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THE ROLE OF MULTINATIONAL COMPANIES IN TOURISM

Companies decide to «go global» for a number of reasons. Perhaps the most stimulating reason is to earn additional profits. Managers may feel that international sales will result in higher profit margins or more added-on profits. A second stimulus is that a firm may have a unique product or technological advantage not available to other international competitors. Such advantages should result in major business successes abroad. In other situations, management may have exclusive market information about foreign customers , marketplaces , or market situations not known to others. While exclusivity can provide an initial motivation for international marketing, managers must realize that competitors can be expected to catch up with the information advantage of the firm. Finally , saturated domestic markets , excess capacity , and potential for economies of scale can also be motivators to «go global». Economies of scale mean that average per-unit production costs fall as output is increased.[3]

Since in the international market the development of large and complex corporations has recently taken place, it is now our task to try to understand the key economic features of these companies , which are explicitly called multinational companies in the economics literature. Multinationals can be defined as companies which organization is directed to locating their production activity (or part of it) in different countries, even while maintaining ownership and management in the country of origin. In addition to the multinational company, in economics there are other definitions: (a) the international firm, that is active in different countries but that keeps the process of decision making in a specific international division coordinated by a group of managers that maintain a national point of view; (b) the transnational firm , that is active in different countries but which management is

detached from any type of national link , even with respect to the host country; (c) the supranational firm, the most evolved form of a transnational firm, which has contractual freedom and is developed by agreements between different countries, in order to facilitate a flexible and always updated structure for the company.[5]

The models that explain the rise of multinational companies can be traced back to the following ones: (a) the market power model ,which refers to the companies reaction to the degree of concentration of national markets; (b) the international organizational model , which refers to advantages in terms of transaction costs and international contract costs; (c) the international model of the product life cycle which, refers to a link between the life cycle phases of a product and the location of the company; (d) the technological innovation model , which refers to the center-periphery location of the production of goods with innovative or mature techniques.[3]

Such models have mainly been developed to explain the behavior of manufacturing firms and are not fit for an indiscriminate application to tourism multinationals that are involved in the service sector. It seems more appropriate, though, to use a theoretical interpretation that involves many other factors, which cannot be traced back to the industrial organization models presented earlier. In this perspective, Dunning (1977, 1988) proposed an eclectic theory of multinational firms, which attempted to explain their strategies by using more explanatory factors.[2]The model is based on the recognition of the alternative methods of involvement of firms in foreign markets: (a) through international trade (for example, exporting goods through foreign partners); (b) through the transfer of know-how, technology, and organizational resources (licensing, technical assistance, franchising. etc.); (c) through foreign direct investments (FDI), by opening departments and carrying out parts of the production process in other countries.[3]

According to Dunning, the reasons behind solution (c), the FDI, are three:

1. Ownership advantages, that derive from operating as a foreigner in a country, both for the intangible activities (think of the possibility of engaging in marketing, of using the know-how, of accessing the credit) and for the tangible activities (think of the political pressure that multinational companies can exert over national governments).2. Location advantages, that derive from the firm's location in countries

with certain comparative advantages, such as lower costs of production, better access to primary resources , adequate transport and communication networks , tax breaks , and public subsidies , etc.3. Internalization advantages, that derive from the existence of economies in terms of lower transaction costs in purchasing inputs and intermediate goods and in terms of exercising direct control over intangible assets such as the logo and the know-how.[2]The eclectic theory by Dunning [in his work 1997] (OLI Ownership, Location, lnternalization) is suitable for interpreting the situation of the tourism market. Tourism multinational's invest abroad due to obvious location advantages (the existence of natural and cultural resources in the destination) and to ownership advantages (the extent and the direction of tourism policies , particularly with respect to economic benefits and direct incentives aimed at foreign firms, such as detaxation of profits). Finally what is particularly relevant for the case of international tourism is the mobility of tourism flows, therefore firms need to connect countries with tourism resources to countries with strong demand of tourism services (internationalization advantage). Dunning considers the hospitality sector (for their resource-based structure) and the sector of production and distribution of package holidays among the sectors that favor multinational firms.[1]

A key issue in the debate on multinationals, which connects foreign direct investment (FDI) to the local development process is the role that multinational firms plays in promoting or jeopardizing the development of host country. The economic literature has approached this issue in different ways, arriving at different conclusions. On the one hand, the heterodox and radical perspective affirms that the multinational company, being technologically and organizationally at the forefront, is able to transfer important real and financial resources to the host country (and also vice versa, depending on own profitability and not on the destination's interests), thereby putting competitive pressure on the small local firms and political pressure on local governments. Both aspects lead to relevant negative effects on the process of development of the region and the country. According to this point of view, multinational firms exploit the local resources thus crowding out investment of local firms and limiting their economic and political strategies. When this happens, we already know that the tourism sector develops through enclaves with scarce economic impact on the local territory.[4]On the other hand, the orthodox mainstream perspective

considers that the technological gap between multinational and local firms can be, at least partially, filled by the positive externality generated by FDI (technology and know-how transfer, capital inflows, etc.). If this outweighs the negative effects of competitive pressures, the impact on the local territory can be overall positive. It would hence be optimal for the local government to promote and to provide incentives for attracting FDI.

The literature has not been able to verify which of the two positions empirically holds , and even though the mainstream economic thought is theoretically more convincing, it is important to recall that two interpretive models remain at the theoretical level. It must also be said that the effect of multinational firms is not only limited to their contribution to growth, but is also related to aspects of social sustainability, such as inequality and poverty. To this end, the literature shows both theoretical rationales (Feenstra and Hanson 1997) and empirical evidence (Figini and Goerg 1999, 2011) that link FDI with an increase in inequality and poverty. In addition, it is found that the investment in environmental protection depends on the type of firm: Calveras (2003) shows that international hotel chains have, for example, less incentive to invest in the protection of the natural resources than local firms. Leaving behind these negative effects and focusing instead on the transmission channels of positive externalities, the literature classifies them into horizontal externalities and vertical externalities. The former relate to externalities that are generated if the local firms operate in the same productive sector of the multinational, the latter occur if they operate upstream or downstream in the production process. In any case they deal with: (a) human capital appreciation by imitation (learning by observing) or by experience on the job place (learning by doing); (b) labor mobility; (c) the imitation effects generated by the contact between local producers and the multinational companies; (d) the incentive for local firms to introduce new technologies . Although tourism is not explicitly considered in these models, there is no doubt that the above-mentioned effects can be found also in the tourism sector , provided that the tourism goods and services are , as we already know , in a tight relationship , and require a high level of coordination between producers. These sectoral linkages, therefore, develop among workers in the sector, stimulate the creation of by-products or local spin-off, provide incentives for the introduction of new technologies for reservations, marketing, etc.The attention of the economic literature on

the linkages stemming from the entry of a multinational firm has been proposed, among others. Nevertheless, these models focus on the growth and the variety of local firms that supply intermediate goods to the multinational firm (backward linkages) and on the greater specialization that allows to produce more complex goods (forward linkages).[5]However, the characteristics of tourism lead to the fact that multinational enterprises have other positive effects on local tourism development. In fact, the tourism product is enriched by the sophistication and the variety of local goods and services included in there, except when tourism demand is concentrated in an enclave. Since the tourism product is composed by the organized mix of many different goods and services, it is important to recall that linkages also work from the output side. If the tourists show appreciation for variety ,it can be assumed that the greater the diversification of the bundle of tourism goods offered by the destination, the more valuable the tourism product. Hence, the willingness to pay of the tourist is an increasing function of the degree of variety. In this way, a common interest between multinationals and the destination arises, both being motivated to the completion of the tourism product, the former in terms of increased profits, the latter being able to undertake a strategy of development based on local firms [1]. It is not possible to determine, however, whether the optimal degree of variety for the multinational company coincides with that of the destination. If this not happens , due to the dynamics of land's price and the barriers to entry faced by local firms , the optimal degree of tourism variety for the multinational company can be higher or (more likely) lower than that of the destination. In such case, a policy intervention might be desirable [5].

The multinational firm could have speculative purposes, thus purchasing land not to build tourism structures and infrastructures but for re-selling it at a higher price once the market has grown. In this way, the multinational company gains a profit in its core business (i.e., hospitality) and have a capital gain on the land market.

So we come to the conclusion that hence in the international tourism market the following operators are usually at work : a)international transport companies , prevalently airlines; b)international tour operators; c)international hotel chains. The Role of multinational companies in tourism is enormous and progressive. But sometimes multinational firms exploit local resources crowding out investment of local firms .

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