TOURISM AND GLOBALIZATION

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Abstract

Tourism businesses operate globally and many have opted for a competitive advantage of internationalization. Technology, information and reduction of boundaries have created new forms of service companies, not only the large multinational corporations, but also small niche specialists. The growing importance of strategic alliances in creating networks of business relationships has become a trend also in tourism. Tourist destinations must establish identities that differentiate them from other destinations.

Keywords: Globalization, internationalization, travel industry, strategic alliances.

1 Introduction

There has been much talk of globalization. It can refer to a variety of phenomena: politics, technology, consumer behaviour, firm strategy, markets, trade flows and capital flows (Nooteboom 1999, 56). This paper intends to look into the phenomenon of globalization in tourism and determine its pros and cons. Internationalization is the process by which firms become involved in serving markets outside their home country (Teare, Boer 1993, 194). Globalization can be defined as the highest development level of internationalization. Its two principal instruments are international trade and media communication, which makes information a trade good. The most exposed agents of globalization are mega corporations, multinationals as a rule, and however, consumers themselves. In a purely economic sense, the term »globalization« stands for the increasing interdependence of markets and production in different countries through trade in goods and services, cross-border flows of capital, international strategic alliances, cooperation, mergers and exchanges of technology. Globalization also means an increase in the international division of labour, achieved through the international fragmentation of production, as well as the political trend towards a more liberal economic order (Smeral 1998, 372).

Many companies have also found that their domestic markets are now saturated and that the only way to maintain sales growth is to seek out new selling opportunities in international markets. Furthermore, many managers are turning to outsourcing- the practice of acquiring raw materials, products, and services from other companies- as a way to lower their companies' costs. They have found that their companies can gain competitive advantage by focusing on marketing and distributing while turning to foreign producers for the manufacture of their products (Bourgeois et al.1999, 7). Globalization of tourism has not started in Slovenia yet.

2 Why Organizations Enter the Global Environment

The *benefits* of international expansion are known and include additional growth and expansion; the opportunity to increase revenues, profits and return on investment. Global companies have special requirements that are significant organizational challenges. The structures that the managers of global companies adopt must assist them in their efforts to exploit opportunities to achieve economies of scale by centralizing their marketing and production activities whenever possible. At the same time, the structures of international companies must also accommodate differences in national cultures and variations in business practices. And, as in any organization, the structures of international companies must serve to coordinate business activities and to move information quickly and accurately across borders and around the world (Bourgeois et al.1999, 269).

Developments introduced by foreign firms can seriously affect local communities and local businesses. The international arena entails some significant *challenges and risks*. Language, cultural and business practices, and political and legal environments can differ greatly across national borders. Practices that are perfectly acceptable in one country can be taboo in another country. McDonald's decision to enter India meant that its menu had to change drastically in order to accommodate the culture of a country in which cattle are revered (Bourgeois et al.1999, 7). Clark and Arbel (1993, 86) cite several challenges, such as communication difficulties, little control over regulatory, legal and political decisions, political instabilities, different labour patterns, costs, product supplies, religions, customs, work ethics, languages, lack of codes and standards.

Globalization is primarily about *negative effects* on the environment, culture, social values, with the imitation of the western culture in the first place, and standardization, which leads to a uniform product in tourism and disappearance of local standards (Klančnik 2003, 53).

3 International Tourism and Globalization

Globalization has increased the interdependence between countries, economies and people. It does not involve only giant corporations, but also small and medium sized businesses together with family-run firms (Klančnik 2003, 51). This process has led to the creation and operation of global tourism market where destinations, which are expected to compete on equal basis regardless of the country of origin, function interactively. Globalization has opened a whole new world of development opportunities. 715 million people travelled abroad in the year 2002, by the year 2020 this number is expected to increase to 1.6 billion. The tourism turnover is 3500 billion US$ and accounts for 10 percent of global trade (ibid., 53). Tourism has become big business and is run by great trusts.

Creation of a global society means that tourism businesses have the ability to operate globally and many have opted for a competitive strategy of internationalization. Global enterprises view the world as their operating environment and establish both global strategies and global market presence (Knowles et al. 2001, 177). In tourism, globalization affects the supply and demand side in many ways. The important *supply factors* are: worldwide acting suppliers, as well as the impact of computerized information and reservation systems; decreasing costs of air travel and the possibilities of having access to destination with relatively low price and income levels, as well as relatively low social standards; emerging new destinations. Important *demand factors* for globalization are: increasing income and wealth; tourists are more experienced and knowledgeable (Smeral 1998, 373). The characteristics of globalization in tourism are (Feige 1998, 111):

ECONOMY
• Horizontal and vertical integration strategies of tourism enterprises • Foreign investment in hotels and tourist attractions ("global tourism markets") • Global players and strategic alliances (air companies, hotels, tour operators) • Global tourism management • Global competition of holiday resorts
TECHNOLOGY
• Global booking systems • Standardized technologies in transport systems
CULTURE
• Global tourist: uniform traveller behaviour • Creation of "global tourist village"
ECOLOGY
• Tourism as "global syndrome of ecology problem" • Climate changes and their effects on destinations
POLITICS
• Increasing importance of international tourism organizations • Necessity for global coordination and regulation of passenger circulation • Sustainable development as quality and dominant idea

3.1 Destinations in the Global Market

Destinations compete with other destinations in the global market for international tourists. The international marketing of destinations occurs on several levels. The public sector in usually involved at national level, but also at regional and local level. The public sector is poorly equipped to take leadership in this field. The private sector has its own interests to put forward, but as 90 per cent of tourism firms are small and medium-size enterprises (SMEs) with limited resources, they benefit from and often rely on education, training and marketing efforts coordinated and directed by the public sector. Successful destination policy rests on strong partnership between the different stakeholders and on a coherent, consistent and collaborative marketing approach to create identities that are unique. Destinations must find identities that differentiate them from other destinations in the global marketplace. Therefore all public sector and private sector organizations must work in partnership to pursue differentiation strategies (Knowles et al. 2001, 178).

Large tour operators have a strong influence on the way hotels operate in the destinations they feature and the prices that they charge, particularly in mass market beach resorts and in ski resorts. Tour operators may also impose conditions on local suppliers. For example, Explore Worldwide, the adventure tour operator from the UK has a strong commitment to protecting the environment of the destinations it features. Part of that commitment includes ensuring that their suppliers comply with their norms *vis-à-vis* protecting the environment and use environment-friendly equipment, products and materials (Knowles et al. 2001, 213). The adaptation of the service management system in internationalization is problematic due to unique local conditions and cultural values, the simultaneous need for critical mass in the network for purposes of scale economies, and differentiated learning (Go, Pine 1995, 269).

Much of the writing on globalization is focused not on services, but on manufacturing, and the concepts are derived from traditional economic theory. Many of the forces and consequences of globalization will benefit tourism and the service sector. Technology, information and the reduction of boundaries have created *new forms of service company*, not only the large trans-national corporations (TNC) such as the Disney Corporation, but also the small niche specialist that can take advantage of the internet, international communications, and market positioning (Knowles et al. 2001, 176). Compared with the manufacturing sector where goods may be produced globally, tourism services are consumed where they are produced, at the local level. The fragmented and interdependent nature of the tourism product means that various agents with influence on the product offered must co-ordinate their operations to provide the overall experience. Competitive advantage depends on organizational competences and capabilities, and in most networks lead firms play an important role. These are generally the larger, wealthier firms in the network and often have political influence. In a tourism resort, the lead firm, for instance a big hotel, may support the costs of developing and running a public facility, sponsor local events or provide marketing actions for the area (ibid., 212)

3.2 Negative Impact of International Operations on SME

When a well-established foreign firm chooses a site or area to develop business activities, it may influence the operation of local firms in a number of different ways. A large investor may oblige the authorities in a potential area of the investment to comply with certain conditions or even change local law before going ahead with the development. For instance, when Ryanair, the low cost airline, opened up the London to Carcassone (South of France) route, it insisted that the local authorities in Carcassone improve infrastructure at the airport, organize transit facilities and provide new services (e.g. to deal with the transport of skis) for the expected volume of passengers it would bring (Knowles et al. 2001, 213). Smeral (1998, 371) warns that globalization is increasing the pressure on SMEs. Globally acting suppliers, decreasing transportation costs and emerging new destinations have put pressure on the European SMEs in traditional destinations. He explains that the potential of SMEs for realizing economies of scale is very low and the use of computer reservation system (CRS) has not spread significantly. SMEs are disadvantaged because of their high unit average costs with respect to production. My position is that because of the preponderance of SMEs in the industry, European tourism is particularly vulnerable. Support for building highly horizontally, vertically and diagonally integrated destinations with flexible operating network alliances would be an important measure to boost SMEs' ability to compete with the global players and restore their capabilities to deliver significant contributions for income and employment creation (ibid., 376).

3.3 Reasons For Alliances and Their Benefits

In the hospitality industry there appear to be several forms of concentrated growth as practised by the major corporations. These forms are strategic alliances, franchising, management contracts, joint ventures and acquisition. All five of these strategic forms reflect the unique nature of the hospitality industry's almost pure competitive status (Teare, Boer 1993, 221). For instance, strategic alliances can be categorized in two types. The *first* type of alliance occurs at the strategic level of organizations and is exemplified by the growth of consortia-type organisations such as Best Western. In the simplest form of this strategy, firms are tied together by a common reservation and marketing system. The *second* type of alliance takes place at an operational level, when two organizations with different products but similar management styles or philosophies join forces under one roof with the intention of reducing overheads and increasing profits. The strength of alliances lies in the fact that they can rapidly take advantage of the brand recognition of several multinational firms. This is especially important in today's operating environment, where it is becoming increasingly difficult to harness the capital for international expansion. Entering into an alliance requires little capital but produces substantial *benefits* such as: (a) the spreading of marketing costs over a larger base; (b) a reduction in the potential problem of acquiring labour and management expertise; and (c) minimization of the problems associated with any multicultural difference that might be encountered by an organization when seeking to expand into a new region of the world (ibid., 222). There are many reasons for alliances, next to the core motive of concentrating on core competencies and seeking complementary resources from others. *Motives* connected with a strategy of internationalization can be: economy of scale or scope; to share or diversify risk; to prevent transportation costs; to follow customers; to adapt a product to the local market; to circumvent entry barriers; speed of market entry; political legitimacy; to attack competitor in his home market (Nooteboom 1999, 204). Čavlek (1998,129) mentions the following *motives and goals* of integration processes: the higher ability to compete by creating good economic climate and an increase in the market share, better work organization, decrease in operation costs, possibility of faster development and larger profit, better monitoring of all operation phases, growing reputation together with greater economic strength.

3.4 Examples of Globalization in Tourism

Hotels: in the period between 1980 and 1998 the global accommodation capacity increased from 8 to 15.4 million beds. The largest increase took place in Europe, it accounts for 38.5 percent and is followed by the USA accounting for 33.5 percent. In the nineties most hotels, around 70,000, were opened in south Asia, a 45 percent growth was achieved in East Asia and in the Pacific Ocean. In the USA and Canada real estate investment trusts (REIT) played a key role in the development of the hotel industry. They introduced a very important novelty, the break up of the management and ownership of the hotel, which had been traditionally joined. This ensures much faster return of investment (ROI). The "J-REIT" law was enforced in Australia and Japan followed suit. In Europe presently an increasing number of mutual and retirement funds invest in the hotel industry (Klančnik 2003, 54). Global hotel industry is led by Americans. Eight out of ten largest enterprises have their headquarters in the USA, more than half of fifty top enterprises are operating in the USA and there are only nine countries featuring on the list. The second country is Great Britain hosting seven big hotel chains. It is followed by Spain and Japan with four big hotel chains. Hotel cooperation and chain creation involve either foreign ownership, which tends to be completely foreign and causes leakage of money, or joint ventures, franchising together with brand names and standards, management contracts, where hotels are managed but not owned by foreigners, consortia of independent hotels, including common promotion, sales and local ownership. Hotel chain corporations compete with strategies involving selling worldwide, sourcing equipment and human resources, especially managers, worldwide and locating in many different nations.

Tipurić (2000, 212) provides us with examples of large tourism enterprises using strategic partnership (SP) in order to enter the market swiftly. This SP is based primarily on capital connections. For example, *Marriot International* founded an SP with *New World Development* from Hong Kong. *New World Development* managed a part of *Renaissance Hotel Group* (83 hotels in 38 countries). *Marriot International* bought 54 percent of *Renaissance Hotel Group* shares and is presently managing more than 1300 hotels of different brands worldwide. SP more than doubled the presence of *Marriot* internationally and provided it with access to 40 new markets including Russia, China, Japan, India, Italy and Turkey.

Six Continents Hotels is a leading global corporation making a strong strategic effort in forming partnerships in different businesses in one hundred countries worldwide. Apart from the fact that it is the first hotel enterprise offering on-line booking in real time, it also builds constantly and manages partnerships with popular travel web sites such as *priceline.com*, *travelocity.com* and *lastminute.com*, and also with new media, sales promotion companies and air carriers (Tipurić 2002, 212). *Six Continents Hotels* has established strategic partnerships with 47 global air carriers.

Radisson Hotels, which are part of *Carlson Group* travel companies, expanded with the help of international strategy based on SP with local hotels worldwide, such as *Edwardian Hotels* in Great Britain and *Movenpick* in Switzerland. An example of SP in tour operation business is the British tour operator *Airours*, which entered into an important SP with *Carnival Cruises*, the biggest cruising enterprise which in 1996 bought 29.5 percent of *Airtours* shares. Knowles (2001) mentions *Four Seasons Hotels*, which used the SP with *Regent International Hotels Ltd.* (the group of most important luxury hotels in Asia) to take over the management of hotels in Bangkok, Hong Kong, Kuala Lumpur, Melbourne and Sydney. In this way they obtained the results which would have taken them far more time without the partners.

Tour operators: global distribution network (GDN) of tour operators and travel agencies is one of the most consolidated businesses. The German TUI, former Preussag, features on the list of the largest corporations. Preussag entered the European travel market only in 1997 when it purchased TUI, the biggest German tour operator. One year later it bought *Thomas Cook* and *Carlson UK* and in May 2000 the major British tour operator *Thomson.* Due to anti-monopoly regulations Preussag was forced to sell

Thomas Cook. C&N Touristik was founded in 1998 when the German company Karlstadt Quelle decided to start cooperation between its TO NUR Touristic Gmbh and Lufthansa's charter air company Condor Flugdienst Gmbh. They purchased Thomas Cook, whom they were forced to sell, if it wanted to overtake Thomson. They decided to stop using the name C&N since Thomas Cook sounds better (Klančnik 2003, 55). In addition, in the year 2000 TUI formed a strategic partnership with the French tour operator *Nouvelles Frontierres* by purchasing 13 percent of its shares. It also entered into a SP with the leading Italian tour operator *Alpitour* by buying 10 percent of its shares (Tipurić 2002, 212). An example of a diagonal cooperation is the partnership between TUI and telecom company *KPN*. The partnership was formed with an intention of starting an on-line travel agency.

Great business enterprises, such as *American Express*, are following the globalization strategy. American Express lays emphasis on diagonal integration and develops a range of products in connected sectors. It is present in 130 countries. Its strategy focuses on two main activities: the network of 3,200 travel agencies and finance, mainly travellers cheques and credit cards. It has become the largest tour operator in the USA, Australia, Canada, Mexico and France (Knowles et al 2001, 181).

The air travel industry: air companies are merging worldwide. The five major alliances are: Star Alliance, Oneworld, Wings, Qualifier and Global Sky Team. Everything started with the appearance of hubs offering services to millions of passengers from smaller emissive markets, such as Frankfurt and Vienna. Deregulation, the measure allowing flights out of the domestic country, made it possible for air companies to fly from everywhere and in all directions which is the most evident proof of globalization (Klančnik 2003, 55). In air travel there are two kinds of alliances: *equal* and *unproportional*. With the latter there is less cooperation between air companies in terms of marketing and promotion contracts and shares in frequent flyer programmes. Equal alliances are strategic and presuppose a stronger impact on operation, partners monitor each other. Cooperation includes pricing, standardization of equipment, services and supplies, development of common brand and such. The most popular alliance is "code sharing" and it represents 70 percent of cooperation between air companies. It guarantees total independence of each air company. It means that an air company, for example Adria, leases a number of seats on a flight of another company, for instance Lufthansa, and sells them as their own (Klančnik 2002, 5). Annual report on SP in Airline Business states that in 1999 there were 513 international SPs in air transport (Evans 2001, 9). The crisis of the industry is deepened by low budget air carriers with rapid growth.

3.5 Globalization in Slovenia

Globalization of tourism has not started in Slovenia yet, at least there is not much evidence of globalization. In Slovenia there has been no foreign investment of big hotel enterprises. Apart from the unsuccessful franchising of the hotel Intercontinental there are three more examples, Best Western, Relaise & Chateaux and Domina Grand Media hotel belonging to Domina hotel chain. This type of franchising involves booking possibilities. However, the risk of investment is taken by local bidder. Although in Slovenia we wish for the development of up-market tourism it will not be possible until there is at least one Sheraton, Hilton or Marriot hotel (Klančnik 2003, 56). In connection with air transport we have to mention the participation of Adria Airways in strategic partnership Star Alliance and the transfer of its frequent flyer programme Privilege Club in the Lufthansa programme Miles and More. Slovene tourism is relatively independent of the globalization process mainly due to fairly strong protectionist politics which stems from a legitimate presumption that we have to protect small Slovene economy from being sold. The beneficial consequence of this is that Slovene tourism has so far not been damaged by the air business and Asian crises at the end of nineties. However, there is also a bad consequence of this. The development of Slovene tourism has been very slow and hindered by the fact that foreign capital is not well accepted. Slovene tourism is very unlikely to play a significant role in international market unless we invest heavily in tourism infrastructure.

4 Conclusion

Rapid growth of tourism poses a threat to the environment, social and international relations (Klančnik 2003, 51). Nevertheless, we have to benefit from globalization in the following ways:
- WTO (World Tourism Organization) should be made to accept the principles of economic, ecological and social sustainable development and in this way contribute to the world becoming a better and more pleasant environment;
- the government should boost the development and progress of Slovene tourism industry by investing in new tourism infrastructure, particularly in underdeveloped regions and in this way help improve the positioning in the international market (ibid., 52).

Crnjak-Karanović and Petrić (1998, 147) state that the concept of massive and standardized tourism and also its offer started in Europe. Trans-national companies interfered in the course of the development from a very simple offer to a serial, impersonal, offer and later to a totally professional offer that tries to improve a standardized offer by adding human touch, genuine communication or rich content. However, standardization means the loss of national, regional and local character. Technical standards have to be supplemented by elements of autochthon character.

Since globalization has helped to create homogeneous tourist resorts and erase local standards, tourism offer has to clearly differentiate from others and aim to be based on brands. Otherwise tourism may be too unrecognizable.

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