



An eclectic investigation of tourism multinationals: Evidence from Greece

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ABSTRACT

This paper analyses determinants of profitability differences between subsidiaries of multinational enterprises (MNEs) and domestic enterprises (DMEs) in the tourism industry, using firm-level data. Previous studies focus on the hypothesis that ownership-specific advantages are a major determinant of performance differences. This paper explores performance issues using the eclectic paradigm configuration of tourism multinationals (NACE = 55), operating in Greece and a panel dataset for 95 firms and 10 years. A quantile regression technique is used to estimate the proposed model. Results indicate that, overall, MNEs out-perform their domestic competitors and are generally larger in terms of size. The study reveals, though, that when breaking MNEs into majority and minority owned, the latter perform better, as they make substantial use of local partners. These partners contribute with knowledge of the local market, which is an important aspect for the tourism industry. Finally, the authors discuss the conclusions and managerial implications of the findings.

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1. Introduction

Substantial effort has been devoted in the last decade to enhancing the theoretical insights of the application of conceptual models to tourism, but a paucity of studies have considered the international hotel sector, e.g. Mace (1995), Littelljohn (1997) and Johnson and Vanetti (2005). The performance of international hotels has long been a topic of interest to academics, who adopt a plethora of approaches, such as: finance, e.g. Phillips and Sipahioglu (2004), economics, e.g. Chen and Dimou (2005) and international business, e.g. Quer et al. (2007).

The academic literature over the past three decades reveals an emphasis on tourism planning and economic dimensions on Greece (Galani-Moutafi, 2004). Despite the growing popularity of tourism management studies, the extant literature, on Greek and international tourism, mainly contains contributions in the sociological and economics fields (Galani-Moutafi, 2004). According to Altinay (2006) and Lee (2009) the investigation of hospitality industry's internationalisation process is at "embryonic" stage. The

current literature covers a variety of subjects, with no common starting point to the investigation of the Greek case. The only common aspect is the willingness of Greeks to provide not only high-quality tourism services but also to further expand the sector in Greece (Haralambopoulos and Pizam, 1996). The paucity of studies on the Greek tourism industry which adopts an international business and strategy perspective is surprising low, despite the fact that Greece is a popular destination and has attracted a substantial amount of foreign direct investment (FDI) (Filippaios, 2006). One of the key aims of this paper is to fill this gap in the literature. Moreover, by using the Greek case as an example, we make a contribution to the current literature by providing a coherent framework for further research in the international tourism industry.

As revealed by the above discussion, two are the key shortcomings of the literature until now. The first refers to the rather fragmented approach that most studies adopt when analysing the tourism industry (Littelljohn et al., 2007). Most of the studies are primarily adopting a sociological perspective whilst the vast majority of studies that come with an international business background usually refer to specific case studies in the hotel sector and thus the generalisation of their result is rather ambiguous. The second gap is country specific and refers to Greece. Although Greece has grown immensely as a tourist destination and a vast majority of international hotel chains have already established their presence, the phenomenon has not attracted the researchers'

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interest primarily due to data consistency and availability. The case of Greece is interesting for the international literature as it combines as tourism destination a variety of characteristics that not many other countries have. It is a whole year destination with an interesting geographical dimension, i.e. a large amount of islands and coastline.

The paper explores performance issues using the eclectic paradigm (Dunning, 2001, 1993) configuration of tourism multinationals operating in Greece. Earlier studies have used this framework 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 used similar frameworks to investigate expansion strategies of international hotel firms (Chen and Dimou, 2005). Finally, there are studies that have used modifications of the eclectic framework to explore multinationals' entry modes or multinationals' emergence from countries with similar environments to the Greek one (Melian-Gonzalez and Garcia-Falcon, 2003; Rodriguez, 2002; Williams and Balaz, 2002; Zhao and Olsen, 1997).

This study contributes in the literature in two ways. First of all it builds a conceptual framework that can be used to investigate the tourism industry's performance in other contexts, outside the Greek one. It does so by integrating various aspects of the international business and services literature in an eclectic way. We shift the focus from the mother company to the subsidiary level and do not investigate the impact of internationalisation on performance but the effect of multinational ownership structure on the subsidiaries' performance. To that respect this study is unique in the current literature. The second key contribution has to do with the specific investigation of the Greek case. This study goes beyond the current approaches and provides quantitative evidence on the situation in the Greek market.

This paper advances the literature by analysing the determinants of profitability differences between subsidiaries of multinational enterprises (MNEs) and domestic enterprises (DMEs) in the tourism industry using firm-level data. Previous studies have tested the hypothesis that ownership-specific advantages are a major determinant of performance differences. This study focuses on the hotel sector (NACE = 55) in Greece, using a panel data set for 95 firms over 10 years. The model is estimated using a quantile regression technique as the dependent variable, in our case profitability, and shows a significant skewness. The results indicate that the determinants of profitability differ between MNEs subsidiaries and DMEs.

The rest of the paper is organised as follows: Next section provides a description of the international tourism industry and places Greece within the international context. Section 3 presents the conceptual framework and our hypotheses. Section 4 describes the sample and some basic statistics, whilst Section 5 discusses the econometric estimation technique. In Section 6 we provide an interpretation of the results. Finally, Section 7 concludes with some managerial implications, policy recommendations and Section 8 presents the study's limitations and some interesting suggestions for further research.

2. The global tourism industry and the case of Greece

2.1. Characteristics of the global tourism industry

In a global economy of shifting production locations, comparative, and competitive advantages, it is the immobile factors of production (labour, wages and productivity) and the distinctive characteristics of tourism destination countries that determine competitiveness in tourism sectors and destinations (Anastassopoulos and Patsouratis, 2004). The hotel industry constitutes a particularly interesting case 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. Furthermore, the dual nature of the industry composed of large MNEs and a substantial number of local small and medium-sized enterprises (SMEs) creates a need to investigate the challenges and opportunities for both types of firms (OECD, 2005). In this context, the product of the tourism industry is complex and have a perishable nature (Archer, 1987). The tourism product, in the hotels sector, cannot be experienced from distance and without face-to-face interaction. The tourism product's quality is primarily based on the social interaction between the supplier and the consumer. This interaction is of particular importance for MNEs when designing international expansion strategies as the product requires local adaptation and is enhanced by the use of local knowledge (Doz, 1986). Based on this argument, the development of new tourism destination countries requires the physical presence of MNEs. The tourism industry – which mainly covers hotels, restaurants, cafés and bars, camping grounds, canteens and catering – has witnessed tremendous development in the European Union.

Additionally, tourism industries are less productive than other economic sectors due to the personalised nature of their services (Keller, 2004). There are certain constraints to increasing productivity, which are related to the nature and quality of the service, customer satisfaction, etc. The sector is dominated by SMEs which offer personalised services, are more labour intensive, feature irregular work patterns, and therefore are less productive when compared to the other non-financial service sectors.

Indicative is that almost two-thirds of the value-added generated in the sector in the EU-25 in 2001 originated from enterprises numbering less than 50 persons employed (micro and small enterprises, see Table 1). However, large enterprises (employing more than 250 persons) generated approximately one-quarter of the value-added both in the accommodation services and restaurants, bars and catering sub-sectors (Eurostat, 2004).

Developments, however, in human and social capital and technological developments such as the adoption and use of information and communication technologies, integrated management systems may affect competition (MNEs vs. local SMEs). In certain sectors or segments these developments are more advanced and therefore offer a more favourable environment for the development of MNEs' strategies (Litteljohn et al., 2007).

Table 1
Value-added at factor cost and persons employed, by enterprise class, 2001 (% total)

	Micro enterprises		Small enterprises		Medium-sized		Large enterprises	
	Share of value-added	Share of persons employed	Share of value-added	Share of persons employed	Share of value-added	Share of persons employed	Share of value-added	Share of persons employed
EU-25	38.4	45.7	24.3	24.4	12.7	10.2	24.6	19.7
EU-15	38.7	45.1	24.4	24.6	12.5	10.1	24.5	20.2

Source: Eurostat, Structural Business Statistics (theme4/sbs/sizeclass).

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