

**Piotr Niewiadomski**

**(Piotr.Niewiadomski@postgrad.manchester.ac.uk)**

**Different forms of expansion of international  
hotel groups and the processes of regional  
development in Central and Eastern Europe**

**SUPERVISORS:**

**Dr Martin Hess**

**Dr Neil Coe**

**EGRG Post-Graduate Symposium, Queen Mary University, London, 6th May 2009**

# **Two research lacunae and two dimensions of globalisation**

## **Sectoral lacuna**

→ Shortage of research on services (1), on the consumer services (2) and on tourism and the hotel industry (3)

## **Geographical lacuna**

→ Shortage of research on Central and Eastern Europe

## **The horizontal dimension**

→ The worldwide development of different sectors

## **The vertical dimension**

→ Firms' embeddedness in their production networks and different institutional and socio-political formations

## Research questions

1. What have been the reasons for, and limitations to, the expansion of international hotel groups into Central and Eastern Europe (CEE)?
2. What are the different patterns of expansion of international hotel groups into CEE?
3. What is the role of international hotel groups in the globalisation and transformation processes in CEE?
4. In what ways do the production networks of expanding hotel groups interact with an array of institutional formations in selected countries of CEE?
5. What implications does the interaction of hotel groups' GPNs with different socio-political and institutional formations bring to the regional development in CEE?

# Theoretical framework (1)

## Global Production Networks (GPN)

GPN "is capable of grasping the global, regional and local economic and social dimensions of the processes involved in many (...) forms of economic globalisation".

*(Henderson et al 2002, p. 445)*

Regional development as “a dynamic outcome of the complex interaction between territorialized relational networks and global production networks within the context of changing regional governance structures”

*(Coe et al 2004, p. 469)*

## Theoretical framework (2)

### The alternative approach to the transformation in CEE

- Based on an institutionalist approach and overlapping to some degree with the Varieties of Capitalisms (*e.g. Whitley 2000, Hollingsworth and Boyer 1997, Esping-Andersen 2006, Hall and Soskice 2001*)
- Built on concepts of embeddedness and path-dependency
- Gradual and spatially variable transformation rather than simple transition from A to B

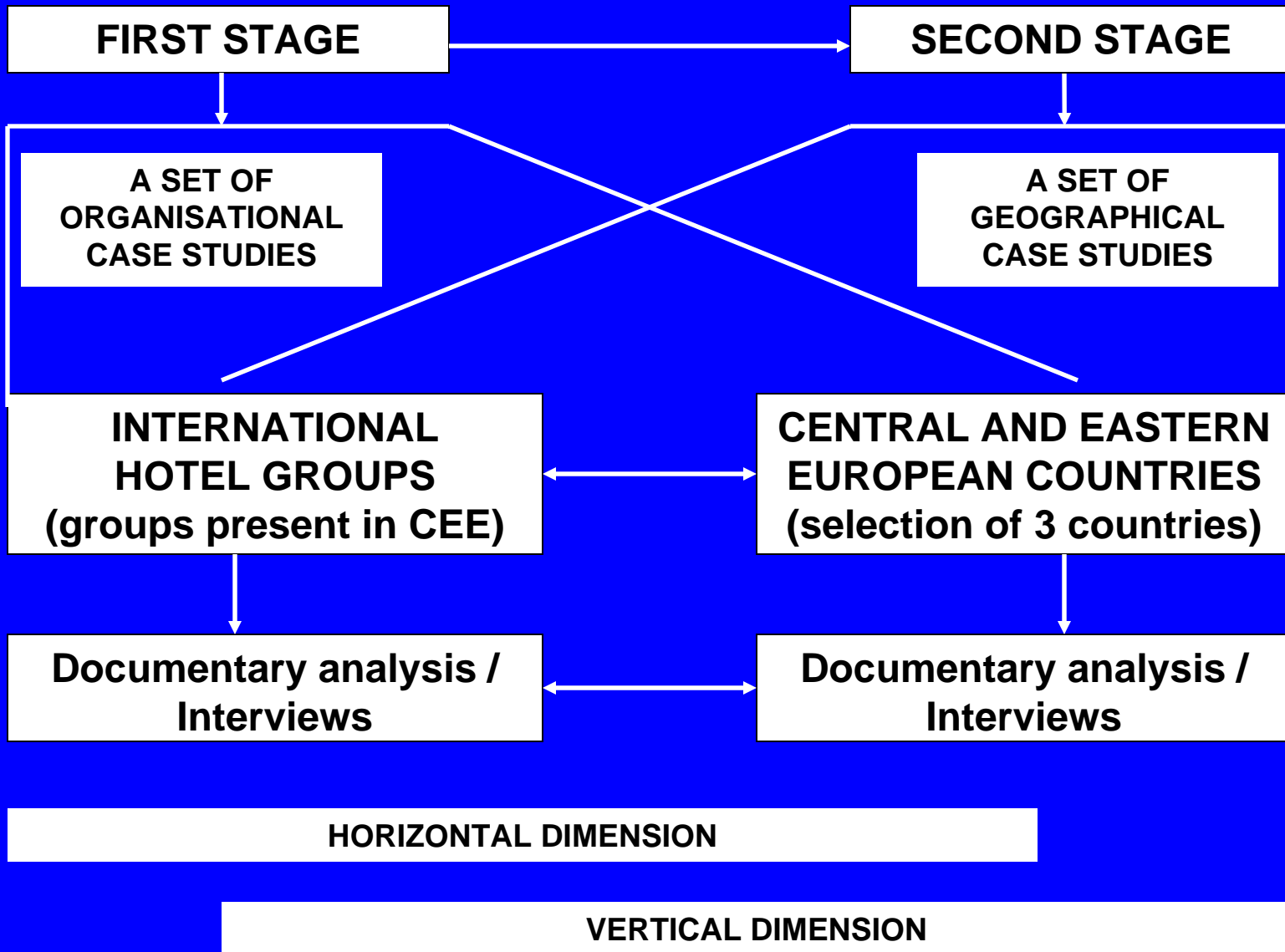
*(Bradshaw and Stenning 2004, Pickles and Smith 1998, Smith 1997, Stark 1992, Sokol 2001)*

### Globalisation of the hotel sector

- The need for broadening the scope of geographical research in tourism (*Ioannides and Debbage 1998*)
- Internationalisation vs. globalisation (*Dicken 1998*)
- “The globalisation strategy” in the hotel industry

*(Go and Pine 1995, Crawford-Welch 1992)*

# Methodology



## Methodological challenges

- The nature of the hotel industry (complex and multi-layered structure of hotel groups and their GPN's, different business models, multiplicity of brands and market segments)
- Positionality (a Polish researcher in CEE – “a piece of cake” or “banging your head against a brick wall”)
- Verification of research findings (multiplicity of perspectives covered by interviews, alternative sources of information)
- How to assess regional development qualitatively? (Direct vs. indirect and tangible vs. intangible influence)
- Pragmatic issues (access to and availability of executive interviewees, confidentiality of the information gained and needed, time-consuming nature of transcribing interviews, cost of travel arrangements etc.)

# Mapping the hotel industry in CEE (1)

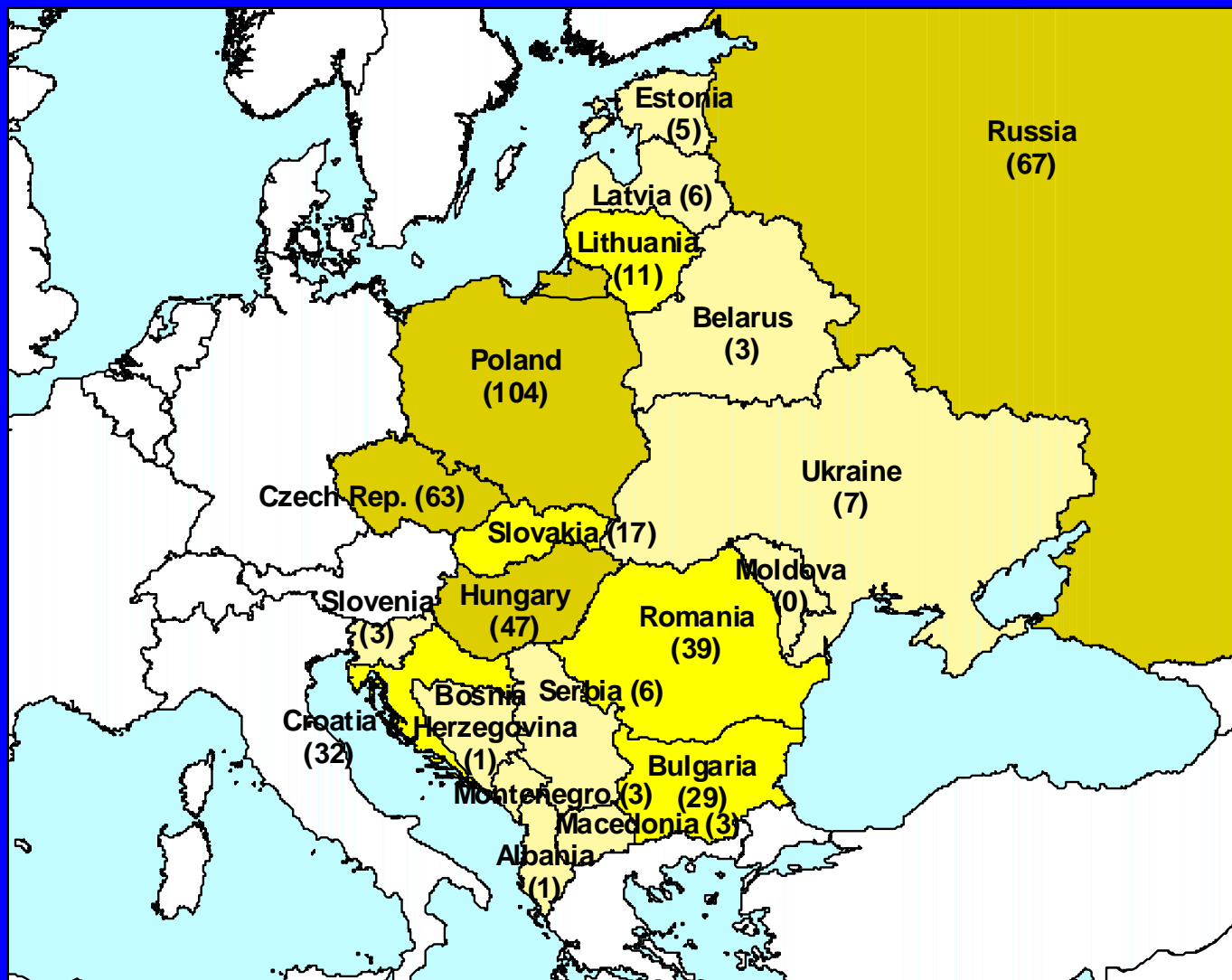
## (International hotel groups present in the CEE market)

POS.	HOTEL GROUP	HQ	HOTELS IN TOTAL	HOTELS IN CEE
5	Accor Hospitality	Evry/Paris, France	3943	99
7	Best Western International	Phoenix, AZ, USA	3977	76
18	The Rezidor Hotel Group	Brussels, Belgium	344	58
9	Carlson Hotels Worldwide	Minneapolis, MN, USA	1148	55
1	InterContinental Hotels Group	Denham/Uxbridge, UK	4301	35
8	Starwood Hotels & Resorts Worldwide, Inc.	White Plains, NY, USA	1284	25
15	Sol Meliá Hotels & Resorts	Palma de Mallorca, Spain	323	24
2	Wyndham Hotel Group	Parsippany, NJ, USA	7059	19
3	Marriott International, Inc.	Washington DC, USA	4141	19
12	Golden Tulip Hospitality Group	Lausanne, Switzerland	739	18
19	Groupe du Louvre / Société du Louvre	Paris, France	840	12
4	Hilton Hotels Corporation	Beverly Hills, CA, USA	3378	11
31	Iberostar Hotels & Resorts	Palma de Mallorca, Spain	96	9
10	Global Hyatt Corporation	Chicago, IL, USA	437	8
6	Choice Hotels International	Silver Spring, MD, USA	5885	7
23	Interstate Hotels & Resorts	Arlington, VA, USA	231	7
37	Scandic Hotels	Stockholm, Sweden	149	6
24	Barceló Hotels & Resorts	Palma de Mallorca, Spain	137	5
30	Fairmont Raffles Hotels International	Toronto, Canada	159	5
13	TUI Hotels & Resorts	Hannover, Germany	270	4
21	NH Hoteles	Madrid, Spain	335	4
27	Riu Hotels & Resorts	Playa de Palma, Spain	95	3
43	Four Seasons Hotels and Resorts	Toronto, Canada	108	2

Elaborated on the basis of Gale (2008) and the hotel groups' official websites in March 2009.

# Mapping the hotel industry in CEE (2)

(Geographical distribution of internationally-branded hotels in CEE)



## Mapping the hotel industry in CEE (3)

(Main locations and market segments targeted)

- Only a few locations (Prague, Moscow) are appropriate for high-end luxury hotels (Four Seasons, Regent, W, Fairmont)
- Only capital cities and a few non-capital cities like Cracow, Saint Petersburg or Dubrovnik are appropriate for upscale hotels (Sheraton, Marriott, InterContinental, Hilton, Hyatt)
- Hotel groups prefer to establish their presence in main cities through their flagship brands and then to expand into secondary locations and potentially develop also other brands (hub-and-spoke strategy) *(Sangster et al 2001)*
- Limited opportunities for long-stay hotels, executive apartments and time-share residences
- Limited interest in developing resorts, mainly due to seasonality (Bulgaria, Croatia, Romania, Montenegro)

## **Business models / modes of entry**

**Owning** – investing in real estate, owning the building, managing and branding the hotel (very rare nowadays)

**Managing** – managing and branding the hotel on behalf of the owner/developer who pays fees for management services (the most popular business model)

**Leasing** – renting the hotel from the owner/developer in order to manage and brand it

**Franchising** – branding and providing marketing and sales services to the hotel that is owned and managed by other companies (no involvement in management)

**Consortium** – providing independently owned and managed hotels with marketing and sales services of different kind

## Influence on regional development

- Hotel groups' influence on regional development depends on the business model and the mode of entry
- Groups that own hotels invest money in real estate
- Groups that manage hotels are involved in employment issues and selecting suppliers
- If hotels are newly-built then jobs are created, but if they are acquired, efficiency may be sought through cutting jobs
- Hotels are a part of necessary infrastructure and play a major role in local affairs of towns and cities (Mather and Todd 2002)
- Internationally-branded hotels may help to promote locations as tourist destinations (intangible influence)
- Hotel groups provide extensive skill-trainings to local workers and contribute to technology transfers

## Is the transformation over?

- "Transformation? What transformation?"
- Central and Eastern Europe is perceived as a relatively stable market both economically and politically
- A big picture of economic and political transformation is no longer acknowledged by hotel development executives as CEE is now a group of separate and diversified markets
- If there is any bigger picture, one should distinguish between countries that joined the European Union and those that still have not although it does not always matter

### However...

- Such a perception of CEE derives more from the industry's selective nature and the fact that development opportunities are assessed city by city and project by project

## **Obstacles encountered by expanding groups**

- Unregulated and unclear legal and fiscal systems
- Long and complex application and permission procedures
- Land ownership issues
- Bureaucracy and sometimes even corruption
- Lack of sufficient knowledge and skills both at the level of local and regional governments and hotel staff
- Insufficient knowledge of foreign languages
- Shortage of strong local partners
- Currency convertibility issues
- Closed borders and visa regulations (e.g. in Russia)

## Conclusions

- As a group of newly-opened markets, Central and Eastern Europe is a land of opportunities for expanding hotel groups
- Although most of these markets are economically and politically stable, hotel groups prefer a careful expansion through non-commitment modes of entry
- Due to the preference for most popular locations the hotel sector is still not developed appropriately in all CEE states
- Hotel groups and their production networks have a huge potential in fostering regional economies
- The ongoing economic transformation in CEE impacts hotel groups' expansion in a number of ways

→ → All of this is to be enquired into in more detail during the 2nd stage of research... → →

# References (1)

- Bradshaw, M.; Stenning, A. (2004) (eds.) *East Central Europe and the Former Soviet Union*, Pearson, Harlow
- Crawford-Welch, S. (1992) *Competitive marketing strategies in the international hospitality industry*, in: Teare, R.; Olsen, M. (eds.) *International Hospitality Management: Corporate Strategy in Practice*, London, John Wiley
- Dicken, P. (1998) *Global Shift*, Paul Chapman, London
- Dicken, P.; Kelly, P.; Olds, K; Yeung, H. (2001) *Chains and networks, territories and scales: towards a relational framework for analysing the global economy*, *Global Networks*, 1, 2, p. 89-112
- Esping-Andersen, G. (2006) *Welfare States in Transition – National Adaptations in Global Economics*, London, Sage
- Gale, D. (2008) *Hotels' 325*, *Hotels*, 7, p. 38-52
- Go, F. M.; Pine, R. (1995) *Globalization strategy in the hotel industry*, Routledge, New York, London
- Hall, P.A.; Soskice, D. (eds.) (2001) *Varieties of Capitalisms: The Institutional Foundations of Comparative Advantage*, Oxford University Press, Oxford
- Henderson, J.; Dicken, P.; Hess, M.; Coe, N.; Yeung, H. (2002) *Global Production Networks and the Analysis of Economic Development*, *Review of International Political Economy*, 9, p. 436-464
- Hess, M.; Yeung, H. (2006) *Guest editorial*, *Environment and Planning A*, 38, p. 1193-1204
- Hollingsworth, J.R., Boyer, R. (1997) (eds.) *Contemporary Capitalism. The Embeddedness of Institutions*, Cambridge University Press
- Ioannides, D.; Debbage, K.G. (eds.) (1998) *The Economic Geography of the Tourist Industry. A Supply-side Analysis*, Routledge, London & New York
- Pickles, J.; Smith, A. (1998) (eds.) *Theorising Transition. The political Economy of Post-communist Transformations*, Routledge, London & New York

## References (2)

Mather, S.; Todd, G. (2002) *The European hotel industry: an in-depth analysis of Europe's leading global, national and regional companies*, Beaconsfield: Travel Research International Ltd.

Sangster, A.; Wolton, J.; McKenney, S. (2001) *The International hotel industry: corporate strategies and global opportunities*, 3rd edition, TTI research report, London: Travel and Tourism Intelligence

Smith, A. (1997) *Breaking the old and constructing the new? Geographies of uneven development in central and eastern Europe*, in: Lee, R.; Wills, J. (eds.) *Geographies of Economies*, Edward Arnold, London

Sokol, M., (2001) *Central and Eastern Europe a Decade After the Fall of State-socialism: Regional Dimensions of Transition Processes*, *Regional Studies*, 35, 7, pp. 645-655

Stark, D. (1992) *The great transformation? Social change in Eastern Europe*, *Contemporary Sociology*, 21, 3, p. 299-304

Whitley, R. (2000) *Divergent Capitalisms. The social Structuring and Change of Business Systems*, Oxford University Press