

Investigating multinationality and location's competitiveness in the tourism industry:

Evidence from South Mediterranean European countries

#### Abstract

Traditionally, tourism was placed second as a priority in the agenda of investors, policy makers, and academics. Previous studies have attempted to explain destination and/or firm strategic positions by focusing on (mostly demand side factors) prices, exchange rates, qualitative and other institutional factors. Supply side factors and in particular company strategy contact and performance have not been taking explicitly into consideration. However, important pioneer research has been done regarding the globalization of the service sector and the hotel industry. To continue this important stream of research this paper examines the significance of MNEs in the Hotels sector in France, Greece, Italy, Portugal and Spain.

## **Investigating multinationality and location's competitiveness in the tourism**

### **industry: Evidence from South Mediterranean European countries**

#### **1. Introduction**

Traditionally, tourism was placed second as a priority in the agenda of investors, policy makers, and academics. Nowadays, a significant reappraisal of its role in socioeconomic development is taking place, which values tourism as a source for earning export revenues, generating large numbers of jobs, promoting economic growth and a more services-oriented economy not only in developing but also in developed countries (UNCTAD, 2007).

Tourism is not an industry in the “classical sense” and the tourism product is complex and of a perishable nature (Archer, 1987). The tourism product is consumed at the place (destination country) and the time it is produced and it is based on social interaction between the supplier and the consumer, where its quality is mainly defined by this interaction.

Tourism consumption spreads into many markets and links a series of cross-cutting activities involving the provision of goods and services such as accommodation, transport, entertainment, construction, and agricultural and fisheries production (UNCTAD, 2007). Therefore its structure encompasses a wide diversity of players, ranging from global MNEs to Small and Medium-Sized Enterprises (SMEs).

International tourism is in a constant evolution in direct response to changes in both demand and supply factors (Anastassopoulos and Patsouratis, 2004). These changes affect countries' and companies' positions in the world markets including Multinational Enterprises (MNEs).

The tourism industry has benefited from the process of globalization (Manera and Taberner, 2006). The trend to a better division of labour on a worldwide basis has been particularly favourable to tourism, resulting in increased productivity and prosperity in many countries. Tourism is today one of the most internationalized sectors of the world economy. The world tourism market has been substantially extended, adding considerably to the potential for further growth and at the same time bringing about greater competition between tourism countries. (OECD, 2005).

According to World Tourism Organization (WTO), the European Union (EU) numbered six Member States among the top 10 countries in the world welcoming the largest number of international tourist arrivals. Within the EU, receipts from international tourism in 2004 were highest in Spain, France, and Italy, followed by Greece and Portugal (mainly Mediterranean destinations). Mediterranean is considered to be the most popular destination worldwide (Briguglio & Vella, 1995). The most important feature of the Mediterranean tourism is the diffused sea – side installation. The tourist resources of the Mediterranean countries succeeded in attracting the international tourism. These elements give originality and iniquity to the territory of the Mediterranean area. (Amico and Giudice, 2006) It is one of the regions that offer a wide variety to its tourists. From traditional sun and sand destinations (like Spain, Turkey and Tunisia) to those with a high cultural or heritage-based component (in particular France and Italy), the Mediterranean's coastal areas are mainly visited for holiday and leisure purposes, although other incentives are gradually gaining ground, as is also occurring at a world level, such as travel for health purposes or professional and business reasons (Manera and Taberner, 2006).

The hotel and restaurant sector – which mainly covers hotels, restaurants, cafés and bars, camping grounds, canteens and catering – has witnessed tremendous development in these countries (Eurostat, 2004). In particular Spain, Greece and Italy experienced the highest specialization compared with the EU average. France experienced specialization equal to the EU average and Portugal below average (Anastassopoulos and Patsouratis, 2004). Hotels (NACE 55.1), although classified in the service sector, are characterised by certain distinctive features, that differentiate them from other service industries (Dimou et al, 2003). The hotel industry is capital intensive, contrary to other parts of the service sector, such as advertising and consulting. FDI in tourism is relatively low, compared to other globalized service activities and compared to domestic investment. However, FDI exists in only a small number of the many diverse activities that comprise what could be called the “international tourism economy” which are mainly found in hotels (UNCTAD, 2007, p.xii). Non-equity arrangements (i.e. franchising and management service contracts) account for 65.5% of foreign operation properties in the world as a whole (Contractor and Kundu, 1998).

Previous studies have attempted to explain destination and/or firm strategic positions by focusing on (mostly demand side factors) prices, exchange rates, qualitative and other institutional factors. Supply side factors and in particular company strategy content and performance have not been taken explicitly into consideration. However, important pioneer research has been done regarding the globalization of the service sector and the hotel industry (Dunning and McQueen 1981, 1982; Boddewyn et al., 1986; Li and Guisinger, 1992; Dunning and Kundu, 1995; Contractor and Kundu, 1995).

To continue this important stream of research this paper examines the significance of MNEs in the Hotels Sector in France, Italy, Spain, Greece and Portugal. The rest of the study is organised as follows: Next section provides a thorough literature review on the investigation of tourism destinations' competitiveness and international business. Section 3 presents the current picture of the global tourism industry, whilst section 4 focuses on the discussion of the five South Mediterranean European countries and their competitive positions. Section 5 describes the data and sample and section 6 presents some preliminary empirical results. Finally, section 7 concludes the paper by offering future research avenues.

## **2. Literature Review**

The hotel industry is often perceived as one of the most 'global' in the service sector (Mace, 1995; Litteljohn, 1997). Although tourism is often referred to as "the world's largest industry", according to OECD (2000) it is not one industry but it is rather composed of a number of related and inter-related service sectors that do not fit neatly into the standard criteria for national accounts. The tourism industry is one of the largest single employers and in many countries it is the largest services exporting sector, making a significant contribution to the balance of payments in different countries. The World Tourism Organization estimates that global tourism led to the creation of approximately 192.2 million jobs in 1995 growing to 251.6 million jobs today (WTO, 1996). Furthermore, in 1995 almost 570 million people travelled abroad for tourism reasons and spent 373 billion US \$, which accounts for 1.5% of the world GNP (Py, 1996). More generally, from being a sign of social status only for the rich up to the 1940s,

international tourism has become a mass activity in the post-war years. Among the factors which contributed significantly to its growth, one may stress the importance of shorter working hours, greater individual prosperity, faster and less expensive travel, simpler bureaucratic procedures at borders, the internationalization of markets and the impact of advanced technology (WTO, 1995). As tourists travel to new destinations, they demand not only attractions, but also goods and services that the local residents may not demand. Hotels fill this gap in supply by providing accommodation services, but also hospitality and other services including laundry, swimming pools, and conference facilities (C. Chen, K.T. Soo, 2007). Within this context the international literature strives to address different issues adopting usually a single discipline perspective, based on the author's interests and background. This leads to a plethora of approaches, such as: finance, e.g. Phillips, and Sipahioglu (2004), D. Harrington and G. Akehurst (1996), M.J. Alvarez Gil, J. B. Jimenez, J.J.C. Lorente (2001) economics, e.g. Chen and Dimou (2005) and international business, e.g. Quer, Claver and Andreu (2007). This paper offers an alternative multidisciplinary approach, by integrating two distinct literature streams, i.e. tourism and hospitality and international business. Our investigation is related to the multinational subsidiaries' performance and the competitiveness of locations. Earlier studies have attempted to identify the main aspects of internationalisation in the tourism sector (Dunning and Kundu, 1995; Dunning and McQueen, 1982; Johnson and Vanetti, 2005). Other studies have also investigated expansion strategies of international hotel firms (Chen and Dimou, 2005). Also, there are studies that investigated the various motives for foreign investment in tourism (Dwyer, Forsyth, 1994). Finally, there are studies that have attempted to explore multinationals' entry modes or multinationals'

emergence from different countries (Melian-Gonzalez and Garcia-Falcon, 2003; Rodriguez, 2002; Williams and Balaz, 2002; Zhao and Olsen, 1997). This literature is of crucial importance to managers and policy makers as both have to address a dynamically changing industry.

### *2.1 Implications for MNEs*

The above mentioned changes i.e. structural changes that affect the global hotel industry and destination competitiveness shifts of countries, have important implications for MNE activity located in these countries. In particular:

#### *2.1.1 The pressure for occupancy*

Hotel occupancy rates continue to dominate the thinking of strategic managers in global hospitality industry. In that case, hospitality strategists are increasingly exploring possibilities for developing competitive edge and it could be argued that as business travelers and tourists widen their expectations of the hospitality experience, aspects of accommodation and services, not hitherto considered important, might receive attention as offering value to the normal hotel package (Roberts and Chan, 2000). It is expected that factors such as the market size of the destination, seasonality factors, as well as the location of tourism resources and distances between tourist attractions influence the levels of occupancy in hotels. Most hotels maintain occupancy records in order to provide a data source that can be used for monitoring hotel performance across the full range of hotel types within the industry (Jeffreyi and Barden, 2001).

#### *2.1.2 Consumption coincides with production*

Tourism product as part of the service sector has many differences from other products. International activities in a service firm tends to rely more on specific and individual knowledge, while a goods producing firm relies more on general and hardware knowledge (Bjorkman; Kock, 1997).

In an international environment these characteristics may impact on a service firm in several ways (Edvinsson, 1982): as services are closely associated with employees who are embedded in their own cultural and social contexts, services are difficult to standardize and produce in the same way abroad as in the home market. As services cannot be stored or consumed later, a corporate presence in the destination is necessary. Hence, and although there are significant differences between different service industries (Erramilli, 1990; Segal-Horn, 1993), the range of operation modes tends to be somewhat more limited for service firms than for manufacturing firms (Bureau of Industry Economics, 1984; Welch and Luostarinen, 1993).

Internationalization of service firms usually follows some of the following patterns. First, a hotel chain can operate as strategic asset seeking, usually by acquiring the assets of foreign corporations, to promote their long – term strategic objectives – especially that of sustaining or advancing their international competitiveness. Thus a MNE may acquire a foreign company in order to obtain its knowledge of the market, its existing market power, managerial expertise and other organizational capabilities. This pattern can be viewed as consistent with, or at least not conflicting with the (Uppsala) Internationalization Process Model. As pointed out by Johanson and Vahlne (1990), through its relationships with other firms that have already entered a foreign market, a company may draw on the market knowledge that these firms possess. An initiative taken

by an existing business partner may also reduce the uncertainty that decision makers feel when considering whether to enter a foreign market. These issues are closely related to the basic assumptions of the Internationalization Process Model (see Johanson and Vahlne, 1990).

Second, hotels internationalize as a reaction to a competing hotel's actions (Engwall and Wallenstal, 1988; Li, 1994). The oligopolistic reaction theory presumes that this behavior can be interpreted as risk minimization employed by firms that attempt to reduce the perceived competitive threats of other members of oligopolistic industries (Knickerbocker, 1973). This should be applicable to Mediterranean competitive tourist destinations.

Third, hotels engaging in international activities can be "market seekers" (Erramilli, 1990; Erramilli and Rao, 1993). After gaining experience and financial resources in the domestic market they may decide to penetrate foreign markets for the purpose of serving foreign customers. Market seeking can also take the form of locating in specific geographical areas. Hotel multinationals operate as market seekers trying to expand in competitive destinations with important tourist attractions or heritage or culture, etc. The benefits are often access to capital (Engwall and Wallenstål, 1988). To the extent that market seeking internationalization is based on rational decision making, the process may be consistent with the internalization theory. Edvardsson et al. (1992) claim that service firms use a model consisting of four stages in their internationalization. In the prospecting stage the service firm searches for new customers and establishes relationships. In the second stage the service firm tries to organize more systematically the activities abroad. The firm is, however, still looking for a suitable operation mode. In the third stage the

service firm aims at consolidating its international operations in order to defend obtained positions in foreign business networks. In the final stage the service firm's international operations become more independent and the units abroad are integrated in accordance with the conditions of every single market.

In addition, non-equity forms of involvement, such as franchising and management service contracts, would emerge as an alternative to Foreign Direct Investments.

The localization decisions of hotels depend on its specific tourism-related assets (e.g. nature, culture), the extent of tourism demand for a specific destination which can also be boost by the presence of a TNC hotel. Responses to the UNCTAD survey indicated that demand from developed-country tourists is the single most important factor, although demand from developing countries is also increasingly important. Only a small number of hotels reported that government policies and incentives for FDI had been an important determinant in their location decision. However, respondents also said that economic size and growth rates were also important reasons for their choice of location, and this could be indirectly affected by government policies and incentives for FDI (UNCTAD, 2007).

### *2.1.3 Hotel services are substantially determined by quality*

The subsidiaries of hotels multinationals have the need for differentiation and diversification of the services they offer. They want to offer as many services as possible and different from other services already offered.

As tourists travel to new tourist destinations, they demand not only tourist attractions, but also goods and services that the local residents may not demand. One industry which provides many of the services demanded by tourists is the hotel industry. Not only do

hotels provide accommodation services, but they also provide food and beverages and other services including laundry, swimming pools, and conference facilities. (Chen and Soo, 2007). The Standard International Classification Of Tourism – Related Services (SITCA) of the World Tourism Organisation (WTO) identified 70 specific activities related to supplying tourism services, and an additional 70 activities at least partially concerned with them (WTO, 1998).

In this respect the multinational hotel industry enjoys competitive advantages as the increase of globalisation and the rapidly changing structure of tourism-related industries have opened avenues for new ways of participation in supply and distribution value chains and networks (Anastassopoulos, Filippaios and Phillips, 2008).

#### *2.1.4 Different types of tourism going away from the traditional bed & breakfast service*

In the hotel industry there is a shift from traditional business models services (sun and sand model) to experimental based models with the involvement of tourists to activities of the local destination.

In recent years special forms of tourism, offering travellers the opportunity to enrich their activities by attending specialized programmes such as therapeutic–spa tourism, religious tourism, ecological tourism, agrotourism etc, have been developing in Greece. Thus, the country is becoming a popular tourist destination not only for holidays of the “classical type” but also for people interested in alternative holidays who, apart from relaxing and sightseeing, wish to enjoy the unique experience offered by the country’s nature and its “products”, its religious culture and the specialised infrastructure of the Greek tourist industry.

For example, agrotourism is a mild form of sustainable tourist development and multi-activity in rural areas through which the visitor has the opportunity to get acquainted with agricultural areas, agricultural occupations, local products, traditional cuisine and the daily life of the people, as well as the cultural elements and the authentic features of the area, while showing respect for the environment and tradition. Moreover, this activity brings visitors closer to nature and rural activities in which they can participate, be entertained and feel the pleasure of touring, learning and discovering.

At the same time, it mobilises the productive, cultural and developmental forces of an area, contributing in this way to the sustainable environmental, economic and social development of the rural area. There are many businesses all over the country which offer you the opportunity to enjoy the unique advantages of the Greek countryside through special programmes of agrotourism. These businesses are listed in the following categories: outlets/ exhibitions of agrotourist products; agrotourist catering and recreation centres; tourist offices organising or implementing programmes offering outdoor activities and tours of ecotourist and cultural interest; farms; businesses producing traditional products; popular art workshops.

#### *2.1.5 Substantial diversity on market structure, from SMEs to large MNEs (Accor, Club Med, Hilton etc)*

In the global tourism industry the key players include SMEs which form the core of the tourism industry; the MNEs which play a leading role in terms of structural changes and innovation, and the destination/location, a key component of the competition in tourism (OECD, 2005).

Tourism has developed a dual economic structure over the years. At destination level, SMEs offer tourism services such as accommodation, catering and leisure activities. Micro (bed&breakfast) -and small enterprises play a key role in terms of number of enterprises, number of employees and profit. The available figures indicate that SMEs in tourism are, on average, continuing to increase. (OECD, 2005)

In parallel, especially in source/origin countries, an international travel and tourism industry has gradually emerged as part of the globalisation process. The international travel and tourism industry is composed mainly of large companies that organise tourism to various destinations on an industrial basis. They offer standardised products, and develop global strategies that enable them to make the best use of the local potential worldwide. To a large extent, this part of the industry is based on innovation. Hotel chains that emerged from family firms, including the Hilton and Marriott empires, grew out of a desire to satisfy the needs of business travellers. (OECD, 2005)

The available statistics indicate that the number of large companies is relatively small in the tourism industry of the more developed tourism destinations. Sixty to ninety per cent of all enterprises in the hotel sector are micro companies, i.e. firms that employ less than 9 persons. The large companies, however, account for more than half of total turnover in the sector and for a significant proportion of employment. The large companies, which benefit from standardisation and economies of scale, are in a position to offer their clients more attractive services at very competitive prices. They are able to develop new tourism markets and offer new products. This helps them to increase the “customer value” and to reduce their production costs. (OECD, 2005)

#### *2.1.6 Balance between the expectations of a customer for an international quality service and providing the local experience*

MNEs have the capabilities to provide high quality services and also through their natural presence in competitive destinations they provide experimental services required by international tourists.

An important characteristic of an MNE is that it draws on a common pool of resources, including assets, patents, trademarks, information and human resources. Since the subsidiaries are all part of the same company, they have access to assets that are often not available to outsiders. (Rugman and Hodgetts, 2003)

Multinationals subsidiaries operate in market settings that are often very different from home markets, which require complex organizational and strategic arrangements to govern their operations (Luo and Park, 2001). Their performance depends on how well subsidiary operations are aligned with local environments given the actual global competition occurring at the business level in specific markets (Porter, 1986).

#### *2.2 Competitiveness in the Global Tourism Industry*

Competitiveness, on the other hand, has become the focus of considerable international debate, as policy makers are concerned with the enhancement of the micro-foundations of growth and prosperity (Porter, 2003). Tourist destinations are the central elements of the tourism system (Kozak, Rimmington, 1999) and competitiveness of tourist destinations is crucial, particularly for the countries which rely on travel and tourism for their economic development and growth as they are striving for a bigger market share of the world's tourism industry (Gooroochurn and Sugiyarto, 2005).

Competitiveness is generally defined as the ability of entrepreneurs to design, produce and market goods and services, the prices and non - price qualities of which form a more attractive package of benefits than those of competitors (IMD, 1994). Many researchers have worked on tourism competitiveness and there are several definitions of tourism competitiveness. Scott & Lodge (1985) stated that competitiveness is a multidimensional concept in a way that its competitiveness requires several aspects. They defined competitiveness as the ability of one country to create, produce, distribute and/or service products in a global market and economy and be able to make a profit. Spence & Hazard (1988) defined competitiveness as a complex concept due to a whole range of factors affecting it. It is, thus, both a relative and a multidimensional concept.

Destination competitiveness is defined as the ability of a destination to offer goods and services that are superior to those offered by other destinations (Chens, Sok, K. Sok, 2008). Dwyer et al. (2000a) stated that tourism competitiveness is a general concept that combines price differentials together with exchange rate movement, issues influencing and affecting the attractiveness of a destination and the productivity levels of different constituents of the tourist industry. From his perspective, therefore, competitiveness of a destination is defined as the ability of that destination to sustain its market position and share and/or to improve it through time (d'Hartserre, 2000), while competitive advantage of a destination refers to a destination's ability to use these resources effectively.

A tourist destination is considered an open system that as a whole determines an offer capable of attracting tourists. (Rodriguez-Diaz and Espino-Rodriguez, 2007). Features of destinations can be classified under two main categories (Laws, 1995). Primary features include climate, ecology, culture and traditional architecture. Secondary destination

features are those developments introduced specifically for tourism such as hotels, catering, transport and entertainment. These two main groups of features, together, contribute to the overall attractiveness of a tourist destination. McKercher (1999) and Farrell and Twining-Ward (2004) define tourism destinations as complex, adaptive systems in which numerous interrelations are generated in the environmental, human, natural, and economic areas. Selin and Chavez (1995) adopt a different perspective and define the dynamic and complex nature of tourism partnerships as a process in which organizations interrelate with the social, economic, and political powers.

The success of tourist destination can be appreciated by the measurement of tourism competitiveness (Crouch & Ritchie, 1994, 1999; Dwyer et al., 2000a; Go & Govers, 2000; Kozak & Rimmington, 1998, 1999; Mihalic, 2000; Ritchie & Crouch, 1993, 1995 ; De Keyser & Vanhove, 1994; Evans & Johnson, 1995; Hassan, 2000; Kozak, 2001; Sirše & Mihalič, 1999; Thomas & Long, 2000). Dwyer, Forsyth and Rao (2000a) state that tourism competitiveness is a general concept that encompasses price differentials coupled with exchange rate movements, productivity levels of various components of the tourist industry and qualitative factors affecting the attractiveness or otherwise of a destination' (Dwyer et al., 2000a: 9).

There are several models focusing on tourism competitiveness. Firstly, the studies of Haahti & Yavas (1983) and Kozak & Rimmington (1998, 1999) used survey data of perceptions and opinions of visitors such as friendliness of local citizens, shopping facilities, and so on to measure the competitiveness of one destination. Poon (1993) suggested four main principles: strongly sustaining environment; making tourism a leading sector; strengthening the distribution channels in the market; and building a

dynamic private sector for the destinations to be competitive. De Keyser and Vanhove model (1994) argue that the analysis of a competitive position should take five groups of competitiveness factors into account: tourism policy, macro economic, supply, transport and demand factors. The model has been applied to the Caribbean area (De Keyser & Vanhove, 1994) and used in a competitiveness study of Slovenian tourism in 1998 (Sirše & Mihalič, 1999). Pearce (1997) pointed out destination evaluation techniques and methods that can systematically analyse and compare the diverse attributes of competing destinations within a planning concept. Go & Govers (1999) used seven attributes, namely facilities, accessibility, quality of service, overall affordability, location image, climate and environment and attractiveness to measure the destination's competitive position compared with others. They defined the integrated quality management of a tourism destination and price-based promotions as a value-increasing strategy. Dwyer et al. (1999, 2000a) used published data to measure the competitiveness of tourist destinations.

In a cohesive empirical approach, Kozak and Rimmington (1999) evaluated the quantitative and qualitative aspects of destination competitiveness. They classified quantitative factors as tourist numbers and tourism revenues while qualitative factors were considered factors such as tourists' likes and dislikes regarding the destination. According to their study, tourists make comparisons between quantitative and qualitative aspects of various destinations and make a choice between them. In their study they made a comparison between Mediterranean destinations and found that the friendliness of local people, value for money, safety and security, local transport, natural environment and

food are some of the factors which were ranked as the most positive elements of the tourism industry in Turkey for example.

Other studies, like the one by Mihalic (2000), suggest that the environmental quality refers to the quality of the natural features of the destination that can, eventually, be deteriorated by human activities. Maintaining a high level of beautiful scenery, natural hydrologic structures, clean water, fresh air and species diversity is important for the competitiveness of differing destinations and thus a primary concern for destination authorities. Hassan (2000) went a step further and measured the market competitiveness by using four determinants: comparative advantage (includes factors concerned with macro- and micro-environments that are important to market competitiveness); demand orientation (the ability of a destination to counter the change of market demand); industry structure; and environmental commitment.

One crucial point in all studies refers to the actual measurement of competitiveness. According to Dwyer et al. (2003), there is no single or unique unit of indicators that can exploit and apply to all destinations at all times. Generally, there are two kinds of variables used, objectively measured variables such as visitor numbers and market share, and subjectively measured variables such as image, climate, and so on. (C. Y. Chens, P. Sok, K. Sok, 2008) To this extent, Dwyer, Forsyth and Rao (2000) constructed indices of price competitiveness taking into account of both travel costs to and from 19 competing destinations whilst Ritchie and Crouch (2000) made an effort to create a model that measures destination competitiveness by combining the elements of tourism and industry competitiveness. They stated that a destination's competitiveness is a country's ability to create added value and thus increase the national wealth by managing assets and

processes, attractiveness, aggressiveness and proximity, and there by integrating these relationships within an economic and social model that takes into account a destination's natural capital and its preservation for future generations. In their study they argue that competitiveness is deceptive without sustainability and that to be competitive the development of tourism in any destination must be sustainable. It cannot just be economically or ecologically sustainable, but it must be socially, culturally and politically sustainable as well. Following that, in 2003, they presented the Conceptual Model of Destination Competitiveness. It has five key determinants, namely destination policy, planning and development, destination management, core resources and attractors, and supporting factors and resources. It also points out the importance of the environment surrounding the destination: the global macro environment and the competitive micro environment. (Ritchie & Crouch, 2003).

Based on this model, Dwyer, Livaic, and Mellor (2003) created the Integrated model that included some variables identified by Ritchie and Crouch. In their model they included factors such as Inherited Resources, Created Resources, Supporting Factors and Resources, Destination Management, Situational Conditions and Demand Conditions. (Dwyer, Livaic, & Mellor, 2003). The model has been empirically tested on the cases of Korea and Australia, in 2001, and in 2004 its methodology was applied to evaluate the tourism competitiveness of Slovenia.

From an empirical perspective, Dwyer & Kim (2003) used 131 indicators categorised into seven main sections, namely: endowed resource, created resources, supporting factors, destination management, situational conditions, demand factors and market performance indicators. Omerzel (2006) proposes a model using 85 indicators to

measure tourism competitiveness classified under six main headings: inherited resources, created resources, supporting factors and resources, destination management, situational conditions and demand conditions. WTTC (2006) uses 23 indicators under eight main headings, namely: human tourism indicator, price indicator, infrastructure indicator, environment indicator, technology indicator, human resource indicator, openness indicator and social indicators, to measure the competitiveness of countries all around the world. Although the majority of the studies, discussed above, capture a tourist destination's competitiveness, the emphasis put on the characteristics of firms, domestic and multinationals, is almost non-existent. Multinational Corporations build on the competitiveness of a country and in most cases further reinforce it through transfer of technology, new managerial practices, training of local employees but primarily through building linkages with local partners, i.e. companies and research institutions. To this end, this is the main contribution of this paper. It bridges the two streams of the literature by adopting a corporate perspective and more specifically focusing on the behaviour of multinationals in the South Mediterranean European countries.

### **3. An Analysis of the Global Tourism Market**

Four are the key characteristics that make the tourism industry and the multinationals that operate within an interesting case: First, the falling of the tourism expenditure at different destinations, second the signs of maturity in tourism demand in certain countries, third the shift in locations in the world tourism industry and finally the new consumer preferences. We will discuss these issues with a focus on recent literature additions that address one or a combination of the above factors.

### *3.1 Falling tourist expenditure in destinations*

Over the last decade, there has been a clear downward trend in the length of stay at destinations (Alegre-Pou, 2003a). It has been also noted that the growth in tourist spending is not proportional to the increase in the number of visitors. Key reasons behind this is the greater frequency of international travel, a tourist preference for better quality holidays and finally, the existence of a price-effect that might encourage a reduction in the length of stay at a destination. It must also be noted here, that the last couple of decades, the number of international arrivals and the number of tourists are not necessarily related. Misleadingly, these two figures have always been regarded as synonymous. That is, visitors staying for over one night in a country were considered to be on a leisure or holiday trip and thus highly likely to consume goods and services. Over the last few years, however, there has been a significant drop in this kind of traveller, falling from 62% of all tourist arrivals in 1990 to 54% in 2001. On the other hand, there has been a sharp rise in the number of people travelling for business or professional motives or for family or health purposes, who are included in the international tourist arrivals category. These travellers rose from 29% in 1990 to 43% in 2001. In a world that is increasingly globalized, the upturn in this kind of traveller is logical.

### *3.2 Signs of maturity in the tourism demand of certain countries*

Studies on the behaviour of tourism (European Commission, 1998; Alegre-Pou, 2003a; Vellas, 2004) indicate a possible slowdown in the percentage of the population who travel abroad in the developed countries. Representative examples of this trend are France and Great Britain. In both cases, the increase in the tourism demand can be attributed to a greater number of yearly trips by habitual travellers. Between 1990 and

2002 the world regions that experienced the biggest rise in the number of tourists were Asia and the Pacific, with an increase of 118% (passing from 60 million to over 131 million tourists), and the Middle East, with a rise of 100% (from 8 to 16 million tourists). Europe and America have seen a lower rise, with respective figures of 53% and 21%, from 363 to 525 million tourists.

### *3.3 A shift in world tourism destinations*

In 2002, the world's top ten tourist destinations received 50% of all international visitors, who in turn accounted for over half the world's tourist expenditure (Ramón, 2002). Nine of these top ten destinations are either European countries or states in the United States. If we study, however, tourism economics from a historical perspective, Europe and America have substantially fallen in importance as destinations. In 1950, the two regions accounted for 97% of all world tourism, whereas by 2000 the percentage had dropped to 78% and, according to WTO forecasts, by 2020 it will have fallen still further to 64%. Asia and the Pacific, contrary, are at the other extreme, rising spectacularly in importance from 1% in 1950 to 17% in 2000, with a forecasted figure of 27% by 2020. The Middle East and Africa have followed a similar trend, doubling in importance as tourist destinations with further expected future success.

### *3.4 New consumer preferences*

Based on the paradigm of the mature life-cycle stage of a tourist destination (Butler, 1980), the hypothetical emergence of a "new tourist" has been posed: one with more experience and a greater ecological awareness who shuns mass tourism (Poon, 1993). These tourists, classed as "post-Fordists" (Poon, 1993; Ioannides-Debagge, 1998; Ramón, 2002), have interests other than congested sun and sand resorts, and they

therefore represent a serious threat for mass tourist destinations. This rapidly emerging demand is associated with alternative tourism activities such as agro-tourism, tourism related with culture and heritage, etc.

#### **4. The five South Mediterranean European countries**

Mediterranean is considered to be the most popular destination worldwide (Briguglio & Vella, 1995). The most important feature of the Mediterranean tourism is the diffused seaside. These key elements give originality to the territory of the Mediterranean area and make it an incomparable destination. (Amico; Giudice). Tourism activities, in the area, range from traditional sun and sand destinations, like Spain, to those with a high cultural or heritage-based component, in particular France, Greece and Italy. Although the Mediterranean's coastal areas are mainly visited for holiday and leisure purposes, alternative tourism activities are gradually gaining ground, such as travel for health purposes or professional and business reasons (Manera; Taberner, 2006).

Within the global tourism industry, the Mediterranean countries represent the most important place visited by tourists with 237.5 millions of foreign arrivals which represents 34.4% of the world's total (Manera; Taberner, 2006). Projections for the area show that in 2010 the arrivals in the Mediterranean countries will increase by at least 2.8%.

In particular the Southern Mediterranean Europe performed quite well last year when one takes into consideration that the only global events that took place in the region were the Rugby World Cup in France and the Americas Cup in Valencia, Spain. On the other hand factors such as the weakening of US dollar, the increase in interest rates, the climate

change, the increase of the oil price didn't seem to affect the performance of Southern Mediterranean Europe that was for year 2006 the "star performer" according to UNWTO.

It is therefore evident that Southern Mediterranean Europe is one of the most important sub-regions in the world and in Europe, in particular, regarding international tourist arrivals. It holds nearly 20 per cent of world share and more than a third of the overall regional volume. In 2004, destinations in Southern Mediterranean Europe received over 149 million arrivals, which represent a 2% growth over the 2003 figures. Among the mature destinations in the Euro-zone, Spain continues to perform rather positively (+3%), while arrivals declined acutely in Italy (-6%) and somewhat stagnated in Portugal (-0.8%) (WTO, 2005). Within this context the rest of this section will provide a description on the situation in the five countries of the Southern Mediterranean Europe under examination.

#### *4.1 The case of France*

Following the success of the World Cup in France during 1998, the French Government Tourist Office strived to maintain growth rates in all regions. Partnerships with Air France and Brittany Ferries set out to promote different aspects of French holidays from skiing, golf and special interest travel as well as the more traditional sun and sand holidays in coastal regions. This led to a transformation of the French tourism product. Indicative figures of this transformation are recent the tourism flows which place France in the 10<sup>th</sup> place globally with 79 million tourism arrivals in 2006, 90% of which came from European countries. The international tourism receipts were 42,910 mil US \$ in 2006 (UNWTO, 2008). In the French case the tourism industry generates annual

revenues of approximately 11% of the GDP. It is therefore obvious why France takes tourism really serious (WTTC, 2008).

#### *4.2 The case of Greece*

The country is usually selected by international tourists solely as a place of recreation, whereas cultural and other qualitative elements are not the main incentives of tourist attractiveness (Patsouratis, Fragouli, and Anastassopoulos, 2005). This perception has resulted in a highly seasonal industry, focused primarily on the Islands, and largely dependent on low return package tours for its success (WWTC, 2005).

Greece, like France with the World Cup, seems to have benefited from the Olympic Game effect, especially from long-haul markets – the USA, for example, rose by some 30% in terms of arrivals. While unfortunate events like the forest fires in August 2007 received much media attention, they appear to have had little effect on tourism demand, although this cannot yet be substantiated by official statistics.

Currently, the Greek tourism industry is transforming its competitive positioning from a low cost recreational only location, to a location offering higher quality and value for money as well as specialised tourism activities, i.e. agro-tourism, winter sports, conference tourism and archaeologically related tourism. In addition to focusing on more affluent travellers, Greece is also trying to promote itself as a year round destination, rather than just a summer only destination. Given that tourism generates annual revenues of around 15% of GDP, these efforts are being taken very seriously.

#### *4.3 The case of Italy*

Italy is another developed Southern Mediterranean European country with an important tourism sector. Although in the Italian case we do not observe the same

transformational process as in the previous two cases, i.e. France and Greece, Italy has the last couple of years focused on high class tourists that can generate substantial revenues for local tourism and hospitality companies. Indicative of this are the recent tourism flows with Italy ranking 28<sup>th</sup> globally with 41 million tourism arrivals in 2006, of which 88% came from European countries. The international tourism receipts was 41,058 million \$ in 2006 (UNWTO, 2008) and tourism generates annual revenues of around 10% of GDP (WTTC, 2008).

#### *4.4 The case of Portugal*

Portugal is another interesting example of a successful exploration of a big athletic event to further boost the tourism prospects of the country. A key policy followed targets the equal development of the country as a tourism destination. The Portuguese tourism authorities are monitoring tourism in the south of the country and disperse the economic benefits to other parts of the country. The north of the country is therefore, currently, subject to a major promotional campaign. It is noted that the north of Portugal is the location for many manor houses and cultural attractions, plus the fact that it is an important wine growing region. Golfing holidays are also linked to the north with new courses opening up. The Lisbon Expo '98, also, was a major force for tourism with a great deal of infrastructure built specifically for the event: the south of the country has therefore experienced massive promotion in the recent past. The promotion of the north is seen as a way of readressing this balance. Indicative of this transformation are recent tourism flows with Portugal ranking 15<sup>th</sup> globally with 79 million tourism arrivals in 2006, 93% of which came from European countries. The international tourism receipts

were 11,282 million US\$ in 2006 (UNWTO, 2008) and that tourism generates annual revenues of approximately 15% of GDP (WTTC, 2008).

#### *4.5 The case of Spain*

Last but not least, Spain has well established itself as one of the most popular tourist destinations in the world, thanks to its Mediterranean location and features (Rodriguea, 2002). Tourism has played a leading role in the Spanish economy over the last 30 years. Apart from its well known contribution to the balance of payment, there are no doubts about tourism's key role in the generation of incomes and jobs. (E.F. Sola, 1992). Tourism represent 9 % of Spain's gross domestic product, offering employment to 1.3 million people (Secretaria General de Turismo, *Libro Blanco del Turismo, Espaniol*, Madrid. Secretaria General de Turismo, 1990). Amongst the five countries under investigation, Spain is the most widely referenced success case regarding the expansion of tourism and the development of economic performance (Jimenez; Pulina, 2006).

Currently, Spain is ranked 5<sup>th</sup> globally with 58 million tourism arrivals in 2006, 94% of which came from European countries. The international tourism receipts was 51,115 million US \$ in 2006 (UNWTO, 2008) and in Spain, tourism generates annual revenues of around 18% of GDP (WTTC, 2008).

#### *4.6 A comparative analysis of the five countries*

In order to provide a comparison of the five countries we present data from the Travel and Tourism Competitiveness Index for 2007 in Table 1.

***Insert Table 1 here.***

According to the total competitiveness index, Spain and France are placed among the top 10, with Spain at the 5<sup>th</sup> and France at 10<sup>th</sup> place. Both countries benefit from their

rich cultural resources, ranked 2<sup>nd</sup> and 4<sup>th</sup> worldwide respectively. Both have also built up excellent infrastructure: France's ground and air transport infrastructure are among the best in the world and Spain's tourism infrastructure is ranked 1<sup>st</sup> internationally. The Index shows that France's policy rules and regulations are more conducive to developing the sector than Spain's, while Spain's labour market makes finding qualified labor easier there than in France, which is ranked at a low 86<sup>th</sup> position on this pillar.

Greece is ranked 22<sup>nd</sup> overall, with rich cultural resources (ranked 16<sup>th</sup>), excellent health and hygiene (ranked 16<sup>th</sup>), and top-notch tourism infrastructure (9<sup>th</sup>). Greece is second to none in terms of the country's overall prioritization of Travel & Tourism. Further, there is a strong national affinity for tourism compared with many other European countries, including a generally open and positive attitude toward tourists (17<sup>th</sup>). The country's overall ranking is held back, however, by policy rules and regulations that are not entirely supportive of the sector's development (ranked 61<sup>st</sup>), with stringent rules governing FDI and foreign ownership restrictions as well as a long time and high costs involved in starting a new company. Another area of weakness is the country's ground transport infrastructure, which is less efficient than in many other European countries. The availability of qualified labor (ranked 62<sup>nd</sup>) is another area of concern, with, for example, insufficient training available in the country, and stringent hiring and firing practices infrastructure requires upgrading, and there are some safety and security concerns in the country (81<sup>st</sup>).

Italy, despite being endowed with the most World Heritage cultural sites in the world, ranks at a rather low 28<sup>th</sup> position in the TTCI ranking. Italy's strengths lie in areas such as the health and hygiene of the country (19<sup>th</sup>) and its excellent tourism infrastructure

(4<sup>th</sup>). It faces, however, a number of challenges that bring its overall rating down. These include, policy rules and regulations, where Italy ranks 57<sup>th</sup> because of its very strong foreign ownership restrictions (ranked 102<sup>nd</sup>) and rules governing FDI (109<sup>th</sup>). Further, the government is not seen to be prioritizing the sector (ranked 97<sup>th</sup>). In addition to the above, ground transport infrastructure requires upgrading and there are some safety and security concerns in the country (81<sup>st</sup>).

## **5. Data and Sample Description**

In this paper we combined two different databases to obtain consistent data on the tourism industry activities in South European Countries. Our corporate level data come from AMADEUS. This database covers a large number of European firms and is constructed by Bureau Van Dijk in collaboration with 30 large European Information Providers. It contains normalised, with respect to currency and accounting standards and thus comparable information on almost 1.5 million European corporations. AMADEUS uses key Information Providers in different markets and the primary source of information is the published annual reports of companies.

On the industry level data were collected from Euromonitor International. The database builds on published and unpublished data from the World Tourism Organisation. Our sample covers five South European countries, i.e. France, Greece, Italy, Portugal and Spain for a decade, i.e. the period 1997-2006. For presentation reasons our basic statistics will represent the sample in the most recent period, i.e. 2006 as this is more relevant for managerial implications. Our dataset covers 737 companies

participating in NACE Revision 1.1 - 55 Sector, which are either domestic ones or subsidiaries of MNEs.

## **6. Empirical Results**

In Table 2 we present some basic statistics on the tourism industry size for each country as well as our sample representation in terms of number of companies. Italy has by far the largest size both in terms of bed-places as well as rooms in tourism accommodation. France and Spain follow, whilst Greece and Portugal are significantly lower markets. The picture is slightly different when it comes to absolute number of firms. Spain and France still have the highest numbers but Italy falls at the last place. The most interesting observation though comes from the number of foreign subsidiaries. Greece attracts a substantial number of MNEs as almost two out of every three companies have some kind of international participation in their ownership structure. A correlation coefficient though does not reveal any substantial relationship between the size of the market and the number of MNEs present.

*Insert Table 2 here.*

Table 3 presents the international exposure of each market and the relative number of MNEs' subsidiaries. Data on the International versus Domestic nights are presented. We calculate an international exposure measure, i.e. International over Domestic Tourism Nights. According to this Greece has by far the most internationally exposed market with the number of International nights spent being almost three times the number of Domestic nights. This provides a reasonable explanation on the large number of MNEs' subsidiaries present in the Greek market. In contrast, Portugal although it has a substantial number of International nights over Domestic ones has by far the lowest

number of foreign subsidiaries. A correlation coefficient though does not reveal any substantial relationship between the calculated ratio and the number of MNEs' subsidiaries in the economy.

***Insert Table 3 here.***

A key question in the international business literature is related to the improvement in efficiency and productivity that MNEs can generate. In table 4 we present data on the Hotel bed occupancy rates and the number of MNEs' subsidiaries. Greece and France have the highest percentage whilst Portugal underperforms substantially showing only a 37% in terms of bed occupancy. A key point that should be made here is relative to the product's nature. The tourism product is not something that can be stocked or produced immediately once the demand is present. It requires substantial investments and thus a consistent low bed occupancy rate can create substantial problems in the long term. A correlation coefficient reveals a strong positive relationship between the bed occupancy rate and the number of MNEs' subsidiaries in the economy. This finding creates enough scope for further investigation.

***Insert Table 4 here.***

In table 5 we present the basic picture of the companies included in our sample. More precisely we present two measures of size, i.e. Total Assets and number of employees, a measure of corporate performance, i.e. Profit (Losses) before taxes and finally a measure of the funding, i.e. the long term debt. In terms of Total Assets the Italian and the Spanish companies are substantially larger than the rest. An interesting point is that in Italy, Spain and France the subsidiaries of MNEs are of a similar size to domestic companies. In contrast both for Portugal and Greece Domestic companies are

significantly larger than subsidiaries of MNEs. The picture changes though when one compares companies based on the number of employees. Italian, Portuguese and Spanish subsidiaries of MNEs are larger than their domestic counterparts. In Greece the differences are rather small whilst France is the only country where domestic companies are by far larger than the foreign affiliates. Spanish companies are the most profitable ones in absolute numbers whilst Greek companies, both domestic and foreign show losses. In the Greek case the losses of foreign affiliates are almost five times larger on average than those of their domestic competitors. Finally, Spanish and Greek companies rely substantially on long term debt whilst in the Greek, Italian and Portuguese case, local companies on average borrow much more than the subsidiaries of MNEs.

*Insert Table 5 here.*

## **7. Conclusions**

This study is a first attempt to investigate corporate performance, internationalisation and a location's competitiveness. The key contribution of this study is dual. On the one hand to provide a thorough literature review on the current global picture of the tourism industry and the role of multinational enterprises and on the other to offer a first reading of the situation in an important, in terms of the tourism sector, geographic region that of the South Mediterranean countries, i.e. France, Greece, Italy, Portugal and Spain. The study identifies the key challenges that multinationals active in the industry face and then provides a descriptive discussion of the situation in the above mentioned countries. It goes beyond the scope of this paper to offer substantial econometric evidence on the interrelationship between a location's competitiveness and multinationals' performance. We suggest that as a key stream for future research though. The key scope of this study

is to re-establish the agenda of tourism industry within the context of international business.

## TABLES

**Table 1. The Travel & Tourism Competitiveness Index, 2007 (Absolute Values)**

Pillars	Spain	Portugal	Greece	Italy	France
	<i>2007</i>	<i>2007</i>	<i>2007</i>	<i>2007</i>	<i>2007</i>
<b><i>T &amp; T Regulatory Framework</i></b>	25	11	20	42	13
<i>Policy rules &amp; regulations</i>	45	28	57	70	40
<i>Environmental sustainability</i>	40	26	45	54	15
<i>Safety and security</i>	46	11	18	53	29
<i>Health and hygiene</i>	21	17	3	5	9
<i>Prioritization of Travel &amp; Tourism</i>	3	26	22	60	27
<i>T&amp;T Business Environnment &amp; Infrastructure</i>	7	22	32	30	5
<i>Air transport infrastructure</i>	7	35	37	22	4
<i>Ground transport infrastructure</i>	18	23	34	55	4
<i>Tourism infrastructure</i>	2	9	7	8	15
<i>ICT infrastructure</i>	32	33	38	27	21
<i>Price competitiveness in the T&amp;T industry</i>	105	102	103	116	118
<i>T&amp;T Human, Cultural and Natural Resources</i>	19	30	15	32	28
<i>Human resources</i>	45	40	55	46	32
<i>Affinity for Travel &amp; Tourism</i>	55	54	23	66	96
<i>Natural resources</i>	17	25	23	20	9
<i>Cultural resources</i>	17	25	23	20	9
<b><i>Overall index</i></b>	15	22	24	33	12

Source: SETE, World Economic Forum, The Travel & Tourism Competitiveness Report 2008 & 2007

Table 2. Size of Tourism Market and number of Domestic and Multinational Companies

	<b>Bed-places in tourist accommodation - '000</b>	<b>Rooms in tourist accommodation - '000</b>	<b>Total Companies</b>	<b>Domestic Companies</b>	<b>Subsidiaries of MNEs</b>
<b>FRANCE</b>	1232.6	616.3	210	167	43
<b>ITALY</b>	2056.2	1029.7	61	34	27
<b>GREECE</b>	695.9	365.9	92	32	60
<b>SPAIN</b>	1597.5	806.6	304	251	53
<b>PORTUGAL</b>	261.8	115	70	58	12
<b>Correlation with number of MNEs subsidiaries</b>	0.213	0.183			

Source: AMADEUS and Euromonitor International

TABLE 3. International Exposure of Markets

	<b>International Tourist Nights</b>	<b>Domestic Tourist Nights</b>	<b>Ratio (I/D)</b>	<b>Subsidiaries of MNEs</b>
FRANCE	72532.6	121640.6	0.596286108	43
ITALY	140810.1	108209.1	1.301277804	27
GREECE	40800	13990.4	2.916285453	60
SPAIN	103503.4	138355	0.748100177	53
PORTUGAL	23757.5	11487.5	2.068117519	12
<b>Correlation with number of MNEs subsidiaries</b>			0.0349	

Source: AMADEUS and Euromonitor International

TABLE 4. Market Efficiency and number of MNEs

<b>Country</b>	<b>Hotel bed occupancy rates - % of beds occupied</b>	<b>Subsidiaries of MNEs</b>
FRANCE	59.1	43
ITALY	40.5	27
GREECE	58.4	60
SPAIN	54.9	53
PORTUGAL	37.1	12
<b>Correlation with number of MNEs subsidiaries</b>	0.827	

Source: AMADEUS and Euromonitor International

TABLE 5. Comparative measures of domestic and MNEs' subsidiaries

		<b>Subsidiaries of MNEs</b>	<b>Domestic Companies</b>	<b>Total Companies</b>
Total Assets (000 Euros)	FRANCE	51322	56334	55337
	GREECE	35689	50854	40964
	ITALY	90803	91082	90960
	PORTUGAL	33959	49052	46646
	SPAIN	70245	75955	74953
Number of Employees	FRANCE	389	847	766
	GREECE	210	230	216
	ITALY	1472	588	1005
	PORTUGAL	736	431	474
	SPAIN	744	480	524
Profit (losses) before taxes	FRANCE	2103	2237	2210
	GREECE	-576	-96	-409
	ITALY	895	569	712
	PORTUGAL	1506	50	282
	SPAIN	2385	2071	2126
Long Term Debt	FRANCE	3897	2813	3029
	GREECE	10321	15885	12256
	ITALY	9902	26619	19287
	PORTUGAL	9948	17418	16532
	SPAIN	30664	25601	26493

Source: AMADEUS and Euromonitor International

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