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International hotel development in the 1960s: a cooperation perspective.

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Abstract

The objectives of multinational firms expanding overseas in search of new markets and new resources, or risk- spreading and overcoming competition are widely cited. On the other hand, without the host governments' incentives, such as tax exemptions and economic liberalisation, expansions into foreign countries would not be an easy move, or even possible. Host governments normally seek cooperation from multinational firms to invest locally in order to improve the countries' infrastructure, employment levels, knowledge exchange and technological advancement. This paper examines the international hotel industry development to illuminate the interdependent relationships that exist between governments and multinationals. It utilises cases from the Intercontinental Hotels Corporation and the Hilton Hotels International to illustrate elements critical to facilitating cooperation, and the flexibility of such elements that enabled overseas expansion, as well as the subsequent changes in industry structure. Multinational hotel firms not only helped to generate economic growth for host countries; they also stimulated competition within the hotel industry that, arguably, improved the quality of products and services. The intensified competition in the industry, contrasted with the lengthy process of design and building of a hotel, instigated the separation of bricks and brains in the hotel industry. Such separation further evolved into different cooperation perspectives; that is expansion via management contracts and franchising which became key cooperative approaches for today's hotel development strategy.

Introduction

Organisations cooperate to achieve aims set for key reasons such as limited resources and management capabilities (Child and Faulkner, 1998; Luo, 2001). However, accelerating speed of technological changes, reduction in the lifespan of new products and increasing economic volatility in the global market are encouraging more cooperation between organisations to enable them to grow and survive (Child and Faulkner, 1998; Demer *et al*., 2002).

On another level, studies of cooperative approaches also explored the relationships between multinational corporations (MNCs) and governments. Cooperation between MNCs and governments is grounded in similar reasons as those found between organisations. However, this relationship encounters additional complications due to various cross-border considerations for funding, taxations and fund transfers, and so on. Many governments of emerging markets offered numerous incentives such as tax exemption and loan guarantee, and expected MNCs to bring in and transfer technological and management skills in return (Luo, 2009). Although MNCs acted as agents for facilitating movement of resources between nations, they are also blamed for widening the gaps between developed and developing countries, income equality, and social mobility. Practices such as corruption, exploitations of host country's raw materials and human resources, tax evasion, and/or limited transfer of know-how or technology (Schuler, *et al*., 2006; Eweje, 2009; Otusanya, 2011; Weinshall, 1975) have adverse effects on host countries' developments. On the other hand, cooperation with host governments also entailed disadvantages for MNCs; for example, a regime change could lead to asset expropriations.

It is argued that cooperation strategy enhanced a firm's flexibility in responding to local conditions or enabled it to quickly enter the international market (Demer *et al*., 2002). It is apparent that cooperation strategy plays a vital role in any organisation's growth and survival, whether in the form of cooperation between organisations, or between organisations and government bodies, irrespective of geographical locations. This paper utilises a few expansion cases from two hotel companies to illustrate the elements critical to facilitate cooperation, and the flexibility of such elements that enabled overseas expansion as well as the subsequent change of industry structure.

Environmental changes in the 1950s and 1960s

After the Second World War, macro factors enabling cooperation between MNCs and different nations were facilitated, in part, by the establishment of International Monetary Fund (IMF) which enforced the fixed exchange rates that were linked to US dollars (Keohane, 1984). European currencies also became formally convertible into dollars, and the IMF became the central international organisation in a par-value international monetary regime. In addition, the economic stability provided by the par-value system along with trading treaties contributed further to the growth of the world trade (Keohane, 1984).

Among the concerted efforts of international organisations aiming at regenerating national and international economic growth, one of the widely acknowledged methods to stimulate growth was tourists receipt generation (WTTC, 2013). A series of 'open skies' policies permitted bilateral air service agreements for unrestricted air service between governments, enabling certain rights and changes related to their scheduled international air services (Button, 1998). These agreements emerged due to the failure to facilitate multilateral agreements introduced in the International Civil Aviation Convention in Chicago in 1944. The US government removed the prohibition against foreign airlines flying into America and allowed more foreign-flag airlines to increase their operations between America and world destinations. However, US airlines remained strictly regulated and lost out in competition because air ticket pricing was controlled by the US government. On the other hand, the other state-owned foreign-flag airlines were unrestrained over their pricing and routes, in addition to receiving financial support from their governments (Button, 1998; New York Times, 1959, October 11; PAWAS, 1945).

The interactions between the open skies policies and airline competition led to the issuance of tourist class tickets by American-owned airlines. A tourist class ticket was 30 per cent cheaper than the usual first-class ticket (PAWAS 1948; Pan AM May 4, 1951). In conjunction with these changes, airline technology advancement resulted in the emergence of the jet engine in the 1960s. The new fleets of air planes reduced air travelling time and propelled the demand for air travel further. For instance, it took six days to fly between San Francisco, the USA and Manila, the Philippines in 1935, but it only took an overnight journey to fly across the Pacific in 1960 (PAWAI, 1960). On the socio-cultural side, the growth of the middle-income group in the US accelerated the consumer demand for overseas travel. After the Second World War, US companies became leaders in their industries and the US dollar emerged as the world's major reserve currency (Jones, 2005), in part driving up living standards and changes of lifestyle. Vacationing became more an essential lifestyle element and less the exclusive activity of the wealthy households (Pan Am, 1956). As a result of these factors, the Americans became the main group of international tourists.

Most governments viewed tourists and their expenditure as a quick source of revenue and a way to gain foreign currencies, particularly US dollars spent by the American tourists (Friedlander, 1949, January 4). Foreign governments encouraged tourist arrivals by eliminating extensive paperwork for tourist visa applications. For example, European countries such as Great Britain, Belgium, Italy, Denmark, Sweden, Switzerland, Luxembourg and the Netherlands abolished visa requirements for short-term travellers from the US by late 1948 (Friedlander, 1949, January 4). Similarly, many countries in the Caribbean eliminated visa requirements after 1949, particularly for US citizens, to facilitate the movements of tourists across frontiers or from island to island (New York Times, 1954, November 23). Direct government interventions drove the demand for international travel further, fuelling increased demand for accommodation overseas.

In 1963, international tourism gained another boost from the Final Report of the UN Conference on International Travel & Tourism, Rome 1963 (Pan Am, September 15, 1964). The delegates of 87 countries agreed that the requirement of entry visas for temporary visitors should be extended to as many countries as possible. The UN Conference also stressed the dependence of tourism development on the actions of governments to reduce the layers of official procedures set for international travel (Glaesser and Kester, 2013).

Three hotel cases

Thailand, Siam Intercontinental Hotel

In the first few years after 1945, the diplomatic and military personnel involving in post-war reconstruction efforts were the main visitors to Bangkok. Leisure tourism was almost unknown due to a lack of decent accommodation and adequate means of international transportation in Thailand (Dulyaprugs, 2007). In the early 1950s, both business and tourists began arriving in greater numbers and were predominantly the American tourists. The total number of visitors arriving by air, rail and ship increased from around 40,000 in 1952 to over 66,000 in 1955, with a further upsurge to 145,000 in 1959 (Newton, 1994 in Dulyaprugs, 2007: 127).

The first wave of expansion in the Thai hospitality industry took place in the late 1960s (Newton, 1994, in Dulyaprugs, 2007, 128). The expansion was stimulated by the Board of Investment’s promotion in conjunction with the arrival of the American army because of the Vietnam War. The Royal Thai

Government established the Tourist Organisation on 18 March, 1960 to be specifically responsible for the promotion and marketing of Thailand’s tourism industry. It was renamed the Tourist Organization of Thailand in 1963 (Tourists Authority of Thailand, 2014).

The Siam Intercontinental Hotel was opened in 1966 (Pan Am, May 23, 1966). The land that the Siam Intercontinental was constructed was leased from the Royal estate, and the hotel was built at a cost of US$5 million. The Siam government approved funds from various organisations such as the government lottery office and the Ministry of Finance to establish this hotel. The Bangkok IHC Company Limited was formed to operate the hotel. Overall, 88 per cent of shareholders belonged to public companies, while 22 per cent belonged to various private companies (Pan Am, May 23, 1966). The Siam Commercial Bank (Thailand’s first bank) was also one of the shareholders. The number of hotel rooms grew from around 230 rooms in 1945 to 274, 826 rooms in 1996 (Tourism Authority of Thailand, 1995, in Dulyaprugs, 2007, 127).

Ireland, Cork Intercontinental hotel, Dublin Intercontinental Hotel and Limerick Intercontinental Hotel

The Bord Fáilte Eireann was established in 1955 under the Tourist Traffic Act to develop and promote domestic and international tourism in the Republic of Ireland (Failte Ireland, 2014). In 1958, in the Programme for Economic Expansion of Ireland, the Government’s economic development stated its support for developing tourism through incentives for the expansion of hotel accommodation such as loans, grants, and income-tax allowances. Moreover, the government indicated their intention to give the same aid and facilities offered to Irish hoteliers to foreign investors as well. In addition, the berthing, disembarkation and other passenger facilities at tourist ports were marked for priority development (Programme for Economic Expansion, 1958). As the Irish tourism industry continued to develop, the Council for Education, Recruitment and Training was established in 1963 to provide education, recruitment and training services for the tourism and hospitality industry (Failte Ireland, 2014).

An Irish company was formed by Intercontinental Hotel Corporation (IHC), Irish Airlines and Gresham Hotel Company Limited in 1960. The main purpose of this company was to help the Irish Tourist Board to develop new hotels (Pan Am, August 1 1960; Pan Am, September 20, 1961). The IHC and Ireland jointly designed and built three hotels at an estimated cost of US$7 million in Dublin, Cork and Limerick (New York Times, 1961, February, 17; New York Times, 1964, May 11).

In the 1940s, tourism earnings in Ireland did not exceed US$30-$40 million per year (New York Times, 1964, May 11). In 1963, the emergence of the jet-air travel helped Ireland to generate income from tourism amounting to US$138 million, and tourism became an important part of the Irish economy (New York Times, 1964, May 11). As tourism development grew and became one of Ireland's leading foreign exchange earners, it attracted local players into the industry. Pascal Vincent Doyle, a local building contractor, founded the Doyle

Hotel Group in 1964 to provide the anticipated volume of demand for new 'medium' grade hotels (Sheehan, 2005).

Doyle developed a string of hotels in Ireland; they included the Doyle Montrose that provided accommodation for local businesses during the week and for visitors in Dublin at the weekend. This was followed by the Doyle Green Isle in west Dublin, the Doyle Skylon in the north of Dublin and the International Airport; and the Doyle Tara Hotel followed in south Dublin serving the Bay area (Sheehan, 2005).

Philippines, Manila Hilton Hotel

In 1962, HHI announced an agreement with the Tourist Development Corporation of the Philippines to operate a 300-room hotel in Manila (HHI, August 31, 1962). Two years later, HHI signed the formal papers in which 80 per cent of funding was contributed by the Philippines government (HHI, February 17, 1964).

The IHC worked with the Delgados brothers whose father was an ambassador to the Holy See and they were highly regarded in the Philippines and had excellent connections. However, political turmoil in the Philippines in 1965 led to the exit of the former President, and those who took over investigated all loans made by the former President. The Delgado brothers were also attacked for receiving large loans from the Government (HHI December, 8, 1965). Due to the political change, the building and opening of the Manila Hilton was delayed.

According to Del Rosario, the new General Manager of Government Service Insurance System (GSIS), GSIS made financing commitments aggregating half a billion pesos, of which 66 million pesos were earmarked for hotel construction, or for hotels that were undergoing construction in Manila at the time where they were critically needed (HHI, March 10, 1966). On the basis of expected income, a review by the new government shows that the investible funds were not sufficient to cover the total commitments of various hotel applicants. The GSIS - the institution that extended loan and equity financing to the Manila Hilton project - refused to grant further releases of funds for the construction (HHI, February, 18, 1966). However, Del Rosario also agreed that the government was aware of the importance of the Manila Hilton project to the tourist industry and the national economy in general (HHI, March 10, 1966). After much delay, HHI received the full funding and retained their contract from the new government to operate the Manila Hilton (HHI, May 27, 1966). To achieve this, HHI had to seek help from the American Ambassador and other contacts to secure and finalise the contract with Tourist Development Corporation of the Philippines.

In the mid-1960s, during the transition of government, other hotel companies also entered the Manila market. For example, the Sheraton Hotel Group was approached by the new government to build a hotel in Manila (HHI, March 1

1966). It was found that Sheraton had a contract to manage a hotel in Manila for a management fee of 3.7 per cent of Gross Profit and none on the Gross Operating Profit. HHI had a contract of 5 per cent of Gross Profit and 10 per cent of Gross Operating Profit (HHI, March 1 1966). Such differences in contract terms implied the changes that were taking place in the hotel industry in Manila, in terms of increased competition. It also elucidated how the hotel management knowledge in the Philippines had shifted and improved.

Discussion

In the case of international hotel expansion, it is apparent that cooperative strategies were adopted to realise the companies' aim to seek profit via growth by cooperating with other organisations and local authorities (Child and Faulkner, 1998; Luo, 2001; 2009). On the other hand, it is argued that host governments also benefited from international hotel companies' unique competencies and resources, such as brand name, and established hotel managers' knowledge and skills, which were difficult to imitate or acquire at that time (Luo, 2009).

The hotels discussed in the case studies were established in different countries, but they all encountered and benefited from the environmental change; for example, a synchronised foreign currency exchange system, and an advancement in airline technology and reduced cost of travelling, in addition to a growth in the American middle class who could afford and had time to travel for vacation. In the host countries, MNCs also received aid and loans from local authorities to create modern hotels deemed adequate by the Americans' standard, to attract the American tourists to visit and spend.

The cooperation strategy improves a firm's flexibility in responding to different environments and achieving success (Demer *et al*., 2002). It is also observed that flexibility underpins the cooperation strategy. For example, without the adoption of a series of bilateral air service agreements for unrestricted air service between governments when the multilateral agreement did not bear fruition immediately after the Chicago Convention (Button, 1998), the rate of tourist arrivals would not have increased so rapidly. Similarly, without the cooperation between governments to amend their visa requirements for temporary visitors, leisure seekers might have given less consideration to overseas travel. Equally essential to facilitating tourist flow was the airline competition; directly instigated by the Open Skies policy, and indirectly generated by foreign governments' subsidies given to their national airline companies. The combinations of events enabled the airline companies to reduce the costs of air tickets, resulting in higher demand for overseas travel. The importance of flexibility in a cooperation strategy is most critical in the case of regime change in Manila. If the new government had not honoured the contract signed between the former President and HHI, and instead, only invited the Sheraton Hotel Group to open an international hotel in Manila, then the cooperation between HHI and a host government would not have taken place. More importantly, there may not have been a structural change of hotel industry or a transfer of management learning into the country.

The MNCs were able to offer management capabilities which most of the host countries did not have at the time. The MNCs took the opportunities after the Second World War to expand into less developed hotel industries to seize the competitive advantage. For example, IHC was the first international hotel company to establish three hotel units in Ireland and IHC was the first to sign a contract and benefit from land leased from the Royal family to build its hotel in Bangkok. On the other hand, the host governments also benefited from the cooperation in terms of technology development (Luo, 2009). By the late 1940s, both HHI and IHC had developed multi-hotel reservation systems to coordinate the sale and reservation of hotel rooms. For instance, IHC launched its central reservations control system which allowed travellers to obtain confirmation from any Pan American Airways' sales and ticket offices in 84 countries worldwide as well as to making air travel reservations (Pan Am, October 20, 1954). Although the systems were not considered state-of-the-art compared to the present day, they were a small step towards better coordination and efficiency in revenue management. Most of the host governments achieved their intentions of economic re-generation by attracting business and leisure travellers premised on the provision of adequate accommodation.

Subsequent industry structural change is a natural process of industry growth. However, the speed of growth in the hotel industry is phenomenal in view of the nature of the hotel business – asset-heavy and time-consuming to build. Therefore, from the cooperation perspective, it is critical that organisations (not excluding government bodies) agree on a viable method and remain to cooperate in order to grow the hotel business. The separation of bricks and brains became the solution with emphasis placed on management contracts for the upscale hotel sector, and franchising for the mid-level and economy sectors.

Conclusion

The cases presented so far might not be representative of the international hotel industry as a whole after the Second World War. It does, though, present a snapshot of a widely known and observed view of how government support is critical for tourism and economic growth. Moreover, most studies had focused on technical aids, export and import of physical goods, research and development and so on, but few had recognised the unique characteristics of the hotel industry as an invisible export sector. This paper hopes to illustrate the contributions that international hotels made to economic re-generation after the Second World War. The historical international hotel industry remains under-explored and this paper hopes to serve as the ground work for further exploration of its development. Such works may be approached from the cooperative perspectives through the adoption of historical analysis of multinational hotel development, comparative historical analysis of regional hotel industry structure, and so on.

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