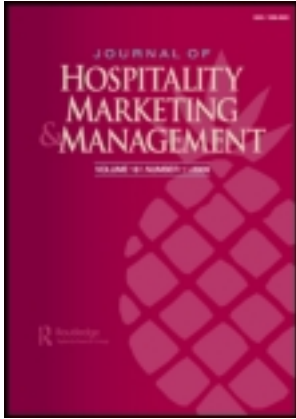


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## **Reasons for Internationalization of Domestic Hotel Chains in Thailand**

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*Drawing upon the study of three Thai hotel chains, this research sets out to explore why these chains seek to deliver their products and services beyond the traditional boundaries of domestic markets. Additionally, this study adopted an exploratory study approach in investigating the internationalization specifics of the three Thai hotel chains, using the semistructured interview research method. The findings suggest that the decision to go international is not based on a solitary reason or motive. It arises from a combination of different reasons and motives, which are strongly interrelated. Also, this research provides new empirical evidence and extends the boundaries of existing knowledge in the developing-country internationalization literature, especially regarding Thai multinationals and the internationalization of Thai hotel chains.*

**KEYWORDS** *reasons for internationalization, Thai hotel chains*

### INTRODUCTION

Within a changing global environment, internationalization is viewed as almost inevitable if the expansion goals of corporations are to be achieved (Root, 1994). Johanson and Vahlne (1977) have defined the term *internationalization* as a process in which firms gradually increase their

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international involvement. This definition provides the seminal theoretical contribution on the internationalization of firms, which is best understood as an evolutionary process (Young, 1990). The overall notion of a developmental process is shared by Buckley and Ghauri (1993), who suggested that internationalization means a changing state, and thus, implies dynamic change. Interestingly, they argued that the growth of the firm is the background to internationalization. However, this view has been challenged by other researchers, who do not agree that organizational growth is a necessary condition for internationalization. Marketing seeking, resource seeking, efficiency seeking, strategic-asset seeking (Dunning, 1980), risk avoidance (Robock & Simmonds, 1989), client following (Erramilli & Rao, 1990), or merger and acquisition (Gilbert & Zok, 1992) can also determine the internationalization of firms. Therefore, it becomes clear that not only organizational growth forms the background of internationalization: other motives are also shaping the internationalization of firms.

However, for this study, Beamish's (1990, p. 77) definition of internationalization will be adopted: "a process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future and establish and conduct transactions with other countries." This definition regards internationalization as a unidirectional process of increased involvement and commitment and includes de-investment, which is a temporary decrease in the level of international involvement of a firm. Clearly, internationalization is a process by which firms adapt their involvement and commitment to international markets and international competition.

Closely monitoring the existing literature on internationalization and international business, it was discovered that although some research has been carried out on developing-country multinationals, this amount of research is still considered relatively small, especially with regards to Thai multinationals (Attamana, 1980; Laothamatas, 1994; Martin & Pavitt, 1997; William & Watts, 1997; Intarak & Thanaekcharoen, 1995; Pananond & Zeithaml, 1998; Pananond, 2007), compared to existing studies carried out on MNEs from developed economies. Surprisingly, to date, research has not attempted to explore the internationalization of Thai hotel chains, although the Thai tourism and hotel industry provides the largest source of foreign exchange earnings for Thailand. In addition, the Government has been encouraging Thai enterprises to go abroad since the early 1990s through various measures and institutional support facilities. It had also signed 39 bilateral investment treaties and 56 double taxation treaties with partner economies and concluded various regional arrangements (Association of South East Asian Nations [ASEAN] Free Trade Area, ASEAN Framework Agreement on Services) and bilateral FTA agreements (with Australia, China, India, New Zealand), which contain investment provisions (Ministry of Foreign Affairs, 2010). Therefore, in response to the research gap previously

identified, this article aims to explore why Thai Hotel chains seek to deliver their products and services beyond the traditional boundaries of the domestic market.

## LITERATURE REVIEW

### Reasons for Internationalization

The existing literature has made a substantial contribution to understanding the needs and the underlying reasons behind internationalization activities (see Dunning, 1980; Cavusgil, 1980; Gilbert & Zok, 1992; Bartlett & Ghosal, 2000; Albaum, Duerr, & Strandskov 2005; Altinay, 2005; Paxson, 2009; Erramilli & Rao, 1990; Anderson, 1993; Root, 1994; Alexander & Lockwood, 1996). According to eclectic theory, Dunning (1980, 2000) proposed that there are three key determinants driving an organization to start internationalization. First, it should possess certain tangible or intangible assets, which its current and potential competitors in the home and host countries do not. These are the ownership advantages of the firm. According to Rugman (1981), ownership advantages are specific to the company, and the greater the ownership advantages of the firm and the locational attractiveness of a country the higher the motivation for international production. Second, presuming a firm does have such advantages it would be economically feasible to use them in other locations across borders since the marginal usage cost of ownership endowments is negligible. At this stage, firms might decide whether to lease or contract these assets or whether there should be a vertical integration called *internalization*. Finally, when the first and second conditions are met, the firm would have to decide on whether exploitation of these assets in a foreign country, in conjunction with resources available locally, makes substantial economic sense to the company.

Cavusgil (1980) classified the reasons for internationalization into two broad main categories: macro and micro. The macro level can be described as the broad trends in the world, particularly after World War II, with the beginning of a more liberal environment in international trade and investment. This level also includes such factors as the raising of the world's income level and the decrease in the poverty level of some developing countries over the last decades; reduced barriers to international trade as a consequence of General Agreement of Tariffs and Trade; the creation of regional trading blocs and integration, such as the European Union and American Free Trade Association; and improvements in technology. Micro factors can be described as the company-specific reasons that influence the organizations' decision to internationalize.

Bartlett and Ghosal (2000) suggested that internationalization is a strategic decision that depends on the opportunities and threats of the external and task environments and the resources and capacities of the firm. Whitelock

(2002) had similar views, and proposed that a firm intending to internationalize takes into account a number of variables such as firm resources, market attractiveness, psychic distance, entry barriers, and competition before embarking on a decision to internationalize. Albaum et al. (2005) put forward several reasons that explain firms' internationalization decisions. As classified by these authors, reasons may originate from factors that are internal to the firm, such as managerial urge, growth and profit goals, economics of scale, offering a unique product or extension of services; or from external factors in the business environment, such as foreign market opportunities and encouragement by change agents. In addition, motivations have been distinguished on the basis of whether they are proactive or reactive.

The conscious impulse behind a company's initial entry into foreign markets is almost always the prospect of profit on immediate sales (Root, 1994). Companies may go abroad in search of markets for greater sales volumes in order to reduce the unit costs of manufacturing overheads and thereby strengthening their competitiveness at home as well as in foreign countries. A further empirical study, conducted by Booz-Allen and Hamilton (1991) on the subject, shows that companies that operate internationally enjoy higher profit margins and greater return on assets than those that are strictly operating in domestic markets. They also view international markets as a safety net when the domestic economy slumps, as their study shows that firms that have already internationalized could minimize their domestic downturn turnover risks. That might be the motive for many European, Japanese, and Pacific Rim companies, which have tended to push harder and move faster in order to fully understand growth potential and compete globally.

A closer look at the micro factors reveals that demand push factors can be considered as a restriction on growth in the firm's domestic market, acting as a powerful incentive to internationalize (Hamel & Prahalad, 1985). This analysis is shared by Alexander and Lockwood (1996), who argued that market saturation or maturity, competition from foreign imports, and a high level of industry concentration have forced companies to develop new markets in order to survive and compete. Similarly, Porter (1990) highlighted that the result of home-market saturation are vigorous efforts by a nation's firms to penetrate foreign markets in order to sustain growth and even to fill capacity. He further argued that home-market saturation is particularly beneficial if it is combined with buoyant growth in foreign markets. In hotels and fast food, for example, American firms moved overseas as they neared full coverage of the U.S. market. Consequently, American hotel chains and fast foods corporations have established strong international positions in the service sector. Demand-pull factors also present some enticements to firms as the underlying reasons for internationalization. Erramilli and Rao (1990) noted that a common reason among service companies (e.g., advertising, computer services, hotels, and insurance) to go abroad is to follow their

domestic customers who are going international. A large number of business travelers within the spread-out borders of the United States, for example, helped American hotel chains learn to serve this market segment. This motivation has been defined as client following (Erramilli & Rao, 1990). This is an important element within the internationalization process discussed in this study.

An additional factor, which also drives companies to seek other markets, is competitive forces (Anderson, 1993). Root (1994) stated that if the global economy is a threat to domestic firms, it is also an opportunity for them to exploit bigger and faster growing international markets. He further identified that the best way to defend against foreign competitors at home is to attack those same competitors in international markets. According to Anderson (1993), in some industries, the expansion movement of competitors to other countries or markets could act as a powerful stimulant for companies to internationalize and/or follow their competitors, whether by moving into the same new markets or countries, or moving to other untapped markets. Similarly, Ohmae's (1990) study also shows that fierce and intense competition does not only come from domestic companies, but also comes from foreign companies. Japanese companies, for example, have been able to compete with companies from developed countries not only in Japan, but also in other countries including Europe and the United States.

In the hospitality industry, the growth of disposable income and rapid development of transportation have accelerated the internationalization of the tourism industry, thus forcing regional lodging markets to develop an international business perspective. Interestingly, the attraction of major international hotel chains in overseas expansion is linked with developing countries' desire to bring in foreign capital. According to Tse and West (1992), one of the major forces that have encouraged the internationalization of hotel chains is the need to increase levels of growth and profits. As international tourism has increased significantly, this is expected to continue with the removal of barriers to trade and travel by many countries, and the improving world economy. Such dramatic international travel growth has created new market opportunities for lodging firms, particularly when firms face a maturing market at home. A hotel in a foreign country can serve its own citizens when they travel to that country. However, it can also serve the local people in that country as well as international tourists from other countries. The sales generated from a foreign destination can increase the total revenues of the company.

With steadily increasing international travel and trade, chain hotels have also attempted to develop brand loyalty through familiarity, consistent service, and global reservation systems in order to follow their clients to international destinations (Tse & West, 1992). As Yu (1999), Rodriguez (2002), Chao, Samiee, and Yip (2003), and Altinay (2005) all pointed out, building worldwide brand recognition also motivates hotel companies to expand



operations overseas. Brand recognition and brand loyalty are important marketing strategies practiced by international operators.

Ayoun and Moreo (2008) noted that the internationalization of the hotel business has accelerated at an unprecedented rate over the last few decades. Driven primarily by declining international trade and investment barriers and increased market opportunities outside national borders, many major hotel organizations operate internationally and focus on U.S. and European markets as high tourist destination countries to fuel their growth. Asian and Pacific countries have become attractive locations to many international chains, and increasing levels of international business travel and tourism to the Far East have influenced hotel chains to penetrate that region.

As the world's largest tourist destination by 2020, the World Tourism Organization (WTO) has predicted that China will become the fourth-largest international tourist-generating market (WTO, 2008). It is estimated there is the potential for 100 million outbound tourists by 2020, accounts for a global market share of 6.4%. With its accession to WTO in 2001, China committed to gradually opening up its travel service market to foreign investors, which it has achieved with a step-by-step liberalization of the travel service market (Xu, Zhang, & Wu, 2010). However, the typical Mainland Chinese hotel companies have been, and continue to be, constrained by the state-owned enterprise system, the oldest form of Chinese enterprise. The hotel industry therefore struggles with problems of state ownership that inhibit competitiveness such as inability to separate management from ownership, lack of effective asset monitoring, and disproportionate emphasis on non-commercial objectives (Pine & Qi, 2003). While Hong Kong-based hotel company brands such as Mandarin Oriental, New World, Peninsula, and Shangri-la are well established in international markets, their origins were in the (pre-1997 handover) Hong Kong free-market environment.

In terms of tourism in Southeast Asia, classifying the region as a single destination area belies the fact that its member countries are at differing stages of the tourism development cycle (Teo & Chang, 1998). Countries with highly developed tourism industries and sophisticated infrastructure are Thailand, Singapore, and Malaysia, while the rest (Vietnam, Myanmar, Cambodia, Laos, and Brunei) are countries where tourism is emerging as a potential source for development. As globalization and regionalization are dominant trends in the world economy, this will stimulate economic integration and new forms of cooperation which affects the operation of the tourism industry such as the Indonesia-Malaysia-Singapore Growth Triangle, the Greater Mekong Subregion (GMS), ASEAN, ASEAN Free Trade Area, ASEAN Framework Agreement on Services (AFAS; Henderson, 2001). These concepts are some responses to these movements. The agreements created by these forms of cooperation offer possibilities for new tourism products, promotion, and routes for strategic planning. In the hotel sector, according to Gross and Huang (2011), the growth of smaller domestic hotel chains in

countries other than the traditional Western ones may potentially emerge as hospitality exporters. Future multinational hotel chains are being groomed in domestic hotel groups that are poised for international expansion. This has been a common development pattern from emerging market multinational firms in recent decades (Goldstein, 2007), and has been seen in Asia with brands such as Mandarin Oriental, New World, Peninsula, and Shangri-La based in Hong Kong, and Millennium & Copthorne from Singapore.

As in many Asian countries, the tourism industry has been promoted as a major component of economic development for Thailand since the 1960s (Panvisavas & Taylor, 2006). Thailand is attracting foreign tourists to the Buddhist pilgrimage sites and its famous adventure tourism. In 2007, international visitor arrivals to Thailand reached 14.46 million, a 178-fold increase from 81,340 in 1960. International tourism revenue also increased from 196 million Baht in 1960 to 547,782 million Baht in 2007 (Tourism Authority of Thailand, 2009). In parallel with the expansion of tourism in Thailand, there has also been a corresponding boom in the hotel industry. Between 1992 and 2010, the Thai hotel industry saw the number of available bedrooms nearly triple from 130,000 to 384,000. Moreover, competition in the Thai hotel industry was further intensified as more international players entered the market. Since the early 1990s, newcomers from Asia, Europe, and the United States have increasingly challenged established hotel chains (Thai Hotels Association, 1991). Also, according to the commitments made to date under ASEAN Framework Agreement on Services in line with the targets set under the ASEAN Economic Community Blueprint, Thailand allows for foreign (ASEAN) equity participation of not less than 51% by 2008 and 70% by 2010 for the four priority services sectors such as air travel, healthcare, telecommunications and IT, and tourism (ASEAN, 2011). Besides, tourism in Thailand suffered a brief setback as a result of internal political conflict, SARS, a global economic recession, the September 11th attacks in the United States, bird flu, and a tsunami; these all had an effect and caused damage to the economy and tourism and hotel business in Thailand. However, it recovered quickly and the number of tourists has now returned to over 14 million.

## RESEARCH METHOD

The emphasis of this research lies in an attempt to understand why Thai domestic hotel chains enter foreign markets. Thus, this research adopts a phenomenological approach by seeking the meaning attached to international expansion by the exploratory study organizations. An interview-based research method, which has its chief emphasis on interviews in one to five organizations along with examination of relevant documents, is used in this study. Observation may occur, but if it does so, it tends to be in



periods between interviews. It is worth noting that total participant and semiparticipant approaches were not permitted by the exploratory study organizations (Bryman, 1989, pp. 152–161). In selecting the international Thai hotel chains for inclusion in this research, a list of international Thai hotel chains published by the Tourism Authority of Thailand in 2004 was used. Four international Thai hotel chains are identified in this report. All four chains were approached to participate in this study. Of these, three agreed to do so and released relevant data for analysis. Besides this, given the sensitivity and the safety of the organization, all the three Thai hotel chains contributing to the research project were concerned about the confidentiality of the collected data. Confidentiality was guaranteed and it was ensured that all of them would be subsequently disguised in the research. The three participant hotel chains include Hotel Chain A (HCA), Hotel Chain B (HCB), and Hotel chain C (HCC). Fieldwork was carried out in Bangkok, Thailand, by using in-depth (face-to-face) interviews. A key theme in studies on internationalization is the management's mind set, attitudes, and beliefs (Oviatt & McDougall, 1994). Patton (2002) suggested that the size of the sample depends on what the researcher wants to find out, how the findings will be used, and what resources the researcher has for the study. Consequently, in-depth information from a small number of people can be very valuable, especially if the interviews are information rich. Accordingly, in-depth interviews were conducted with nine key informants who had experience of direct participation in the formation of international expansion strategy or who were directly involved in international activities of the three Thai hotel chains. Importantly, the face-to-face interviews provided the opportunity for the researcher to raise additional questions and ensure that the desired information was obtained. The duration of each interview was on average 205 minutes, which should be considered long in a commercial interview situation. This number of interviewees was considered sufficient because of the depth of information gathered during the interviews, which has been saturated or repeated by informants. Also, further to Altinay's (2005) suggestions, data analysis techniques used included coding analysis, which allows for constant examination of conceptual interactions and relationships, and the conditions under which they occur (Strauss & Corbin, 1990). A coding scheme was also derived from the literature, which reflected the research framework, highlighting the key reasons for internationalization (see Table 1). This coding scheme was used as a set of lenses to view the collected data. Each reason was treated as a code/pattern. Much of the data analysis consisted of breaking down the interview transcripts and notes, as well as documents into manageable blocks in order to classify them under each code/grouping. Theoretical memos or notes were written during the analysis (Altinay & Paraskevas, 2008). These theoretical notes and memos helped to cross-classify the variables logically, generate themes, and illustrate interrelationships. More specifically, they illustrated how different factors

**TABLE 1** Coding schema reasons for internationalization

External	Internal
To maintain and support the relationship between Thailand and neighboring countries.	To spread risk. To increase profit by acquiring the opportunity of investment. To learn new knowledge from overseas markets. To build worldwide brand recognition and create a marketing network.

act upon and influence each other in hospitality organizations' decisions to expand overseas.

Significantly, due to different cultural norms, it must be remembered that most of Thai companies have a family-business organizational structure. All top-level executives who participated directly in the formation of international expansion strategy are from the ranks of main family members and close relatives such as fathers, sons, daughters, and uncles. This leads to centralized management and a centralized organizational structure, and also to there being few informants. However, the interviews covered all research questions and objectives. The interview questions were based on the literature review and the objective of the study.

## FINDINGS AND DISCUSSION

### Reasons for Internationalization of Hotel Business

It was found that there are five reasons that affected Thai hotel chains' decision to go international:

1. To spread risk
2. To increase profit by acquiring the opportunity of investment
3. To learn new knowledge from overseas markets
4. To build worldwide brand recognition and create a marketing network
5. To maintain and support the relationship between Thailand and neighboring countries

#### TO SPREAD RISK

Normally, the hotel industry is extremely sensitive to fluctuations in demand. In particular, when there is a serious situation happening (such as the Gulf War, terrorism, internal political problems, a tsunami, world economic recession, SARS, etc.), it affects and may damage the economy and tourism business in many countries, especially Thailand. For example, the Gulf War had a devastating impact on the travel industry and the hotel business in

Thailand. The curtailing of business travel and tourism during a recessionary period typically has adverse effects on expenditure on hotel rooms, food and beverage expenditure, and, therefore, hotel profitability. This is because of severe drops in air travel and tourism, particularly in the number of foreign tourists. For this reason, expanding into overseas markets or doing business abroad means HCA and HCC could diversify risk and reduce dependency on the domestic market. According to the managing director of HCC and the vice president headquarter, finance, and accounting of HCA, the vulnerability of the tourism and hotel business in Thailand was a main factor that affected their decision to go international.

The vice president headquarter, finance, and accounting of HCA explained additionally that if Thailand suffers from internal political unrest, HCA would lose money, since it is dangerous to visit Thailand. But, if HCA spreads its hotels into overseas countries, HCA may lose money only on properties in the Thai market and make money on other properties situated in countries with more stable political systems. Consequently, to do business abroad or to expand foreign investment helps HCA and HCC to cope with ever-changing general business conditions and to reduce dependency on the domestic market. Thus, HCA and HCC changed their plans and sought the next opportunity for future investment that would help them make it through these difficult times.

Besides this, the policy of the Thai government towards hotel businesses put constraints on their operation, especially the ban on selling alcohol after midnight. This affects the hotel business directly because a main part of a hotel's revenue comes from food and beverage sales. The managing director of HCC complained:

Some of the legal restrictions really do not support our operation, such as prohibiting selling alcohol after midnight. Frequently, there are many hotel guests having a late check-in after midnight, especially foreigners. When they order an alcoholic beverage such as beer, we cannot serve them. This leads to receiving many complaints and losing some customers.

This has undesirable effects on food and beverage expenditures and hotel profitability. As a result, this stimulated HCC to look for overseas markets to reduce its risk. These restrictions are another factor that affected their decision to expand into a foreign market. Albaum et al. (2005), Czinkota, Ronkainen, and Moffett (1996), and Go and Pine (1995) explained that diseases, terrorism, internal unrest in some countries, wars, and threats of wars have all disrupted established trade patterns and/or raised costs. The threat from SARS, bird flu, the destruction of the World Trade Center in New York and the bombing by terrorists in Bali affected business and reduced tourism, air travel, and some exports. Consequently, firms increased overall levels of

national and international economic activities to reduce the risk associated with declining sales and profits in the home market. Rao and Naidu (1992) noted that firms that were affected by the recession not only intensified their exports but also expanded their export destination portfolio by seeking new overseas markets to avoid risks. That this is a motive to internationalize is a view shared by Robock and Simmonds (1989). Similarly, Yu (1999), Gorman and McTiernan (2000) proposed that besides risk diversification, the decision to internationalize involves the desire to reduce dependency on the home market. These motives enable the firm to increase business in countries of economic upturn and hedge against economic downturns in the home country. Importantly, these ideas are supported by the findings of this empirical study of the behavior of the three Thai hotel chains between 1990 and 2005.

Porter (1990), Hamel and Prahalad (1985), Alexander and Lockwood (1996), and Albaum et al. (2005) argued that the result of home market saturation leads to vigorous efforts by a nation's firms to penetrate foreign markets in order to sustain growth and even to fill capacity. McKiernan (1992) and Yip (1989) had a similar view, which is that maturity in domestic markets is driving companies to seek international expansion. However, the Tourism Authority of Thailand's annual report (2004) analyzing the tourism situation in 2004, stated that the positive growth of the tourism industry of Thailand is reflected by a rise in investments in hotel constructions and a proliferation of spa businesses in major tourist destinations; thus the home market saturation factor does not have an influence on the Thai hotel chains' decision to internationalize.

Most previous research within the field of international business (Robock & Simmonds, 1989; McKiernan, 1992; Root, 1994; Porter, 1990; Czinkota et al., 1996; and Albaum et al., 2005) mentioned that home governments have also developed incentive programs as a motive to encourage international business expansion, such as providing political risk insurance, offering loans and allowing tax credits for tax payments to foreign governments. In addition, many governments use preferential tax treatment to encourage exports (Czinkota et al., 1996). As a result of tax benefits, domestic firms can either offer their product at a lower cost in foreign markets or can accumulate a higher profit. Similarly, Pananond (2004) reported that the Thai government resumed its support for Thai overseas investment through the board of investment, which started in 2003. However, only a few studies (Alexander & Lockwood, 1996; Root, 1994) stated that regulatory constraints at home, an external pressure (push factor), had encouraged firms to internationalize their operations. In addition, this motive is weaker and less clear in the hotel sector (Alexander & Lockwood, 1996). Thus, the research findings based on Thai legal restrictions go beyond the arguments by Alexander and Lockwood (1996) and Root (1994) or the existing literature. More research on this issue is suggested.

## INCREASING THE PROFIT BY ACQUIRING THE OPPORTUNITY OF INVESTMENT

Profits are the major proactive motivation for international expansion. The vice chairman of the executive board and senior deputy managing director of HCB and the assistant managing director of HCC had a similar view that the conscious impetus behind a hotel company's initial entry into foreign markets is almost always the prospect of profit or profit advantage. Moreover, the chief operating officer of HCA explained that due to the company being registered in the stock market, HCA needed to focus on projects that are worthwhile for investment, especially in generating high returns. For that reason, expanding into the international marketplace enables the three Thai hotel chains to increase their potential source of higher profit margins. In addition, they take up the opportunities of external environments, particularly foreign market opportunities, via three means of approach: the consequence of economic crisis, having a good reputation among foreign tourists (unique service), and having a good relationship with the host government.

Firstly, the consequence of the world economy crisis brought opportunities to the hotel industry. Many debt-ridden domestic hotels became takeover targets for international hotel chains. The three Thai hotel chains took the crisis as an opportunity to invest in international business activities. Also, they focused mainly on site operations in a variety of developing countries in the region and in some developed countries like the United States and the EU. Their main purpose is to serve foreign customers who tend to be less price sensitive and have a strong purchasing power, paying more to meet their specific individual needs. Thus, when they were approached by foreign companies interested in selling their hotel properties, or by brokers in hotel biddings that wanted to sell hotels, they took these opportunities to acquire hotel assets cheaply in a foreign market and thereby facilitate their foreign expansion. This view was confirmed by the managing director of HCC:

As the UK recession deepened since 1991, there was news from the Bangkok Bank manager there. They asked if I was interested in buying a hotel because the previous owner wanted to sell it . . . I saw it as an opportunity.

Secondly, the three Thai hotel chains producing superior services (unique service) are more likely to receive inquiries from foreign markets because of perceived competence of their offerings. According to the Chief Operating officer of HCA, Thailand's hotel and service industry has gained such a good reputation among foreign tourists, that many foreign hotels have even invited Thai companies to manage them with skilled Thai personnel. For example, HCA was invited by Dubai's royal family to manage their hotel ("The HCA ready," 2000). HCA has its own uniqueness in its Thai culture and hospitality, not following the Western culture, and the impressive

service Thai staff provide to customers with smiles and friendliness. As a consequence, Dubai's royal family believed that HCA was different and able to improve their service and business in a different way from their competitors. Unique services can be another major stimulus to attain a foreign market opportunity.

Lastly, the opportunity of foreign investment is obtained by having a good relationship with the government of the host country. Generally, the host government offers incentive programs to attract foreign investors to invest in their country, but they may rule out certain business areas for foreign investors and require sharing of ownership with locals. However, the executive vice president of HCB explained: "Someone from our company happens to know a member of the Cambodian government, so he told us to come. They wanted us to invest so they gave us some kind of tax privilege."

This led to a new opportunity for HBC to make a direct investment in Siem Reap, near to Angkor Wat (one of the Seven Wonders of the World), and gain considerable tax privileges. This aspect was another important factor influencing the decision to internationalize.

Albaum et al. (2005) stated that every business has a major goal that it strives to achieve. This goal may be profit or nonprofit orientated. Profit-orientated objectives include those of return on investment, return on sales, profit maximization, growth, or stability. Moreover, Tse and West (1992) highlighted that one of the major forces that have encouraged the internationalization of hotel chains is the need to increase levels of growth and profits. Similarly, Booz-Allen and Hamilton's (1991) further empirical study shows that companies that operate internationally enjoy higher profit margins and greater return on assets than those that are strictly operating in domestic markets. They also view international markets as a safety net when the domestic economy slumps, as their study shows that firms that have already internationalized could minimize their domestic downturn turnover risks. The research regarding the three Thai hotel chains confirms the analyses that the desire to increase profits was the most important factor influencing the decision to internationalize.

Additionally, Williams and Tilley (1996) proposed that firms from Southeast Asian countries have focused their overseas operations mainly on sites in developed countries. Likewise, Pananond (2004) mentioned that the favorite destinations of Thai investors not only remained the United States and the European Union, but had also broadened to cover a variety of developing countries in the region. These views are supported by the comments of the informants from the three Thai hotel chains that they mainly focus on expanding their business to countries where political and economic conditions are perceived to be highly stable and which are interesting as leading tourist attractions and business destinations, especially the United States, United Kingdom, and the European Union. Moreover, Albaum et al. (2005)



highlighted that large and open host country markets provide opportunities that encourage foreign investors to enter, which is a sort of international pull. Besides this, service firms engaging in international activities decide to penetrate foreign markets for the purpose of serving foreign customers, a form of market seeking (Bjorkman & Kock, 1997, Erramilli, 1990; Erramilli & Rao, 1993). Bjorkman and Kock (1997) added that service firms search for new customers who tend to be less price sensitive and willing to pay more to meet their specific individual needs and maintain established relationships. These visions are confirmed by the empirical study of the three Thai hotel chains in explaining the purpose of focusing on site operations and serving foreign customers. However, the research findings contradict the arguments by Erramilli (1990), Root (1994), Teare and Olsen (1992), and Erramilli and Rao (1990, 1993) that service firms go abroad to serve their current domestic clients (client following) rather than entering a foreign market to serve foreign customers (market seeking).

According to Albaum et al. (2005), firms' reasons for internationalization may spring from factors that are internal for the firm, such as growth and profit goals, offering a unique product or extension of services. Czinkota et al. (1996) had a similar view that a firm may produce goods or services not widely available from international competitors. If products or services are unique, they can certainly provide a competitive edge. If a firm has developed unique competencies in its domestic market, the possibilities to spread unique assets to overseas markets may be very high because of the perceived competence of its offerings (Albaum et al., 2005). Importantly, these arguments are supported by the findings of this empirical study of the behavior of the three Thai hotel chains between 1990 and 2005: unique services (Thai hospitality) can be another major motivation to go international.

McKiernan (1992) noted that internationalization could be initiated by external stimuli such as incentives from host governments. On the other hand, Robock and Simmonds (1989) contended that even though host country incentive programs are more numerous and varied than home-country policies, they may proscribe business areas for foreign investors, restrict foreign exchange remittances, control technology transfer agreements, call for sharing of possession with locals, and so on. They may even effectively ban foreign direct investment. Accordingly, host governmental policies and regulations pertaining to international business are most noteworthy in having a decisive influence on international expansion (Root, 1994; Erramilli & Rao, 1990, 1993; Albaum et al., 2005; Czinkota et al., 1996; Go & Pine, 1995). However, these views are not supported by the research findings regarding the three Thai hotel chains. Along with this, reasons behind internationalization that derived from having a good relationship with the host government go beyond the existing literature. More research on this issue is suggested.

## LEARNING NEW KNOWLEDGE FROM THE OVERSEAS MARKET

To gain access to technological advances or to acquire firms in other countries for the technical or competitive skills and knowledge has been considered as a stimulus that affects the three Thai hotel chains' decision to expand to foreign markets. The vice president-operations of HCA said that HCA moved internationally to gain access to technological and market knowledge in order to develop the business and improve customer services. For example, from the chances to manage a hotel in Dubai and acquire a majority stake in a hotel in Manila, HCA not only gained access to technologic advances in these locations but was also able to accumulate new knowledge and skills which introduced a technique to maintain long-term relationships with customers (personal reward programs) and bring it back for implementation in Thailand. Similarly, the managing director of HCC revealed that HCC has learned and translated the absorbed European marketing style and knowledge of international trends into marketing system improvements back home. In addition, the executive vice president of HCB remarked that entering into an agreement allowing an international American hotel chain to manage its hotel in Cambodia has enabled HCB to acquire technical or competitive skills and enhance the development of management personnel, as well as to generate ideas for service development from that chain. Accordingly, the need to develop existing capability and to accumulate up-to-date knowledge is becoming increasingly important to the three Thai hotel chains as stimuli influencing their decision to internationalize.

Czinkota et al. (1996) proposed that one of the major proactive motivations for internationalization is technological advantage, representing a stimulus for firm-initiated strategic change. Moreover, Albaum et al. (2005) mentioned that the developing countries of the world are constantly seeking technology from the developed countries. By going abroad, firms from developing countries can learn from foreign companies, or may attempt to acquire foreign companies for technological and knowledge advantage or competitive skills they may possess in order to complement their existing core competencies or to overcome internal resource deficiencies and to enhance the development of management personnel (Alexander & Lockwood, 1996; Czinkota et al., 1996; Bartlett & Ghoshal, 2000; Gorman & McTiernan, 2000; Dunning, 2000; Albaum et al., 2005; Mort & Weerawardena, 2006; Hutchinson, Quinn, & Alexander, 2006). According to Pananond and Zeithaml (1998), the need to develop existing competence and to accumulate new knowledge is becoming more important to multinationals from developing countries as the world becomes gradually more integrated. Importantly, these studies are confirmed by this empirical study of the three Thai hotel chains, which has uncovered the desire to gain access to technology advances and knowledge improvement as another reason for international expansion.

#### BUILDING WORLDWIDE BRAND RECOGNITION AND CREATING A MARKET NETWORK

Building worldwide brand recognition also motivates hotel companies to expand their operations overseas. Therefore, it is part of the three Thai hotel chains' business goals, to establish a famous international brand name identity and achieve a symbol of success and progress as well as improved profitability. The assistant managing director of HCC claimed that besides profit, other things that HCC expected from international expansion were brand recognition and market networks. Significantly, the acquisition of overseas hotels enabled the three Thai hotel chains to develop their market network and to promote themselves in international marketplaces. Additionally, the awareness created by the three Thai hotel chains' international presence strengthens their market position for international travelers. The more locations a chain has, the more loyalty and familiarity it can build amongst its existing and potential markets. Accordingly, the development of internationally recognized brands is essential to differentiate the three Thai hotel chains' products and services, to penetrate leisure and business markets, and to enjoy larger margins and market shares.

Moreover, having a better market network in foreign markets enables the three Thai hotel chains not only to make their brand image wider and let people get to know them more, but also lets them create their own market network and lower marketing costs. Essentially, having a network of many hotels can reduce much of the marketing, branding, and administration spending. This is because running several hotels will cost less in the form of an owned network, which helps cut marketing, branding, and administration costs as economies of scale advantages are created. The vice president headquarter, finance, and accounting of HCA explained this point:

To extend the business means more sharing. Like marketing, the costs are very high to have a sales office abroad. If we have only a few hotels, the costs for this will be higher. But if we have a chain of many hotels and we sell packages and do the same advertising, this will make the cost lower with a higher income.

Thus, another benefit the three Thai hotel chains gain is through creating market networks in other countries, representing a cost advantage on marketing, advertising, international reservations, and referral networks. Moreover, the three Thai hotel chains have developed their own Web site, brochures and e-business in English and other languages to let their customers contact them directly. The vice president headquarter, finance, and accounting of HCA remarked that selling through agencies and other sales offices, HCA has to give commission and receives a lower income. Obviously, brand reputation and market network are of great concern to the three Thai hotel chains.

Yu (1999) pointed out that brand recognition and brand loyalties are important marketing strategies practiced by international operators. The development of brand-name hotels and restaurants can make the name and service known to the local people in a foreign country. This is in accordance with the comments of the informants from the three Thai hotel chains that international expansion enables them to promote their brand recognition in international marketplaces. Moreover, the hotel chain attempts to develop and exploit brand loyalty through familiarity, consistent service, and international reservation systems (Teare & Olsen, 1992). Many hotel executives think that international operations serve as an image enhancer, which increases brand image recognition. This view is shared by Gorman and McTiernan (2000), Altinay (2005), and Chao et al. (2003), who posited it as a motive for internationalization. In addition, Chao et al. (2003) added that Asian firms are also aware of the importance of international brands and are gradually developing brands that are widely recognized. Clearly, the empirical study of the three Thai hotel chains strongly supports these analyses: building worldwide brand recognition motivates hotel companies to expand operations overseas.

Besides this, Albaum et al. (2005) proposed that if scale economies exist in production, advertising, distribution, or other areas, a broader market scope created by internationalization could give rise to a decrease in unit costs of products produced. This view is shared by Czinkota et al. (1996), Gilbert and Zok (1992), and Bartlett and Ghoshal (2000), who see it as an internationalization driver. Moreover, Porter (1990) highlighted that there may also be potential marketing economies of scale through international use of proprietary marketing techniques. Since the knowledge gained from one market can be used at no cost in other market, the international firm can have a cost advantage. For example, some brand names develop recognition internationally through carrying over between geographic markets, although usually the firm must invest to establish its brand name in each one. Go and Pine (1995) had a similar view, proposing that economies of scale may be achieved with regards to nonmanufacturing cost elements, including marketing, national branding, distribution, administration, central purchasing, and new product development. International activities can therefore help to reduce the costs of production and marketing and make the firm more competitive domestically as well. Importantly, these studies are supported by the research findings regarding the three Thai hotel chains, explaining the purpose of creating a market network in overseas countries as a proactive motivation for internationalization.

#### MAINTAINING AND SUPPORTING THE RELATIONSHIP BETWEEN THAILAND AND NEIGHBORING COUNTRIES

International relations between neighbor countries are the major reactive motivation for international expansion. According to the Ministry of Foreign

Affairs (2006), Thailand as a member country of the ASEANS and a full member of the GMS economic cooperation collaborates to accelerate economic growth, social progress, and cultural development in the region through joint endeavors in the spirit of equality and partnership, in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations. Additionally, Cambodia and Burma, which are member countries of ASEANS and GMS as well as neighbors countries of Thailand, face substantial infrastructure and development challenges and remain underdeveloped due to economic and political problems (Krongkaew, 2004). As a consequence, the Thai government has a policy conforming with the GMS and ASEANS to develop all necessary networks, and bring about a better understanding within them for the benefit of all participating countries in tourism development, with Thailand serving as the centre (Tourism Authority of Thailand, 1996). Moreover, the informants of HCA and HCB revealed:

In terms of Burma, we carry out the management at a hotel in Rangoon. Did we know about the events happening in Burma? Yes, we knew but we still wanted to go because we had been invited to manage a hotel in Rangoon and did not have anything to lose from being employed to manage it. We just let them know how we would do it in the beginning and then we could ask for fees. (Chief operating officer, HCA)

We thought about investing in undeveloped countries and then considered our neighbor countries. Cambodia is a very interesting country . . . we can help them increase social living standards as much as we can. This could make their country better. It is one of our intentions. (Vice chairman of the executive board and senior deputy managing director, HCB)

To follow up government policy and to maintain the relationship between the countries, HCA and HCB expanded into Burma and Cambodia, respectively. Their contributions by international expansion to those countries are creating employment opportunities and representing a source of funds to improve local people's living standard. Clearly, maintaining the international relations between Thailand and neighboring countries is a stimulus influencing the decision to internationalize.

Cavusgil (1980) offered two explanations for internationalization, dividing reasons into two broad main categories: macro and micro. One explanation refers to the macro level, which can be understood as the broad trends in the world, particularly after World War II, with the beginning of a more liberal environment in international trade and investment. This level also includes such factors as reduced barriers to international trade as a consequence of the General Agreement of Tariffs and Trade; and the creation of regional trading blocs and integration, such as the European

Union and the American Free Trade Association. Albaum et al. (2005), Bartlett and Ghoshal (2000), Czinkota et al. (1996), and Chao et al. (2003) shared this view of increasing importance for international marketing. Bartlett and Ghoshal (2000) and Albaum et al. (2005) added that the most basic of all contributions of international trade is that to the welfare of domestic consumers, representing an important resource of funds, technology, and expertise that could help further national priorities such as regional development, employment, import substitution, and export promotion. Correspondingly, Krongkaew (2004) claimed that to emulate the success of the European Union in removing trade barriers while accommodating economic development, the GMS economic cooperation was established to work together in nine priority areas of activities, including transport, telecommunications, energy, tourism, human resources, development, environment, agriculture, trade, and investment. Significantly, although GMS's vision of reaching its goals remains uncertain due to economic and political problems in a number of member countries, especially Myanmar, Vietnam, and Cambodia, there is widespread support for the movement and its objectives. However, these viewpoints are less clear in explaining the purpose of maintaining the international relations between two countries as being a major reactive motivation for international expansion. Accordingly, they are not confirmed by the research findings regarding the three Thai hotel chains. Along with this, the internationalization motive of maintaining and supporting the relationship between neighboring countries goes further than the existing literature. More research on this issue is suggested.

## CONCLUSION

The present study is perhaps the first explorative study exclusively focused on the reasons for internationalization of domestic hotel chains in Thailand. It is also one of a few recent attempts (Panvisavas & Taylor, 2006; Wee, 2007) to present why the Thai hotel chains seek to deliver their products and services beyond the traditional boundaries of domestic markets and what the factors affecting their decisions are. Interestingly, the results of this study reveal that, the reasons for internationalization that emerged as being the most practiced by the three Thai hotel chains are spreading risk; increasing profit by acquiring the opportunity of investment; learning new knowledge from overseas markets; building worldwide brand recognition and creating a marketing network; Thai legal restrictions on hotel operations; a good relationship with the host country; and maintaining the relationship between Thailand and neighboring countries. The first four reasons did not differ from those identified in the existing literature, but the last three reasons could not be sufficiently explained by the existing literature. This implies that not only those reasons identified in the existing



literature form the background of internationalization; other motives are also shaping the internationalization of firms. Also, each company may have specific reasons influencing its decision to internationalize. Therefore, it becomes clear that there is a need to consider some of the reasons behind internationalization that emerged from the three Thai hotel chains' experiences. These reasons have a specific location as their context and have derived from the interrelation of national policy and company-specific motives.

Furthermore, the results showed that the academic imbalance in studies relating to Thai outward foreign direct investment have tended to focus on the manufacturing sector rather than the service industry, despite the fact that the Thai tourism and hotel industry provides the largest source of foreign exchange earnings for Thailand. Significantly, this research discovered that the existing theory in internationalization is insufficient to explain the currently observed behaviors of firms in the international business marketplace. Most theories focus on explaining the internationalizing behavior of large manufacturing firms from developed countries that expand internationally on a gradual basis from psychologically close to psychologically more distant countries. The fact that each theory, in some circumstances, can be meaningfully used to explain the internationalizing behavior of small firms or service firms, or firms from developing countries, is more often an unexpected consequence than a planned one. Besides, the world has changed ever more rapidly and firms are internationalizing for more varied reasons than ever before. According to Axinn and Matthyssens (2002), the context has changed, and the ability of each theory to explain behaviors observed today has diminished considerably. Therefore, theories need to evolve to account for new behaviors and the ability to provide practical guidance to firms is more critical than ever before.

This research also suggests that each Thai hotel chain may have very different determinants in the reasons for internationalization. Moreover, future research could be carried out in a wider and deeper context by using a multicase approach, due to the fact that more and more Thai hotel chains will undertake internationalization in the future. In addition to this, the reasons for internationalization proposed in this study could be used as a framework for future research to explore whether it is valid in the other Thai hospitality markets.

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