.e. overall long-term strategy) variables affect the choice of organizational mode. In addition, companies with longer international experience and geographic reach prefer higher equity and control modes of expansion (Erramilli, 1991). In risky countries, however, companies prefer non-equity modes—franchising and MSC—where royalties and fees provide a more certain return than dividends (Contractor & Kundu, 1998). In contrast, the non-traditional view suggests that the greater international experience a firm has, the better it will be at assessing its local partner’s behavior, and will thus realize the advantage of using a different entry mode (Fladmoe-Lindquist & Jacques, 1995). Similarly, in the case of high uncertainty, companies achieve greater operational efficiency when their activities are highly integrated by way of avoiding negotiation costs and the supervision of a local agent (Williamson, 1985).

In discussion of organizational capabilities, Erramilli and D’Souza (1995) suggest that in entering foreign markets, organizations face internal and external uncertainty. While internal uncertainty is caused primarily by the firm’s lack of knowledge (experience) of host markets, the external uncertainty is caused by the host market volatility (Anderson & Gatignon, 1986). Miller (1992) further supports this internal-external dichotomy within the broader strategic management perspective, suggesting that uncertainty can arise from inadequacy of information on certain variables or from the unpredictability of the environment. As a
way of coping with foreign market uncertainty, firms limit their resource commitments, particularly fixed investments, thus reducing the loss of financial assets when unpredictable events affect firms adversely (Hill et al., 1990). Consequently, as suggested by Erramilli and D’Souza (1995), service organizations characterized by production-consumption inseparability render themselves to non-equity modes despite the fact that the only non-FDI option available to them is the contractual method (as opposed to the export method).

THEORETICAL UNDERPINNINGS

While a host of theories have been used to explain the international expansion behavior of global hotel chains, no significant study has examined the international expansion trends of the U.S. hotel industry using the FDI theory. Earlier studies that used the FDI theory examined location-specific factors that represent the special advantages accruing to manufacturing (as opposed to service) firms operating at a particular location. FDI theories suggest that firms will invest more and/or select higher-equity modes in those countries which provide greater location-specific advantages. (Erramilli et al., 1997). Surprisingly, very little is known about location-specific advantages for service firms (see for instance Erramilli et al., 1997).

Building on FDI theory, this paper fills the gap in prior research by investigating the expansion trends of U.S.-based global hotel chains that determine a firm’s foreign strategy. Some of the hypotheses this paper puts forth may be peculiar to the U.S. hotel industry, but may also apply to the service industry on the whole.

HYPOTHESES

As explained by Miller and Parkhe (1998) with respect to operations of U.S. banks abroad, banks often ‘follow-the-client’ in their bid to effectively meet the needs of their global clients. Similarly, hotel chains would also tend to respond to the demands of their patrons who frequent foreign locations and thus expand to follow their clients. Highly mobile consumers who travel extensively look for same brands and services wherever they are (Douglas & Craig, 1996). The situation in a foreign market brings about opportunities and threats for a firm investing in that country. The key foreign market characteristics that affect the decision to enter a particular country include demand potential, cultural similarity to home market, brand familiarity, etc. (Cavusgil & Zou, 1994).
Thus, while foreign market characteristics may or may not be a conscious cognitive consideration of the hotel chain, they are still a major influence on the decision to enter a particular country. Some hotels have also started offering funds transfer and other high-tech services to serve their customers better. With a steady increase in international trade and investment, a tactic employed by firms is to follow their clients to international destinations (Teare & Olsen, 1992). The amount of FDI in a particular country or location is often a solid indication of the presence of foreign nationals or expatriates in that country. This leads us to the following hypothesis (Figure 1):

H1: The presence of U.S. hotel chains in a foreign country will be positively associated with U.S. FDI in that country.

Most countries of the world actively trade goods and services with other countries. The amount of trade with another country begins to capture one aspect of economic interconnectedness (Douglas & Craig, 1996). Bilateral trade indicators are useful for assessing the interconnectedness at the country level. However, since the relative size of economies is almost never the same, this relationship is not symmetrical. For example, when calculating the market interdependency score (shown in the methodology section), it can be seen that the Asian countries have greater interdependence with each other than with the European countries. This is not surprising since firms tend to invest in countries that are geographically close or in which investors have experience or cultural ties (Davidson, 1980). On the other hand, there is much trade between U.S. and Japan and China, despite the significant geographical distance. Thus, the relationship between geographic location and market interconnectedness is inconclusive due to several moderating factors that confound the effect. Yet, the greater the market interconnectedness, the greater the likelihood of higher demand for familiar brands. In other words, if the decision-makers perceive a particular foreign market as interconnected with the home market, they are likely to envision similar demand in that market. Hence, while earlier studies have discussed some of the environmental determinants of foreign-market entry modes, they have not examined the impact of market linkages and market similarities on the presence of hotel chains in a particular country. We fill that gap by testing the following hypothesis (Figure 1):
H2: The presence of U.S. hotel chains in a foreign country will be positively associated with the market interconnectedness score of that country.

**Figure 1** The hypothesized effect of macroeconomic country-specific factors on presence of US hotel chains abroad

In conjunction with the earlier notion that service-providing companies follow their clients abroad, it equally follows that travelers will look for familiar service-providers when going abroad. As argued by Kabir (1998) in the analysis of growth strategy by U.S. restaurant franchisors, consumers are likely to select restaurants with national brand names over local ones in an unknown geographical terrain. Similarly, firms with established brands in the domestic market inculcate brand loyalty from patrons who look for familiar, standardized service when abroad. Thus, hotel companies that follow their clients abroad have competitive advantage in the form of a known brand and access to necessary resources – such as capital and technology – which enables them to provide superior services to their clients (Frauendorfer & Gantenbein, 2002). Hence, one would expect that U.S. customers in a foreign country would look for familiar home-country brands. As a determinant of selecting different markets to evaluate for entry, one would expect the flow of tourists to have an impact on the choice of country where U.S. hotel chains are located.

By locating in countries frequented by U.S. tourists, global hotel chains attempt to develop and leverage brand loyalty through familiarity, consistent service, and international reservation systems. The foreign operations of global hotel chains serve as an image enhancer (Teare & Olsen, 1992), which increases name recognition, thereby strengthening the firms’ market position for U.S. travelers. Hence, there are companies...
present in the U.S. market that are compelled to expand abroad as more Americans travel abroad (Bell, 1989). This brings us to the following hypothesis (Figure 1):

\[ H3: \text{The presence of U.S. hotel chains in a foreign country will be positively associated with U.S. tourist flows to that country.} \]

**METHODOLOGY**

**Sample**

This study examined the determinants of international expansion of U.S.-based global hotel chains in 54 countries. Our dataset was developed based on the presence of U.S. hotel chains in a particular country for the 5-year period from 2001 to 2005 – because this is the most recent five-year time period in which data for all variables and countries are accessible. Our resulting sample of 54 countries is made up of 29 high-income (akin to developed)\(^1\) and 25 middle-income (akin to developing)\(^2\) countries, as identified by the World Bank in 2010.

We used Edgar, Marketwatch, and Mergent databases to generate a list of U.S. public companies whose primary activity in the 2001-2005 period is the provision of travel and tourism services as represented by SIC and NAICS industry classification codes 7011 and 7211, respectively. We then filtered the list for firms with multi-country operations. The resulting population consisted of 17 U.S. firms\(^3\). Thus, the U.S.-based hotel chains used to select our country sample make up the entire population of hotel firms (1) that are SIC / NAICS classified, and (2) that have operations abroad.

**Measurement**

The independent variables used in the study have been summated and averaged over a 5-year period (2001-2005), and operationalized as below. All the sources used to draw our data are hosted by the U.S. government or related agencies.

Presence of U.S.-based hotel chains (Total) – This variable is the only dependent variable used in the study. It represents the total number of U.S. hotels in a particular country ending in December of 2005. Data were obtained from individual websites of U.S. hotels companies that are SIC / NAICS classified and that have operations abroad.
U.S. FDI abroad (FDI) – This variable measures the amount of FDI by U.S.-based hotel firms abroad in a particular country from 2001 to 2005. Data were obtained from the U.S. Bureau of Economic Analysis, International Accounts Data, reported in millions US$.

Market interconnectedness score (Mrkt) – Mutual trade reflects the degree of interconnectedness at the country level (Douglas & Craig, 2000). One measure for market interconnectedness between any two countries is by way of trade indicators, namely exports and imports with another country as a percentage of the total exports and imports for the U.S. We compute the score using the following formula based on the Douglas and Craig’s (2000) study on the uses of secondary data:

\[
\text{U.S. with country } X = \frac{\text{Exports to } X + \text{Imports from } X}{\text{Total exports from the U.S.}} + \frac{\text{Total imports to the U.S.}}{}
\]

Export and import data were obtained from the U.S. Census Bureau Foreign Trade Statistics for the 2001-2005 and reported in millions US$.

Tourist Flows (TFlows) – This variable has been measured as the number (in thousands) of U.S. residents who traveled to a particular country between 2001 and 2005. The data were obtained from the U.S. International Trade Administration’ Office of Travel and Tourism Industries.

**Statistical analysis**

The analysis called for two forms of analyses. We used correlations to determine whether there was a relationship between the dependent and independent variables. We also conducted an additional multiple regression analysis to check for causality between the dependent and independent variables.

**RESULTS**

**All countries**

We first examined a matrix scatter plot of the raw data, which suggested a need for log transformation. A scatter plot of the log
transformed data showed a clear pattern and we conducted further analyses using the log transformed data.

We used Spearman’s correlation analysis for the independent as well as dependent variables. These results show that the presence of U.S. hotel chains in foreign markets is strongly positively related to \textit{FDI}, \textit{Mrkt} and \textit{TFlows}, as indicated by the significance flagged in all of the variables (Table 1). Moreover, there is a strong and a significant correlation among the independent variables. The results of a multiple regression analysis (Table 2) indicate that 49\% of the variance in \textit{Total} can be predicted by a combination of the three independent variables. Market Interconnectedness had a positive and a very significant effect on \textit{Total} showing a \textit{t} value of 4 and a \textit{p} value of .000. Average FDI and Tourist Flows did not have a significant effect on the presence of U.S. hotel chains abroad. The combined findings from correlation and regression analyses provide support for H2, while H1 and H3 are not supported.

\textbf{Table 1} Correlation between \textit{Total} and independent variables (Spearman’s Rank)

<table>
<thead>
<tr>
<th>Variable</th>
<th>\textit{Total}</th>
<th>\textit{FDI}</th>
<th>\textit{Mrkt}</th>
<th>\textit{N}</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>.541**</td>
<td></td>
<td></td>
<td>54</td>
</tr>
<tr>
<td>Mrkt</td>
<td>.610**</td>
<td>.686**</td>
<td></td>
<td>54</td>
</tr>
<tr>
<td>TFlows</td>
<td>.421**</td>
<td>.466**</td>
<td>.518**</td>
<td>54</td>
</tr>
</tbody>
</table>

\textbf{Table 2} Multiple regression of independent variables on \textit{Total}

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized \textit{B}</th>
<th>\textit{t}</th>
<th>\textit{p}</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>.045</td>
<td>.359</td>
<td>.721</td>
</tr>
<tr>
<td>Mrkt</td>
<td>.556</td>
<td>4.072</td>
<td>.000**</td>
</tr>
<tr>
<td>TFlows</td>
<td>.182</td>
<td>1.115</td>
<td>.270</td>
</tr>
</tbody>
</table>

\textbf{High-income vs. middle-income countries}

We also ran a separate set of analyses for high-income and middle-income countries. For high-income countries, Spearman’s correlation analysis (Table 3) revealed a very significant positive correlation between the dependent variable and \textit{Mrkt} and \textit{TFlows}, whereas the correlation
between Total and FDI was marginally significant and positive. Moreover, there is a strong and a significant correlation among the independent variables. The results of a multiple regression analysis (Table 4) indicate that 52% of the variance in Total can be predicted by a combination of the three independent variables. Mrkt had a positive and a moderately significant effect on Total showing a t value of 2 and a p value of .049. FDI and TFlows did not have a significant effect on Total. Thus, for high-income countries, the combined findings from correlation and regression analyses provide support for H2, while H1 and H3 are not supported.

**Table 3** Correlation between Total and independent variables (Spearman’s Rank) for high-income countries

<table>
<thead>
<tr>
<th>Variable</th>
<th>Total</th>
<th>FDI</th>
<th>Mrkt</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>.425*</td>
<td></td>
<td></td>
<td>54</td>
</tr>
<tr>
<td>Mrkt</td>
<td>.620**</td>
<td>.735**</td>
<td></td>
<td>54</td>
</tr>
<tr>
<td>TFlows</td>
<td>.490**</td>
<td>.620**</td>
<td>.649**</td>
<td>54</td>
</tr>
</tbody>
</table>

*Significant at the .05 level (2-tailed)
**Significant at the .01 level (2-tailed)

**Table 4** Multiple regression of independent variables on Total for high-income countries

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized B</th>
<th>t</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>-.033</td>
<td>-.241</td>
<td>.811</td>
</tr>
<tr>
<td>Mrkt</td>
<td>.416</td>
<td>2.074</td>
<td>.049*</td>
</tr>
<tr>
<td>TFlows</td>
<td>.465</td>
<td>1.743</td>
<td>.094</td>
</tr>
</tbody>
</table>

R^2 = .52

*Significant at the .05 level

Our sample of middle-income showed a very significant positive Spearman’s correlation between Total and FDI and Mrkt, while the correlation between Total and TFlows was not significant (Table 5). Moreover, there is a strong and a significant correlation between FDI and Mrkt, while TFlows is not correlated with other independent variables. The results of a multiple regression analysis (Table 6) indicate FDI, Mrkt, and TFlows did not have a significant effect on Total. This shows that in case of middle-income countries, the presence of U.S. hotel chains is not associated with the U.S. FDI to these countries, the level of market
similarity, and the presence of U.S. hotel chains’ patrons who visit these countries. Thus, for middle-income countries, the combined findings from correlation and regression analyses suggest that H1, H2, and H3 are not supported.

**Table 5** Correlation between Total and independent variables (Spearman's Rank) for middle-income countries

<table>
<thead>
<tr>
<th>Variable</th>
<th>Total</th>
<th>FDI</th>
<th>Mrkt</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>.625**</td>
<td></td>
<td></td>
<td>54</td>
</tr>
<tr>
<td>Mrkt</td>
<td>.591**</td>
<td>.640**</td>
<td></td>
<td>54</td>
</tr>
<tr>
<td>TFlows</td>
<td>.317</td>
<td>.143</td>
<td>.299</td>
<td>54</td>
</tr>
</tbody>
</table>

*Significant at the .01 level (2-tailed)*

**Table 6** Multiple regression of independent variables on Total for middle-income countries

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized B</th>
<th>t</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>1.092</td>
<td>1.948</td>
<td>.065</td>
</tr>
<tr>
<td>Mrkt</td>
<td>.408</td>
<td>1.856</td>
<td>.078</td>
</tr>
<tr>
<td>TFlows</td>
<td>-.225</td>
<td>-1.161</td>
<td>.259</td>
</tr>
</tbody>
</table>

*R2 = .57*  

Comparing high-income to middle-income countries, the results here suggest that the level of market interconnectedness between the U.S. and other high-income countries does have some influence on the presence of U.S. hotel chains in those countries. Stated differently, the amount of trade between the U.S. and a particular high-income country moderately drives the presence of U.S. hotel chains in that country. On the other hand, the flow of both U.S. FDI and U.S. tourists does not appear to exert much influence on the presence of U.S. hotel chains in either high-income or middle-income countries. This lack of influence, especially in regards to the flow of U.S. tourists to middle-income countries, comes somewhat as a surprise, since one would expect business in middle-income countries to be more exposed to political and environmental risk and uncertainty, and thus more reliant on follow-the-client model for entering these countries.
DISCUSSION

This study examined the effect of macro-economic factors such as U.S. FDI, economic market interconnectedness, and tourist flows on the presence of U.S. hotel chains in a particular country. Specifically, we investigated differences in patterns of entry by hotel chains in general and separately for high-income and middle-income countries.

Market interconnectedness was the only significant variable for its effect on the presence of U.S. hotel chains abroad. It is a score for the level of bilateral trade and economic relatedness between two countries. Our analysis further revealed that U.S. FDI in a particular country does not induce hotel chains to set up operations in that country. This result is in contrast to other findings (e.g., Parkhe, 1998), whereby following other multi-country firms to a given country is believed to represent a location advantage, that is, it is supposed to provide growth opportunities through expansion abroad.

Making the distinction between high-income and middle-income countries, market interconnectedness moderately influences the presence of U.S. hotels in high-income countries, while FDI and tourist flows do not. In case of middle-income economies, none of the three investigated variables are related to the presence of U.S. hotel chains abroad. Since hotel chains belong to the hospitality industry, their main focus and most important stakeholder is not merely an American traveler, but more importantly the global customer or the international tourist. Thus, U.S. hotel chains may start operations in a country where international investors and tourists are most likely to visit and look for familiar brands. This trend is revealed by the presence of U.S. hotels in countries where presence of American tourists is traditionally low. This lends support for the follow-the-global-client practice, as opposed to the follow-the-home-client strategy. Many international hotel patrons are loyal to a particular brand and prefer to stick to their favorites even when traveling abroad. Hence, hotel firms correctly follow their international customers in order to maintain their account even globally. This is especially true in case of the presence of hotel chains in middle-income countries. As exemplified by Rodriguez (2002), the Spanish hotel industry (1) has a very strong presence in Latin America where it caters mainly to the European ‘sun and sea’ market, and (2) serves as a launch-pad for European investments in Latin America’s tourism.

In terms of a significant link between the presence of U.S. hotels and market interconnectedness, this suggests that U.S. hotel internationals pay little attention to greater cultural distance between the U.S. and middle-
income countries, thus failing to confirm that cultural distance is a major determinant of entry into certain country (Erramilli et al., 1997). In general, our findings show no relationship between FDI, Market Interconnectedness, and Tourist Flows on one hand and the presence of U.S hotels abroad in middle-income countries. For all countries taken together, Market Interconnectedness influenced the presence of U.S. hotels abroad.

IMPLICATIONS AND LIMITATIONS

This study included theoretically important variables that have not been considered in any significant study on the hotel industry. The lack of significance of FDI and tourist flows as predictors of hotel chains’ expansion shows that different industries give disparate weights to various macro-economic factors while making a decision on foreign expansion.

As far as the application of these findings, hotel corporate decision-makers or “strategists” can apply them in their forthcoming global-expansion plans. Specifically, top-level decision-makers can look for countries that are taking concrete steps to increase the amount of bilateral trade with the U.S. Accordingly, if a political environment in a given country is expected to undergo change due to various pressures, this may bring about changes in legal and economic environment, such as fostering trade and investments from the U.S. If companies (other than hotel firms) from other countries, especially the U.S., are expected to invest in a given country’s soon-to-be-changed environment, the specific hotel company’s decision-makers may want to enter this ‘promising’ country, thus gaining the first-mover advantage.

Given the findings in this study, their generalizability must be put in perspective. Keeping in mind the methodology used in the study, the findings pertain not only to U.S. global hotel firms, but might also be relevant to global hotel firms from other countries, as well as other service organizations in the U.S. and other countries. Many national and regional hotel firms without international presence, as well as other travel industry ‘players’ (i.e. restaurants, cruises) and ‘soft-service’ firms (i.e. banks), have brands known to the global market. Consequently, these firms can offer recognizable and familiar services in countries that trade heavily with the U.S.

In addition to the presented findings, this study also offers clues as to the possible avenues for further research. Namely, what is the relationship between Market Interconnectedness and U.S. travelers’ perceptions of
different countries? Does high level of Market Interconnectedness equal positive perceptions of U.S. travelers towards given country? Furthermore, the notorious chicken-and-egg dilemma could be examined in terms of FDI and hotel firms’ presence in foreign markets. Do hotel firms enter foreign markets before any major U.S. FDI, do they follow it or do they occur rather simultaneously? As suggested by Sanford and Dong (2000), increasing tourism in a given country can improve that country’s attractiveness to foreign investors. They reason that first-hand observations by foreign investors and their colleagues while on vacation in a foreign country provide a better understanding of the costs associated with doing business in a new environment – different regulations (e.g., labor laws), different customers, new competitors, new suppliers, and new infrastructure. While estimating these costs into the future adds to the existing uncertainty, exclusive reliance on traditional sources of information – such as census bureaus, industry associations, or published reports – is inadequate (Sanford & Dong, 2000). In this sense, they advocate the role of inbound tourism as a proxy for much of the needed information that can later serve as a catalyst for new FDI.

REFERENCES


ENDNOTES

1. Australia, Austria, Bahamas, Belgium, Bermuda, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Poland, Portugal, Singapore, South Korea, Spain, Switzerland, Trinidad & Tobago, and UK.

2. Argentina, Brazil, Chile, China, Colombia, Costa Rica, Dominican Republic, Egypt, El Salvador, Guatemala, India, Indonesia, Jamaica, Malaysia, Mexico, Morocco, Panama, Peru, Philippines, Russia, South Africa, Thailand, Turkey, Venezuela, and Vietnam.

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