

The experience of Meliá Hotels International in China: A case of internationalisation of a Spanish hotel group

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Abstract

The aim of this work is to identify the key success factors of a Spanish investment in a country with such profound cultural differences, as it is China, through the experience of Meliá Hotels International Group, one of the biggest hotel chains in the Spanish and international tourism sector. Two interviews were held with the group's Vice-president of Development. The first was after the opening of the group's first hotel in China in 2012, and the second two years later, because of the changes that the group had experienced in China. As a result, nine success factors and three entry barriers were identified.

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Introduction

China is currently the world's largest economy in terms of growth, which is the main reason why it is a sought-after investment destination for numerous companies across the world, seeking to take advantage of its market opportunities (Chen & Yeh, 2012). The tourism

sector also wants to take advantage of this potential (Wu et al., 1998) since China is the fourth country of international tourists' arrivals (The WorldBank, 2013). There is a growing literature in hotel internationalization (García De Soto-Camacho & Vargas-Sánchez, 2014; Littelljohn et al., 2007; Rogerson, 2014) and this

research note contributes to the previous literature by analysing the case of success of an internationalised Spanish hotel chain in an emerging country, as it is China, with huge market differences with respect to Spain.

Methodology

We used the case study methodology (Yin, 1981) to identify the key success factors for a hotel investment in China. The object of the study is Meliá Hotels International (MHI), because it is the leading Spanish hotel chain in terms of room numbers (Hosteltur, 2013) and the first company in the Spanish tourism sector to open in the Chinese market. In qualitative tourism research the most common case study methodology is with an unique case (Xiao & Smith, 2006), for example Chan & Hawkins (2010) and Valeri & Baiocco (2012). Case studies allow richer and greater depth data that would not normally be easily obtained by other research designs (Stake, 2005). On the other hand, one of the main criticisms is that the data collected cannot necessarily be generalised to the wider population (Tellis, 1997) and some authors argue that it is faulted of representativeness and rigor (Guba & Lincoln, 1991; Hamel, 1993).

Data was gathered from the company's website, its annual accounts, from articles about the company in the specialised hospitality media, in addition to two in-depth interviews held with the Group's Vice-President of Business Development (VPBD), as she has been ultimately responsible for the company's international expansion since 2011. The first interview was held in 2012, the first year of the company's most recent three-year strategic growth plan, which covered the period 2012-2014. At that time, MHI was starting to invest in the Chinese market and had only one hotel open, in Shanghai. We held the second interview in 2014, because the situation had changed considerably. The Gran Meliá Shanghai closed in 2013 and the company now has two new hotels open in Jinan and Xian, as well as various projects underway for 2015 and 2016.

Meliá Hotel International and the background to their Internationalisation Process in China

Since it was founded in 1956 by Gabriel Escarrer, Sol Meliá (which was re-branded in 2011 as Meliá Hotels International) has grown exponentially thanks to various mergers and acquisitions of other hotel chains and its well-defined international vision. Today, the group has a presence in four continents and more than thirty-five countries (MHI, 2014b). After Europe, where the company has developed a relevant expansion, the next continent where they have the greatest presence is America. During the interview, the VPBD stated that "the natural movement of all Spanish companies has always been towards America rather than towards Asia". The internationalisation model adopted by MHI can be explained by the Uppsala theory (Johanson & Vahlne, 1977), given that the company has embarked on a gradual expansion process focusing its internationalisation on "psychological" closer markets, penetrating later on in those with more cultural distance (Rodriguez, 2002). This distance also explains the entry choice in China: contract management, which is different to that used in South America, where they have more owned hotels (Quer et al., 2007).

MHI started operating in China in 2010 with the management contract format, the only one used in Asia because, according to the company, this format requires the fewest resources and enables to exploit their competitive advantages on management and organisation (Brown et al., 2003). There are no owned, rented or franchised hotels of MHI in this continent, nor is there expectation that these will exist in the short-term, according to the company's business development manager. The Spanish hotel chain is seeking international growth through low-level capital investment that allows faster growth and progressive leverage (MHI, 2014a) and they use the management contract rather the franchise that is seldom used in China (Pine et al., 2000). In this respect, MHI signed a partnership with Greenland for growth in China as they know the customer preferences, they offer the best locations and Meliá remains the brand name and the business management to ensure the best quality (Dev et al., 2002; Johnson & Vanetti, 2005).

Table 1. *Coincidences between the key success factors found by Zeng et al. (2009) (1) and Meliá Hotels International (2)*

	Area	Variable	1	2
1	company	Cost Control	√	√
2	company	Innovation capacity	√	√
3	company	Management systems	√	√
4	company	International business experience	√	√
5	company	Financial capacity	√	√
6	company	Brand awareness	√	√
7	company	Capacity for international expansion	√	√
8	location	Directors with management know-how in the host country	√	√
9	location	Labour availability	√	√
10	industry	Technology level	√	

Key Success Factors and Entry Barriers for MHI

Key success factors

Key success factors are therefore those that enable the company to create profits and grow (Walker & Brown, 2004). Throughout this point we will analyse the key factors in the success of MHI in China that were identified during the interviews, relating them to the variables put forward by Zeng et al. (2009). There are other classifications of key success factors but we consider this because it involves different variables related to several areas and they affect the performance of the company in China itself (Table 1).

Cost control

Undertaking an internationalisation process generates extremely high costs for the company, as entering in a foreign market calls for extremely high investment in terms of resources, and profits are not forthcoming in the short term (Lu & Beamish, 2001). MHI considers carefully “the company’s need to carry out proper monitoring and control of its tangible and intangible resources, to achieve satisfactory investment.”

Innovation capacity

A strategic orientation towards innovation, as well as the differentiation and quality of the products and/or services offered, is fundamental for a company to be able to

compete in a particular market (Wigley et al., 2005; Zehir et al., 2011). According to the VPBD, “the novelty factor and differentiation of our hotels is well perceived by the Chinese market, which is increasingly showing a preference for brands that can offer them something different to what they are used to”. A bias towards innovation is one of the company’s cornerstones, as it believes that it helps them to improve their competitiveness and efficiency (MHI, 2012).

Management systems

This variable refers to the implementation of management systems for international companies such as the ISO 14001 or the ISO 9001, which is one of the most well-known quality standards. The main reasons for implementing these kind of systems are senior management concerns regarding environment and efficiency (Quazi et al., 2001) and, in the hotel industry most specifically, legal reasons (Sánchez-Rebull et al., 2011). MHI has several of these certificates, validated by independent bodies, such as the ISO 14001, EMAS and EarthCheck. These give their business processes greater transparency and credibility.

Internationalisation business experience

The international experience allows the company to adapt to the particular market in which it is investing. This is a key success factor according to the interviewee who, during

the interview, talked about this aspect in terms of “think globally but act locally” (Keillor et al., 2001).

Financial capacity

In the case of the hotel chain, by using the management contract as their operational model, the biggest financial burden falls upon the partner, hence the importance of making the right choice on partnership and establishing strong alliances to avoid an investment failure (Luo, 1998).

Brand awareness

The importance of intangible assets such as brand awareness or know-how in internationalisation processes is a differentiating factor for companies. According to the VPBD, “the Chinese market is increasingly open to new brands that offer them something different. In this respect, international brands are always well received, another reason for using the management contract format”.

Capacity for international expansion

To achieve this expansion capacity, MHI has laid the foundations to create an organisational structure for managing South-East Asia and China along similar lines to the division that already administers its hotels in South America. In this way, MHI can monitor the evolution of markets more consistently and takes advantage of opportunities due to its increased knowledge of the region.

Directors with management know-how in the host country

“When it is made an investment, it is important to count on personnel with local knowledge and experience in the sector” VPBD. MHI mainly comprises local staff; however, it also employs Spanish expatriates in senior positions because they possess the know-how and trust of the company.

Labour availability

The availability of labour, its cost and quality are factors to consider when an investment destination is chosen (Badri et al., 2000; MacCarthy & Atthirawong, 2003). “Especially in China where the way of doing things are so different because of the culture, having local

staff makes management more efficient” VPBD.

Technological level

We have not found any coincidence with the case being studied, mainly because it is about a service company.

Entry barriers

Entry barriers are disadvantages that companies have to deal with when they decide to settle in another country (Hutchinson et al., 2009) and which may represent business failure. In this case, the cultural gap between Spain and China is the first of the barriers mentioned during the interview, due to its relevance to the way business dealings are handled (Nair & Stafford, 1998). The VPBD mentioned that “it is difficult to deal with a Chinese partner if you do not understand how they work and act, because they are very different from us. This underlines the importance of variables four “international previous experience”, eight “know-how in the host country”, and nine “labour availability”, listed above.

Secondly, the VPBD pointed out that the existence of “major restrictions on investment for political reasons” means that alliances with local partners help to overcome this barrier.

And thirdly, “most of the cutting-edge companies in China are Chinese, and there is a lot of public investment, which means there is a huge monopoly, which can be another limitation” (Pine & Qi, 2004). These local companies have what is known as “*Guanxi*”: good connections or a good contact network (Tsang, 1998). These relations are unquestionably one of the main success factors in China (Cremer & Ramasamy, 2009).

Conclusions

The contribution of this study has been to identify the key success factors that one of the most important hotel chains in the international panorama has considered important for its entry into the Chinese market, having the right information at two key points in its internationalisation process. Before making any decisions on internationalisation, companies should assess whether they fulfil the factors outlined in this letter to better prepare

themselves to successfully tackle the barriers which will undoubtedly arise on their entry into this market.

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