EMERGING-MARKET MULTINATIONALS AND INTERNATIONAL ACQUISITIONS: THE CASE OF CHINESE FIRMS IN THE SPANISH HOTEL INDUSTRY

Diego Quer
University of Alicante
diego.quer@ua.es
https://orcid.org/0000-0002-5814-6411

Xing Peng
xingpengspain@gmail.com

1. INTRODUCTION

In recent years, Chinese multinationals (MNEs) have made significant investments in developed countries. The tourism industry has been one of the targets and emblematic Western brands are now controlled by Chinese companies. It is paradoxical that the tourism sector has not yet been one of the main objectives of Chinese companies in Spain, despite the Spanish market potential and the high level of specialized resources and capabilities possessed by Spanish tourism companies. One of the possible reasons for this could be that tourism companies that carry out foreign direct investments (FDIs) usually do so mainly in those destinations visited more frequently by tourists from their home country. In the case of Spain, although the number of Chinese visitors is on the rise, it has not yet reached the level of other European destinations.

Emerging-market multinationals (EMNEs) have generated an epistemological debate among researchers. While some argue that the analysis of EMNEs requires the development of new theories (Mathews, 2006) others posit that conventional theoretical frameworks are also applicable (Rugman, 2010). A third intermediate position suggests that EMNEs can help extend existing theories (Cuervo-Cazurra, 2012). Our aim is to discern whether the traditional theoretical models are applicable to the case of investments made by Chinese companies in the Spanish tourism industry or it is necessary to use the new perspectives that have arisen in recent years for explaining the behavior of EMNEs.

2. THEORETICAL FRAMEWORK

2.1. OLI Model and LLL Model

The OLI (Ownership-Location-Internalization) Model is one of the traditional theoretical frameworks (Dunning, 1980, 1988, 1995, 2000). According to this perspective, a
company will only carry out a foreign direct investment (FDI) if three advantages converge simultaneously: (1) the company has a previous competitive advantage (ownership advantage); (2) there is some attractive factor in the host country (location advantage); and (3) it is more beneficial to exploit these advantages directly, avoiding transaction costs (internalization advantage). The OLI Model is one of the conventional approaches that are being debated. Some researchers argue that there is a fundamental principle that applies to all MNEs, regardless of their nationality: there is a minimum threshold of ownership advantages that the company must possess for a successful international expansion (Narula, 2012). However, other scholars argue that the OLI Model does not adequately explain the FDIs made by EMNEs, in particular, those seeking strategic assets in developed countries (Hennart, 2012). For this reason, a new perspective has recently emerged: the LLL (Linkage-Leverage-Learning) Model proposed by Mathews (2006). The LLL Model suggests that EMNEs are newcomers to the global scene and, consequently, they do not depend on the previous possession of resources for international expansion. On the contrary, they use international expansion to access resources that would not otherwise be available.

2.1. Uppsala Model and Springboard Perspective

The Uppsala Model is another influential traditional perspective (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977, 1990). The Uppsala Model posits that many companies start international activities when they are comparatively small, following a gradual internationalization process. EMNEs are also posing a challenge to some of the underlying tenets of the Upssala Model. As latecomers, EMNEs tend to accelerate their internationalization process in order to access resources and capabilities that are not available in their home country and they need to be competitive in global markets. As a consequence, another new approach called the Springboard Perspective has emerged (Luo & Tung, 2007). The Springboard Perspective posits that EMNEs consider international expansion as a springboard to obtain the strategic assets they need to catch up with established competitors from developed countries. This may lead them to enter early in countries with which there is a high psychic distance, contrary to what is suggested by the Uppsala Model. In addition, they tend to opt for acquisitions of companies in developed countries since this establishment mode allows them a faster access to the strategic assets they need (Child & Rodrigues, 2005; Globerman & Shapiro, 2009).

3. METHODOLOGY

Given that the number of Chinese tourism companies doing business in Spain is still scarce, we used a multiple case study methodology (Yin, 1981). Thus, we focused on the only three Chinese companies that had made an investment in the Spanish hotel industry until 2016: HNA Hospitality Group (HNA), Jiangsu GPRO Group Co., Ltd. (GPRO) and Chongqing Kangde Industrial Group Co., Ltd. (Kangde). Primary information has been obtained mainly from interviews with senior managers of the selected companies, some of them carried out personally in China by one of the authors of this study.
4. RESULTS AND DISCUSSION

With regard to the OLI Model, the three Chinese companies emphasized the location advantages of Spain as a consolidated tourist destination in Europe. Moreover, the executives interviewed agree that their investment decisions in Spain have been motivated by the aim of accessing some resources or capabilities that they did not previously possess, as proposed by the LLL Model. Hence, the General Manager of Human Resources of HNA stated that its Spanish target company (NH Hotels) “has a solid and extensive operating experience as well as an international management system that offers a good brand image”. Similarly, the LLL Model also applies in the case of the acquisition of Valparaiso Palace & Spa Hotel in Mallorca by GPRO. Thus, GPRO’s Executive Vice President emphasized that “the reasons for investing in the Spanish hotel industry are not only to achieve a higher performance, it also means getting first-hand hotel business and managerial experience”. The acquisition of Hotel Barceló Santiago in Tenerife by Kangde also fits with the LLL Model. It is a hotel that not only is located in one of the main Spanish tourist destinations but also allows Kangde to establish links with Barceló Hotels, one of the most emblematic Spanish hotel chains, which would continue to manage the hotel after the acquisition by Kangde. This leads us to establish the following proposition:

Proposition 1. The investments made by Chinese companies in the Spanish hotel industry are mainly motivated by the linkage, leverage and learning processes suggested by the LLL Model and, to a lesser extent, by the advantages proposed by the OLI Model, since only location advantages are determinant factors.

Regarding the gradual internationalization process suggested by the Uppsala Model, or the more accelerated one proposed by the Springboard Perspective, although there are some differences derived from the profile and previous trajectory of the three Chinese companies, our findings do seem quite conclusive. First, contrary to what the Uppsala Model proposes, all of them chose FDI as the first entry mode in Spain, instead of opting for contractual agreements that imply a lower initial resource commitment. In addition, it is worth highlighting that Spain was the first international destination for GPRO and Kangde and, in the case of HNA, the partial acquisition of NH Hotels was its first entry decision in Spain.

Second, all three cases opted for an acquisition for entering Spain. Acquisitions are a more risky establishment mode compared to the creation of a new company from scratch (greenfield investment), especially when cultural distance is relatively high, as is the case between China and Spain. However, the three Chinese companies were seeking strategic assets linked to the tourism industry in Spain (knowledge, experience, brand image...) and the acquisition of an already established company is a fast way to access those resources. Therefore, a low risk aversion and an accelerated internationalization process are characteristics that fit better with the Springboard Perspective. All this leads us to establish the following proposition:

Proposition 2. When entering the Spanish hotel industry, Chinese companies do not follow a gradual approach as suggested by the Uppsala Model but rather, according to the Springboard Perspective, they opt for acquisitions of local companies to get faster access to the strategic assets they need to catch up with developed-country competitors.
5. CONCLUSION

From a theoretical point of view, we contribute to the epistemological debate between traditional theories and new perspectives for explaining the international behavior of EMNEs. From an empirical viewpoint, we provide new evidence for this dilemma in the case of Chinese investments in the hotel industry (a sector that has received less attention in prior research on Chinese MNEs). Moreover, by focusing on Spain as a destination, we fill a research gap, since past studies on Chinese tourism did not specifically address Chinese investments in the Spanish hotel industry.

Our study also has some managerial and institutional implications. As has been shown in our case study, tourism is one of the industries opening more opportunities for future cooperation between Spain and China. In recent years, China is trying to reorient its economic growth model from the traditional one based on exporting low value-added products to a new model where services and knowledge-intensive industries are increasingly important. It is in this context that Spain has a lot to offer, given the high level of experience, advanced knowledge and brand image that Spanish tourism companies accumulate.