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Processes of
internationalization that fit
emerging markets in the hotel
sector

The case of Pestana Group in Brazil

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Abstract

The service sector has, in the last decades, increased considerably its importance in the world's economy. Within this sector, the hotel industry has accompanied this movement, and it's now an important source of income and employment for various countries. This dissertation has the objective of better understanding how a hotel company from a developed country, internationalizes its activities into an emerging country, and implements its strategy while managing the turbulence of an emergent market. Thus, this work can contribute to the literature that regards the service sector industry, and that is still very insufficient.

So an exploratory research was conducted, namely a case study, about the internationalization of the biggest Portuguese hotel company, the Pestana Group, into the Brazilian market, since they have successfully been there for the last 18 years. The data collected was retrieved through interviews made to the CEO and CDO of the Group.

The findings show that in this kind of business, in order to have success, you have to consider the operational activity and the asset management one. There are no predefined modes of entry, being the crucial factors, the right timing and the right partnerships. Findings also showed that an emergent market poses challenges of various natures, and that they are the same ones faced by the manufacturing sector. In order to solve them, or at least mitigate some of them, you need to be ready for unexpected events, and be flexible to adapt your strategy and way of doing business.

Resumo

O sector dos serviços tem, nas últimas décadas, aumentando consideravelmente a sua importância na economia mundial. Dentro deste sector, a indústria hoteleira tem seguindo este movimento, e é neste momento uma importante fonte de rendimento e emprego para diversos países. Esta tese tem o objectivo de se perceber melhor como uma empresa hoteleira de um país desenvolvido, internacionaliza as suas actividades para um país emergente, e implementa a sua estratégia enquanto lida com a instabilidade de um mercado emergente. Deste modo, este trabalho pode contribuir para a literatura existente sobre o sector dos serviços, que ainda é bastante insuficiente.

Então, uma pesquisa exploratória foi efectuada, nomeadamente um case study, sobre a internacionalização do maior grupo hoteleiro Português, o grupo Pestana, para o mercado

Brasileiro, visto que estão lá com sucesso nos últimos 18 anos. A informação recolhida foi conseguida através de entrevistas feitas ao CEO e ao CDO do grupo.

Os resultados mostram que neste tipo de negócio, para se ter sucesso, temos de considerar a actividade operacional e a gestão de activos. Não há modelos predefinidos de entrada, sendo que os factores cruciais a considerar, são o timing certo e as parcerias certas. Os resultados também mostram que um mercado emergente tem desafios de várias naturezas, e que esses são os mesmos encontrados no sector da indústria. De forma a resolvê-los, ou pelo menos atenuá-los, tem que se estar preparados para eventos inesperados, e ser flexíveis para adaptar a sua estratégia e o modo de fazer negócios.

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1- Introduction

In the last years a lot of attention has been drowned into the emergent markets (EM), that is because with the maturity and saturation of the advanced economies, multinational enterprises (MNE) in order to continue to grow their profits needed to expand their activities into these economies (London & Hart, 2004). An emerging economy is characterized by two aspects, that are a strong economic growth and an increase in the liberalization of the market (Hoskisson, Eden, Lau, & Wright, 2000a).

This thesis objective is to identify how a company from the service sector adapts its way of acting, as for example methods and processes, when establishing its activity in an emerging market. We will see what was made in order to take advantage of opportunities, overpass difficulties and at the same time reducing the risk of threats. While doing so we can also see how a hotel company adapted its strategy when entering and establishing into a young and still developing market as is the Brazilian Hotel industry one.

The research question that this thesis will try to answer is "**How to internationalize to an emerging market in the hotel sector?**" and it will have as sub research questions "**How do firms in the hotel sector manage turbulence in emerging countries?**" and "**How do firms in the hotel sector implement their strategy in EM?**". With these questions, this thesis hopes to shed some light on how a service company should behave in order to be successful in the complexity of an emerging economy, and therefore give some insights to managers expanding to these countries. To answer my research question, I used a qualitative method and more specifically a case study.

There is an obvious lack of studies about the internationalization of the service industry (Kundu & Contractor, 2000), especially in EM (Boyen & Ogasavara, 2013). Almost all research focuses on the manufacturing sector (Bryson and Daniels, 2010; Erramilli and Rao, 1993), although in most recent years scholars have become interested in it (Quer, Claver, & Andreu, 2007). So with this work will hope to bring the investigation on step further and make a contribution to the minor existing literature.

In this study we will be analyzing the establishment of Pestana Group, which is the biggest Hotel chain in Portugal and the 31^o largest in European terms (Hotel Magazines ranking of the world's largest hotel companies), into the biggest economy in the South American continent,

that is Brazil (World Bank, 2016). This thesis is focused in a sector that has seen a huge increase in the past recent decades due to globalization, the Hotel industry sector. The choice of the company is due to its big presence in this market and since it has been there for over 18 years. While the country was chosen given its high importance as an EM, and because it has a dynamic hotel sector.

So in terms of structure of this thesis, in the next chapter will have the Literature Review where the concepts of internationalization and emerging economies will be introduced. Also the characteristics of EM and how to conduct business there will be addressed, focusing obviously on the hotel sector. After, in the third chapter, we will have the methodology section, where I will explain how I conducted my research. The fourth chapter will have the Case Study, and so we will talk about the company and the country studied, and how did their relation evolved. In the fifth chapter will see the findings of this study, and how can we interconnect the available theory with the experience the managers of this company had. In the last chapter will have the conclusions, plus the limitations and future research to this study.

2- Literature Review

In the following chapters we will review how previous studies answered to the main and sub research questions, and address it accordingly with the available academic literature. We will start with the different definitions of internationalization, and then go into emerging economies. Further on we will analyze previous findings about the factors affecting entry modes in EM with a special focus on the hotel sector, and the adaptation of processes and ways of doing business to EM also with a special focus in the hotel sector.

2.1 Internationalization

This chapter will explain chronologically the evolution of the concept of Internationalization, by stating the different versions and compare them

According to Johanson and Vahlne (1977) internationalization “is a gradual step by step process” in which firms increase their foreign activities, so the path is exporting to an agent,

then establishing a subsidiary and so on. Welch & Luostarinen (1988, p. 36) define similarly as it being “the process of increasing the involvement in international operations”, but make a note on the possibility of leap frog.

A more recent definition comes from Beamish & Calof (1995) that challenges the “step by step” approach, showing evidence that the majority of firms leap frog in the process, due to the slack of resource, extensive experience and skills and to don’t miss good opportunities. So these authors go one step further stating that internationalization “is the process of adapting firms operations (strategy, structure, resources, etc...) to international environments”.

While Johanson and Vahlne (1977) and Welch and Luostarinen (1988) only consider the increase in the process, Beamish and Calof (1995) introduce the possibility of the decrease in the process through de-investment (selling factories, closing subsidiaries etc...).

This process is affected by psychic distance (language, education, business culture, industrial environment) and that is why firms prefer to start their expansion by more familiar markets (Johanson & Vahlne, 1977; Welch & Luostarinen, 1988). Key people in the organization with their networking activities and market knowledge contribute to this process (Johanson & Vahlne, 1977; Welch & Luostarinen, 1988). In organizational terms, the level and type of resources applied (market commitment) also influences the process (Johanson & Vahlne, 1977).

The degree of internationalization affects and is affected by the view of opportunities and challenges (Johanson & Vahlne, 1977; Welch & Luostarinen, 1988), and as such you need to have different kinds of operational methods when internationalizing and be able to apply them (Welch & Luostarinen, 1988).

In what regards mode choice, it is affected by market knowledge and commitment (Johanson & Vahlne, 1977), and more managerial speaking due to market potential sales and costs (Beamish & Calof, 1995). The motives to a mode change are due to factors of the internal or external environment (a change in a constraint for example), attitude or performance basis (Beamish & Calof, 1995).

2.2 Emerging economies

Having discussed the general theories of internationalization, I will now focus in the internationalization into emerging countries by explaining briefly the concept and some of its characteristics

In international business research emerging economies appeared in the 1980's and were first called "newly industrialized" (Hoskisson, Eden, Lau, & Wright, 2000b). They combine two different things which are a rapid economic growth and quick liberalization of the market (Wright, Filatotchev, Hoskisson, & Peng, 2005), and they are either developing countries in Asia, the Middle East or in Africa, or transition economies in China or the former Soviet Union (Hoskisson et al., 2000b).

They gained importance also because "with the established markets saturated, MNE have turned increasingly to emergent markets in the developing world" (London & Hart, 2004, p. 350), and consequently to their low income population (Hoskisson et al., 2000b), where the majority of the people work in the informal economy (London & Hart, 2004).

One key aspect that should be taken into account is that there is macroeconomic instability due to the risk and uncertainty in the economic and political fields (Hoskisson et al., 2000b) and there are also big differences between emerging markets (EM) in their economical and institutional growth (Wright et al., 2005).

As a consequence, markets are less efficient because of lack of transparency, big information asymmetries and so there are higher monitoring and enforcements costs (Xu & Meyer, 2012), and so it is difficult to obtain market knowledge which constrains the decision making process (Johanson & Vahlne, 1977).

2.3 Factors affecting entry mode in EM

Here we will see the EM factors that influence the decision making process when choosing and entering an EM and later on focusing specifically in the Hotel Sector

So having this institutional perspective in mind, we see that costs and risks increase in EM because we are in the presence of a poor institutional framework (Meyer et al., 2009). As

stated by Welch and Luostarinen (1993), in internationalization, steps change unexpectedly because it's not easy to predict the next opportunity or threat, but in EM this factor increases because you don't have access to trustworthy information (Meyer et al., 2009). For instance you don't have transparent financial data (Khanna 2005), which combined also with the institutional underdevelopment leads to less liquidity in the financial market (Lin 2008).

Also, in what refers to the government itself, MNE worry that it could have opportunistic behaviors and as such they will have extreme caution when making big investments in asset specific resources (Hoskisson et al., 2000b), but also because they think public institutions are not capable of preventing their proprietary propriety of being stolen (London & Hart, 2004). Furthermore when dealing with the government, you need to build a good and strong relation with them, in order to, for example, have their approval in licensing agreements (Hoskisson et al., 2000b).

Regarding specifically the MNE posture, when they entered these markets they were too focused on the top of the pyramid, and so failed to see the big picture, that the majority of the population is low income (London & Hart, 2004; Wright et al., 2005). So firms need to have what is called "social embeddedness", that is, to be in close contact with the local population. This will allow not only to understand their real needs and how can they sell better their products and services, but also to have legitimacy in the eyes of the indigenous people (London & Hart, 2004). This aspect of the EM comes from the traditional social relations that are still very much taken into account, as for example the Chinese guanxi, but also to compensate for the less efficient system that is in place (Xu & Meyer, 2012).

2.4 - Focusing in the Hotel Sector

The first thing that should be mentioned is that, there is an obvious lack of studies about the service industry (especially of the hotel and tourism industry), as the overwhelming majority of the academic papers about globalization are centered in the manufacturing industry (Boyen & Ogasavara, 2013; Dunning & McQueen, 1981; Falk, 2016; Kundu & Contractor, 2000; Quer et al., 2007) This is curious since the tourist activity is completely connected and inseparable of globalization (Quer et al., 2007), and furthermore it has increase constantly its weight in the developed and undeveloped countries GDP (Kundu & Contractor, 2000). Only

few studies tried to apply conceptual models (Johnson & Vanetti, 2005) in studying it, although there is a growing interest in the subject (Quer et al., 2007). It should be noted that the hotel business has a very important distinctive characteristic, that is that production and consumption are made in the exact same place since you are in constant contact with the client (Boyen & Ogasavara, 2013; Quer et al., 2007). The service needs to be delivered on site to the customer, and so, there is the tendency to “follow the client abroad approach” (Kundu & Contractor, 2000), that is, to establish units in the destinations preferred by home country nationals. As such, to choose the entry mode, the characteristics of the firm and the ones of the destination country combined with these particular features of the industry are important factors (Boyen & Ogasavara, 2013; Quer et al., 2007).

Entry modes

You can divide the entry modes into two groups that are the non-equity, as franchising, management contract and licensing, and the equity ones that are JV's, M&A and greenfield (Adhiyamaan, 2005; Contractor & Kundu, 1998; Dunning & McQueen, 1982; Endo, 2006; Quer, Claver & Andreu, 2007). Companies usually prefer non-equity entry mode (Boyen & Ogasavara, 2013; Dunning & McQueen, 1981; Johnson & Vanetti, 2005) and a proof of that is the increasing number of strategic alliances (Johnson & Vanetti, 2005), specially true for EM (Dunning & McQueen, 1981), as this allows for them to incur in less risk (Quer et al., 2007) and to reduce the need for funds (Boyen & Ogasavara, 2013). According to different scholars, in recent years chains have preferred franchising and management contract (Altinay, 2005; Contractor & Kundu, 1998; Dunning & McQueen, 1982; Endo, 2006; Quer, Claver, & Andreu, 2007), and so we will develop now more on these kinds of entry modes.

Management Contracts

One very popular method being used in this industry are the management agreements (or contractual agreements) (Dunning & McQueen, 1981; Falk, 2016; Quer et al., 2007; United Nations Conference on Trade and Development, 2007), that is a deal in which one party pays a management fee for another party to explore its unit (Eyester 1997). This means that the first party concedes the use of the asset, while the second one brings its knowledge and expertise to run the day to day operations and make the unit profitable (Dunning & McQueen, 1981). This allows firms to expand quickly with high control and less risk, since the hotel and its infrastructures are already available to use and do not need to be purchased (Quer et al.,

2007), and also allows if necessary to exit the market in a less costly way (Kim and Hwang, 1992). Since as we saw in the previous chapters, EM are very unpredictable, this entry mode allows companies to have big flexibility.

Franchising

Franchising is also widely used (e.g. Radisson Hotels), as this allows for a quick geographic expansion of the brand with no capital needs (Boyen & Ogasavara, 2013). Its advantages are that it allows for intercultural problems to be better handled since the franchisee is usually run by locals (Velo & Mittaz, 2006). Local partners allow to share the risk and to better manage local staff and the distribution channel, since they are more culturally sensitive (Kundu & Contractor, 2000; Magnini, 2008; Pak & Park, 2004). The downsides of this option are, among others, that you need to assure that the quality standards are met, to avoid damaging the brand's image and reputation, overcome the inertia to change and also coordinating problem (Velo & Mittaz, 2006).

FDI

In what concerns the choice for FDI, scholars of this sector show that there are some macroeconomic aspects that firms take into consideration, like the country's GDP and growth rate of a country's tourism activity, the attitude of local government towards FDI (Kundu & Contractor, 2000), labour costs and market size (Johnson & Vanetti, 2005). Findings also show that the morosity to enforce a contract, business regulation and minimum wage are deterrents of FDI (Falk, 2016). Talking specifically about firms motives to internationalize their hospitality activity, Quer (2007) found out in a study about Spanish hotels, that the availability of internal funds, diversification of sources of profit, emerging of new tourist destinations and inability to grow more in the home country are drivers to initiate and grow the process.

Factors that affect decision when choosing the country

When choosing the target country in this industry, managers consider some factors that are the same for the manufacturing industry (Endo, 2006), and that are intrinsically linked to EM, being political and social risk and the quality of infrastructures rated as most important (Boyen & Ogasavara, 2013; Dunning & Kundu, 1995; Dunning & McQueen, 1981; Johnson & Vanetti, 2005). Therefore, cultural distance is a crucial factor in this entering process (Boyen & Ogasavara, 2013), as it increases, the likelihood of going in with equity decreases

(Endo, 2006; Ivanov and Ivanova, 2016; Kundu, 1994; Quer et al., 2007). An example of the impact of this factor, is that Portuguese and Spanish hotel chains usually enter Brazil in an earlier phase in their internationalization process compared to Anglo-Saxon firms (Boyen & Ogasavara, 2013). In terms of choosing the specific location, you need to consider that there are two types of clients, business travelers and tourists, being business hubs and tourist attractions (e.g. landscapes) important for each respectively (Boyen & Ogasavara, 2013; Kundu & Contractor, 2000; UN 1993). Also taken into consideration are big events, as it was the case of the 2014 World Cup in Brazil (Boyen & Ogasavara, 2013).

2.5 - Challenges in EM

Here we will see how managers can adapt their strategy to an EM first generally speaking, and further on focusing in the Hotel Sector

As advanced by London and Heart (2004, p.350) “low income markets in emerging economies represent both tremendous opportunities and unique challenges”, and so, MNE from developed countries cant proceed as “business as usual” and need to adapt their strategy and way of doing business (Hoskisson et al., 2000b; London & Hart, 2004; Meyer et al., 2009; Peng et al., 2008; Wright et al., 2005). There is a constant risk and uncertainty in economic, political or social fields, and as such it’s hard to predict business cycles, government actions, and the outcome of legal proceedings (Xu & Meyer, 2012).

The company structure in EM is generally composed of incumbent firms (state owned, privatized or business groups), start-ups and foreign entrants (Peng 2003; Peng et al 2004). Big firms usually belong to either the state or established family groups (Peng et al., 2008), and this constitutes an obvious conflict of interest as, in many cases, the government is an active player in some sectors and it has also close ties to these family groups (Xu & Meyer, 2012). An issue related to this is the power of very big stakeholders relatively to minor stakeholders, so regarding agency theory, we have here a principal-principal problem, that the good rules of governance should try to solve by reducing this overwhelming control over a company (Morck 2005, Young 2008). But as the market matures, these incumbent firms will decrease their advantages in relation to new entrants (Hoskisson et al., 2000b).

In what regards the market itself, they are inefficient markets with high uncertainty, and that pose problems to managers operating in these economies (Xu & Meyer, 2012), in which you can add bad infrastructures, lack of specialized work force and underdeveloped financial markets (Hoskisson et al., 2000b). An important matter to take into consideration is the informal economy and informal rules, where social norms apply and are feverously respected, since it plays an important role in these countries (London & Hart, 2004). Consequently, there is the problem of accurate information for managers and so tacit knowledge has a heavy weight when making decisions (Xu & Meyer, 2012).

To overcome these problems, it has become clear that networks and relations to other players are important in EM (Meyer et al., 2009), so you need to have strong connections to traditional, and sometimes more important, non-traditional partners like NGO's (London & Hart, 2004). They can be a mean to reduce uncertainty (Hoskisson et al., 2000b), and can help in overcoming the problem of weak institutions when designing and implementing the strategy (Meyer et al., 2009).

Additionally, with all these important transaction costs issues in EM (Wright et al., 2005; Xu & Meyer, 2012), you need to adapt your organizational structure mode. When the market is still immature, you need to have a rigid structure with a clear chain of command in place (Hoskisson et al., 2000b), but emergent markets are maturing (Xu & Meyer, 2012) and as such the structure needs to follow this movement (Hoskisson et al., 2000b). So, due to the ever changing environment at EM (Uhlenbruck 2003), your organization needs to have strategic flexibility, which is the capacity of a firm to use and coordinate their different resources (Sanchez 1995). So managerial speaking it is preferred that you have a hybrid structure (Hoskisson et al., 2000b).

Concluding, companies can't assume that emergent markets will have a western like development, and consequently they can't apply Westernized market strategies (London & Hart, 2004). They need to reinvent their strategies knowing that the implementation of it won't be smooth, quick or easy and acknowledge that strategies will differ from one emergent country to another (Hoskisson et al., 2000b).

2.6 - Focusing in the Hotel industry

Management contracts

As we already saw there isn't a direct link between the amount of equity and the amount of control (Kundu & Contractor, 2000), and a tendency of the activity of hotel firms nowadays is to manage existing assets, as it is resumed in this sentence of Dunning and McQueen (1981, p.202) "Since the 1960's the predominant form of involvement by MNE's have moved away from equity and leasing arrangements towards management and technical service agreements". This allows firms to plan, coordinate and regulate the flow of service (Boyen & Ogasavara, 2013), without having to deal with real state issues and at the same time reducing their risk and capital requirements (Dunning & McQueen, 1981). Although it also has its disadvantages like the transaction costs of making the contract, conflict between parties over a non-specified aspects in the contract and the giveaway of expertise that could be used in the future against the managing firm (Dunning & McQueen, 1981). But as we already saw, as countries begin to develop, so will the market and the institutional framework, and so these contracts will start to reduce the intervention of the chains from general management to more marketing and specific assistance (Dunning & McQueen, 1981).

Competitive advantage

In this kind of business, economies of scale are achieved with high occupation rates (Boyen & Ogasavara, 2013), as this will allow to have a more advantageous position when sourcing for staff, furniture, food and beverages among others (Dunning & McQueen, 1981). Being a MNE allows to have competitive advantage because you have a higher capacity to innovate, produce and market a wide range of complementary goods such as guided tours and shuttles to the airport (Dunning & McQueen, 1981). Johanson & Vanetti (2005) found in their study that large companies believe they have superiority because of their reservation system, human capital, brand equity and internationalization experience. Additionally, a bigger size implies more availability of financial and managerial resources (Tallman & Fladmoe-Lindquist, 2002), and so a bigger propensity to go for FDI. These availability of resources, will allow to have a deeper knowledge of the market in different perspectives as cultural, regional, business behavior, language and demand (Boyen & Ogasavara, 2013). You can also have economies of learning due to the knowledge and experience you acquire from previous hotel units (Dunning

& McQueen, 1981). But an important note on all of this, is that when exploiting all of these competitive advantages, you need to always have in your mind the local way of doing business (Quer et al., 2007).

Internalization

As we already saw, EM pose innumerable challenges to companies, and that is not an exception in hotel companies. Problems as dealing with bureaucracy, recruiting and dealing with personnel, infrastructures, and local labour law, taxes and regulations constitute a problem for MNE of this sector (Falk, 2016; Velo & Mittaz, 2006). When going into less familiar markets or high risk countries, as some EM are, internalization is a good strategy to have a competitive advantage and avoid possible opportunistic behavior of the partner (Quer et al., 2007). Furthermore it allows to control and monitor the quality of the service in a tight way (Boyen & Ogasavara, 2013). as we know if you are less familiar with the target country you will have higher integration costs (Quer et al., 2007), as for example with information collection and communication issues (Pak and Park, 2004). But once again companies should avoid the tendency to westernize its approach (Velo & Mittaz, 2006), and so they must adapt and modify the solutions to these problems as well as its products and services (Boyen & Ogasavara, 2013).

Decision making process

According to a study made by the UN (UNTCAD's World investment Prospect Survey, 2009), managers prior to investing analyze the size and growth of the tourism market, the presence of suppliers and business partners, the access to regional markets and the stability and business friendly environment. While the World Bank (2008) says that inefficient administration and poor institutional framework (typical in EM), are deterrents of investment and consequently a worse country investment rating will negatively impact the amount of FDI (Kundu & Contractor, 2000). Other aspects that will impact the decision, are the importance given by each country to its tourism sector (Kundu & Contractor, 2000), the time needed to enforce contracts, and the minimum hour wage since most hotel workers are medium or low specialized (Falk, 2016). Consequently EM that want to attract investments in this area have to address all these issues, to make themselves attractive for receiving them. Finally, managers also consider firm global specific goals in their decision (Boyen & Ogasavara, 2013).

3 – Methodology

In this section we will see which research method was chosen and why did I choose it, and later on we will see the tools I used to build my Case Study section

3.1 – General Methodology

The research method I found to be more appropriate for my thesis is a qualitative one, because, as we know my thesis regards the internationalization of a company into an emergent country, and with that we want to learn how it did so. This could provide insights for business that want to do the same, and following the words of Bettis et al. (2015, p.637) “We believe that qualitative research often provides a means of identifying generalizable patterns concerning important questions in the field of strategic management”. Also regarding my main research question, that is "How to internationalize to an emerging market in the hotel sector?", it is easy to understand that it is linked to the area of strategic management, in which qualitative exploratory methods have made huge contributions (Bettis, Gambardella, Helfat, & Mitchell, 2015), and so can also contribute to this under searched hotel sector business. There are numerous paths it can follow and it can be applied to single or multiple cases (Bettis et al., 2015), and my choice was for a single case study option.

According to Yin (2013) you have to choose between making experiments, surveys, archival analyses, histories, and case studies. And in order to come to a decision, we should take into account the type of research question posed, the extent of control an investigator has over actual behavioral events, and the degree of focus on contemporary as opposed to historical events. My research question is a “how” question, which according to the same scholar, it means that my work is more explanatory and consequently I have to choose between an experiment, a history or a case study. In my situation I have no control over the behavioral events and so we can eliminate the experiment method since it requires it. Finally, since I'm making a research on contemporary events, history is also excluded since it falls into past historic events. Therefore my final choice was the case study method, having this the advantage of allowing to have access to a full variety of evidence as is the case of documents, interviews, observation and artifacts (Yin, 2013). Last, due to the fact that the outcomes of my work can be used as an information guide to the other companies that plan to take the same step of internationalizing into an emerging country, my case is technically a representative or

typical case, and therefore, according to Yin (2013) it fulfills one of its five rationales of using a single case study instead of a multiple one.

In my case study the company I choose was the Pestana Group, since it is the biggest Portuguese hotel company, with a large international presence and furthermore with an important successful investment in eight hotels in Brazil over the last 18 years. So with this strong presence in this emergent market, I can make a direct link to my sub-research questions, by seeing how a western company successfully took into account the right factors when choosing and entering it, and also the way it adapted its process and way of doing business.

3.2 – Concrete Methodology

The main source of information to write this case study was by analyzing primary data, through five interviews of one hour each with 2 managers of the Pestana Group in its headquarters in Lisboa. This method seemed to be the best one, since I had access to the people that were in charge of the expansion of Pestana into Brazil and there was no other possible way to know how did it happen. So 3 interviews were made to the CDO (Chief Development Officer) of the group, Mr. José Roquette since he was the person in Brazil in charge of the expansion of the group, and 2 were made to Jose Theotonio the CFO of the group at the time, since he was directly involved in the process, and is now the group's CEO. Through the interviews, I was able to learn the history of the group, the specific history of the Brazilian venture, what went good and wrong and how did they overcome their problems. The same line of interview was made to both of the managers in separate and independent interviews, to assure that the data was accurate by avoiding prejudices and bias opinions, therefore triangulating the data as much as possible.

In terms of secondary data, the group provided me information in form of documents, as was the case of the Pestana 2016 Strategy Day PowerPoint presentation, the 2015 Financial Statement and the group's Brazil PowerPoint presentations of the years 2001, 2005 and 2008. This allowed me to have access to some statistics, financial data, history of the group, new projects, strategies, difficulties faced, values and principles of the group. They also gave me studies of Jones Lang Lassalle, that is a real estate consultant agency, with an extensive information about the Brazilian hotel sector in the last decades.

Also in order to keep up with the correct order of events, and make more sense of the information provided, I built a chronology (inserted in the case study section), using the Microsoft Office timeline, with all the main dates of the Pestana Group, but obviously with a special focus on the Brazilian expansion. This helped me situate all the information that was given to me in a more efficient way, and it will make it easier to the reader to understand the history of the group.

Table 1: Data

Nature of evidence	Type of Source	Date of evidence	Description
Interviews	1st Interview Group CDO, Mr. José Roquette	8 of November	History of Pestana, expansion in Brazil
	1st Interview Group CEO, Mr. José Theotonio	23 of November	Adaptation to overcome challenges in Brazil
	2nd Interview Group CDO, Mr. José Roquette	1 of December	Adaptation to overcome challenges in Brazil
	3rd Interview Group CDO, Mr. José Roquette	14 of December	Type of ventures in Brazil
	2nd Interview Group CEO, Mr. José Theotonio	19 of December	Type of ventures in Brazil
Documents	Group’s Strategy Day Ppt	2016	Group’s performance and strategy
	Group’s Brazil Ppt’s	2001/2005/2008	Performance and difficulties in Brazil
	Jones Lang Lassalle Reports	2009 and 2015	Brazilian Hotel Sector
	Financial Statement	2015	Financial Data

Source: Author

4- Case Study

In this chapter we will start by presenting the company's history, its strategy and financial situation. After we will briefly describe Brazil's history, economy and it's the hotel sector. In the end we will see why Pestana chose Brazil and its expansion in this country

4.1- Pestana Hotel Group

4.1.1- Company overview

The Pestana Group is by far the biggest Portuguese hotel chain currently with 87 hotels spread by 15 countries in Portugal, South and North America, Africa, Europe and the Caribbean's. Last year, the group had over 10 thousand bedrooms, 3M guests served by more than 7.000 workers being so the 31th largest in Europe and in World terms the 125th. Although hotels are its core business, the group has also casinos, golf courses, tourism real state, beverages, a charter agency, a travel agency and timesharing units (Exhibit A).

4.1.2- History

Its origin goes back to 1972, when in the island of Madeira the Pestana Carlton Hotel was opened to the public, at the time, under management of the Sheraton group. In 1976 Dionisio Pestana (only son of the founder) took charge, and by its hand it managed to survive the economic and political difficulties caused by the 1974 revolution in Portugal and the undeveloped state of the Portuguese tourism sector. Ten years after, the financial situation was stabilized, and so the group bought another hotel in Madeira and also a casino.

The group began its expansion outside Madeira into the Algarve in 1992 when it bought 4 hotels, being then already, the biggest Portuguese hotel chain. Three years later, its internationalization began when it entered the capital of Mozambique, Maputo, and it started to explore some buildings that it owned there. In 1999 it entered Brazil, due to some factors that we will discuss later, with the opening of its first hotel in Rio de Janeiro. Since then it has opened, with different entry modes, seven additional units in different regions of Brazil, making it the biggest foreign market.

Meanwhile a very important landmark was made in 2003, when Pestana won the public tender to manage for the next 40 years the “Pousadas de Portugal”, which were the 42 hotels owned by the Portuguese state all over Portugal, and that were in financial and management difficulties. They had to do a complete turnaround to the existing staff structure and also to its product portfolio, by making some construction work and modifications in several of these hotels, selling the less profitable, franchising the less strategic and closing others. In order to make it competitive and profitable again, the majority of the 36 that remained suffered huge investments in constructions, and additionally, all the divisions of the group changed their internal processes and way of work in order to eliminate the inefficiencies from the past management. Since being under the management of Pestana, “Pousadas de Portugal” has made positive returns and so it’s no longer in financial distress, and it has also opened more six “Pousadas”.

In international terms, the group further invested in South America, and besides Brazil it also has units in Argentina, Venezuela and Colombia. In 2009, with the opening of the Pestana Chelsea Bridge (London), later joined by Berlin and Barcelona, it started one of its new strategies, that is to invest in major European cities (mainly in capital cities). In Africa it further expanded its presence to South Africa, Morocco, São Tome and Principe and Cape Verde. Regarding America and the Caribbean, it has a hotel in Miami and one in Cuba.

The next chapters will be made mainly in mature markets as Europe and the US, either solo or in a partnership basis. In solo terms, next year it will open hotels in Madrid and Amsterdam, and in the near future in New Jersey (partnership). Regarding partnerships, it has an important one with the famous Portuguese football player Cristiano Ronaldo, with the first two hotels opened this year in Madeira and in Lisboa, and with projects undergoing to open in Madrid and in New York.

4.1.3 - Strategy

According to the group, its corporate strategy is aligned with three pillars: geographical diversification, product innovation and brand development. In what refers with geographical diversification, this is being achieved with the expansion of the group in its core business to different geographies, and as we already saw its investments are widely spread. *“Putting all the eggs in the same basket is a bad strategy”* said the CDO, adding that *“we are not a stocked company, but we need to increasingly behave as one”* and so the group understood

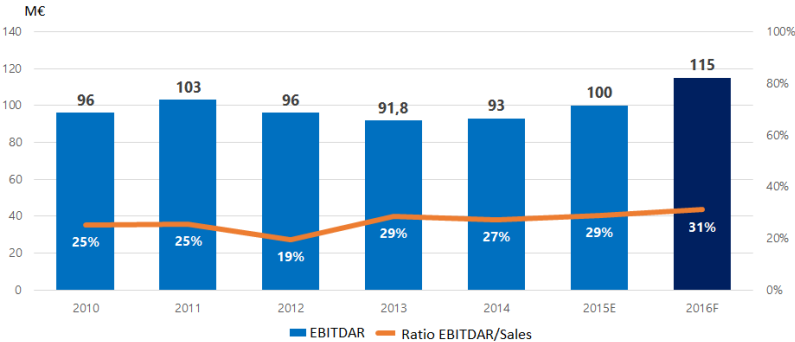
that it needed to diversify its assets to lower its risk. By doing so they have a more solid financial position, which is important when dealing with the banking sector and also with the general market, by doing so they entered markets of high growth potential and were also able to diversify its client base. To accomplish this, there was a consequent modernization of its management since they were exposed, and had to cope with, very distinct realities (e.g. being at the same time in Berlin and in Casablanca). Product innovation refers to the different kinds of hotels the group began to have, and it started with resorts in Madeira and the Algarve. After it, its first pure urban hotel was in São Paulo, where it had to compete with the world class players in a cosmopolitan environment. In 2003 when it bought “Pousadas de Portugal”, it had to learn how to manage small hotels since it was accustomed to run only big hotels. Another modification was the all-inclusive concept, that is a nuance of the resort sector, and they learned how to do it in a hotel in Madeira, where they actually won the “Best European all inclusive” by TripAdvisor. The last product innovation was the partnership with Cristiano Ronaldo, in which one of its objectives is to be closer and to understand the Millennial’s generation. The last pillar is the brand development, that has been changing to accompany these modifications. Everything before was “Pestana Hotels”, and now they have different segments of Hotels to target different types of clients, as is the case of the “Pestana collection hotels”, “Pestana hotels”, “Pestana CR7” and “Pousadas de Portugal”. Finally, adaptation is made in its way of doing business, taking into account the characteristics of each environment and without following standardized models, meaning that they follow a “glocalization” approach. And so the group tries to broaden its client base and diversify the product, the type of services, its business model and financial sources. To achieve all of this, the group studies well its new geographies, and it wants a solid and consistent growth but at the same time avoiding something that they call the ROE that is, the Return on Ego.

4.1.4- Financial Situation

In the next years the group plans to invest 70M€ in Portugal and approximately 100M€ in its international activities, the great majority of this investment is going to be made with its own capital since the group retains almost all its earnings. The hotel business is responsible for 67% of its results, being under its management assets of over 1B€, and this year it will have an EBITDA of over 100M€ and revenues of over 400M€. It has a leverage ratio of 4,67 (Net

Debt / EBITDA), which is considered low in this specific sector. According to the Groups 2015 financial statements, “Pestana intends to be more and more asset light, with a stronger component of management” and “to also reduce some seasonality that is still present on the Group cash flow”. As we can see by the graph below, the group has steady and constant results throughout the years even with the financial crisis that obviously affects negatively the tourism activity.

Figure 1: EBITDAR 2010-2016



Source: Pestana Strategy Day presentation

4.2 – The internationalization process to Brazil

Before discussing Pestana in Brazil, I will resume Brazil’s history, economy and its hotel sector

4.2.1 - History of Brazil

The Federative Republic of Brazil is the biggest country in South America and the fifth worldwide, in terms of territory and of population, with over 200M inhabitants. It has the Atlantic Ocean in its East side and it also borders ten South American countries. It has its capital in the city of Brasília, although its major cities in population terms are São Paulo (12M) and Rio de Janeiro (6,5M). It’s a Portuguese speaking country, since it was discovered by the Portuguese in 1500 and it remained its colony until 1822 when it claimed its independency. After that it was ruled by the Emperor and its regents, until 1889 when they were over throne. After that, Brazil was politically instable with years of military dictatorship,

successful and unsuccessful coup de eta and brief democratic moments. It was only later on in 1989 that the country established itself has a stable democracy.

4.2.2 - Economy

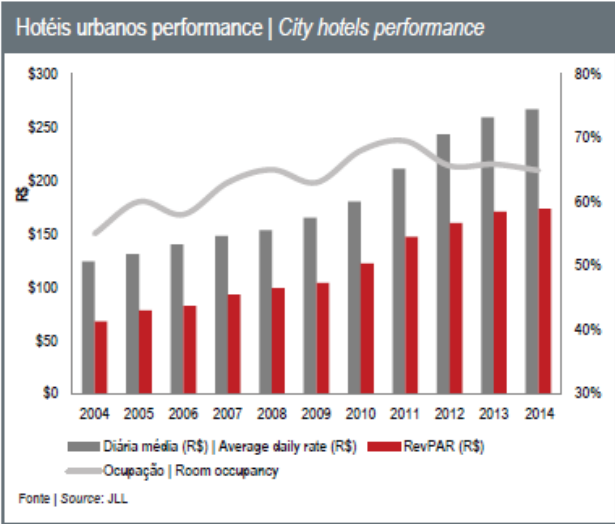
In international terms, Brazil is a founding member of Mercosul (1991), a member of WTO and member of the UN where it ranks in the 75th position in the Human Development Index. It is also a member of the BRICS, and it all started with the liberalization of its economy in the 1990's and, through the implementation of reforms that allowed the country to grow at a rapid pace in the following years. With the world economic crisis of 2008, and also due to some political instability, it grow at a slower pace and had recessions in 2009, 2015 and it will also have this year. Nevertheless, it's still the ninth largest economy in the world in GDP terms, and seventh in purchasing power parity. In what concerns currency, Brazil has its own currency that is the real, which suffered from long periods of hyperinflation in the 1980's and beginning of the 90's that underpin its potential. But with the "Plano Real" implemented in 1994, that were a set of measures to reform its economy, it was able to stabilize its inflation (although sometimes still high) and explore its full economic potential. Its most important sectors are mining, financial services and agricultural and food production. Consequently its main exports are soybean, minerals, oil, meat, machinery and vehicles, being its top trade partners China, the US and Argentina.

4.2.3 - Hotel Sector

With the confirmation of a stable democracy and economy due to the "Plano Real", the tourism sector in Brazil started to gear up in the end of the 90's. The hotel sector has been growing rapidly in Brazil since the year 2000, and in the last years it has benefited by major international events as the 2014 Football World Cup and the 2016 Olympic Games. A sign of that can be seen in the graph below, where the room occupancy rate and the RevPAR (Revenue per available room) has continuously grown from 2004 until 2014. The supply has also increased in number of hotels, their quality, but also in its diversity has is the presence of economy hotels, boutique hotels and resorts. Brazil has a lot of internal tourists, 83% of the hotel guests were Brazilian according to a study of 2014 of Jones Lang LaSalle, and its international guests come mainly from the Argentina and the US. An economic factor that has

influence in the number of foreign tourists is the exchange rate, since in years in which the Real is low compared to the US dollar, the hotel prices drop and so this increases the inflow of these tourists. Another aspect of the typical guest is that the big majority are business tourists, 64% according to Jones Lang LaSalle “Lodging Industry in Numbers Brazil 2015”, followed by leisure tourists 21%, and the remaining are group events tourists. The number of national and international agents in the market has been growing, but chains are in minority since the majority of the hotels are independently owned. Also to take advantage of the existing opportunities, real estate agents and funds have appeared in the market to in a first phase be developers of the assets of the project and later on making property gains.

Figure 2: Brazil City Hotel Performance 2004-2014



Source: Jones Lang LaSalle

4.3 Pestana in Brazil

We will now see why the company chose Brazil, and its path in this country (a timeline was inserted to help guide the reader)

4.3.1 – Why Brazil?

In the year of 1996, Pestana understood that in order to grow consistently, they needed to target a new geography since Portugal was a small market, and Mozambique, the first internationalization of the group, didn’t have at the time any new opportunities for a good

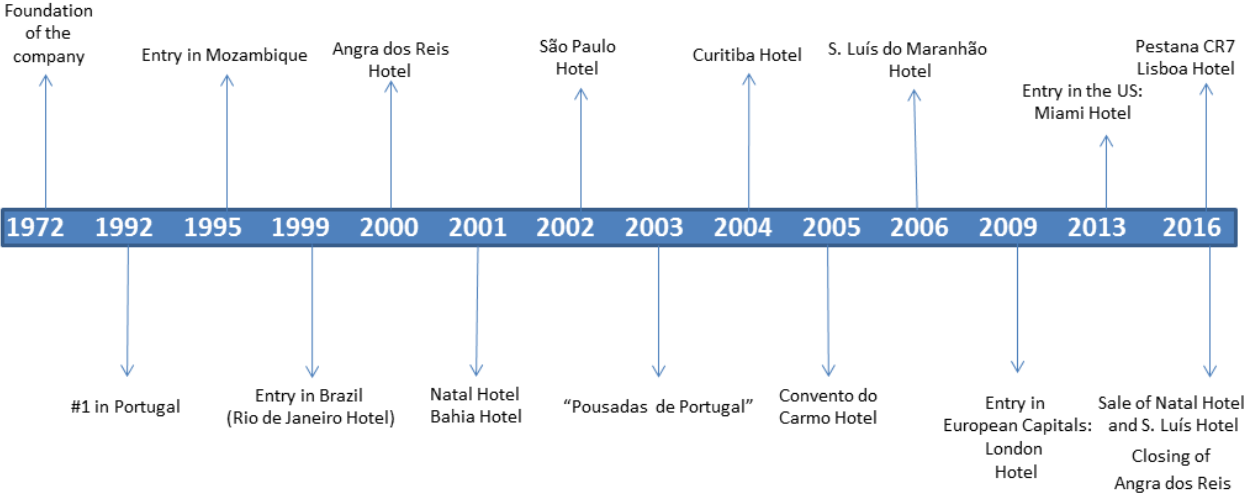
investment. So a decision was made to start searching for a new market. The managers at Pestana wanted a place that was culturally similar to Portugal, that had a big dimension and finally that it had a big potential of growth in the tourism sector. And so the obvious choice was Brazil, since it was an ex Portuguese territory and so there was the language factor, it's one of the biggest countries in the world and it had a completely unexplored tourism sector. Additionally, Brazil had the potential to become an important tourist attraction due its great weather, wonderful coastal areas, unique nature reserves and business opportunities. The country had a stable democracy and social environment, and due to the already mentioned "Plano Real", it was able to control its inflation that was a major deterrent for foreign businesses to enter Brazil. Having all of this considered, there was also an environmental factor that gave a push, that was the devaluation of its currency, the Real, which made assets a lot cheaper for foreign investors. So in 1999 the journey of Pestana in Brazil began, with the acquisition of a hotel in the city of Rio de Janeiro.

4.3.2 - Expansion in Brazil

The acquisition of the hotel in Rio de Janeiro in 1999 was a success, since right in the first year it had a return of 20% of its initial investment. Its premium location near the beach is a plus, being its only problem the occasional insecurity of the city. The second investment was made in the following year with the acquisition of a small unit in Angra do Reis, which was considered a unit complementary to the Rio Hotel. After that, the group started to look to the Northeast, following its strategy of diversifying geographically its investments, and so it entered in Natal and Bahia in 2001, that had 200 and 400 rooms, respectively. The Natal venture was made with in a partnership with a local construction company, and the Bahia one was a Meridian Hotel that had gone bankrupt and was bought in a partnership with a real estate company. In terms of the target client, Rio de Janeiro and Bahia were a mixture of tourist and business traveler, and Natal was targeted exclusively for tourists. And so, the group wanted to penetrate more in the business traveler segment, and as such the obvious choice was the economic heart of Brazil, São Paulo. The owners of the hotel were a Brazilian family that were losing money with the investment, and so made a management contract with Pestana in 2002 with a buy option, and after around 4 years, Pestana bought the hotel to its initial owners. To balance their presence between the Northeast and the Southeast of the

country, they opened in 2004 another hotel in a partnership mode, with the target of business travelers in Curitiba. In 2005 a pure rental agreement was made with a religious institution with the objective to explore a convent called “Convento do Carmo” in São Salvador (Bahia). Meanwhile in Bahia, they built a condo-hotel in the terrains that they already possessed near the hotel, which constitutes a new entry mode to the chain. Their last investment was in S.Luís do Maranhão in 2006, in a hotel with a client target mix, since it’s an attractive destination in touristic terms but it also has a business dynamic due to the mineral extraction sector. After that, the group stopped its expansion in Brazil and is now in a consolidation phase, buying the minority positions owned by its partners in the ventures, and making some disinvestments, selling this year the hotels in Natal and São Luís do Maranhão, and closing its unit in Angra dos Reis.

Figure 3: Pestana Timeline



Source: Author

5 – Findings & Discussion

In this section the answers to my sub research questions will be made, taking into account all the information retrieved from the interviews made to the managers at Pestana and the document's they provided

5.1.1 How do firms in the hotel sector manage turbulence in emerging countries?

While interviewing the managers at Pestana, it became clear that when investing they needed to have in mind the two aspects that would determine their return, the operational one (hotel activity) and the asset management one (real estate). Although theoretically Pestana could prefer a certain kind of entry mode for EM, *“in practical terms this does not happen”* said the group CDO. When deciding whether to buy an asset, only manage it or something in between, they take into consideration the real estate market of the place, the level of difficulty to acquire assets, the country's financial system and the opportunities available. First they chose the place that they want to be, and then, even if they prefer a certain method (e.g. management contract), it mostly depends *“on the opportunities that appear”* according to the CDO. Directly linked to my sub-research question, is that the macroeconomic instability of EM and also its higher risk of investment, were the most important factors that Pestana considered. The management team tried to mitigate them by investing in the right timing and by using partners.

Timing

Timing is an aspect that is crucial in EM, since these countries tend to have much more frequently and steeper economic cycles. This is not a concern for developed countries, since even in crisis the impact is smoother. An example of this was when they wanted to enter the Brazilian market, they studied, waited and then *“the opportunity appeared when the Real was devaluated, and one real passed from valuing one dollar to half a dollar”* said the CDO. Nevertheless, in EM, due to these up and downs of the economy, opportunities appear more often and unexpectedly but so does the inherent risk. The group understood that this was a continuous and frequent cycle of up/opportunities and down/risk, which constitutes a pattern that they don't identify in developed countries, as we can see by the example gave by the

CDO of the group stating that *“when we invested in Berlin we didn’t really care about Germany’s economic moment”*.

Partnerships

Another aspect was the implementation of partnerships, something made right from the beginning, because in the early years, Pestana Brazil was a partnership between Pestana Portugal (with 60% of the society) and two private equity firms (20% of the society for each). In numerous investments, further on described, Pestana entered with a partner in order to *“diversify the risk and get access to capital”*, said the Groups CEO. But also according to this manager, *“it was fundamental that Pestana had always the majority of the partnership, in order to have managing control”*. As the investments were maturing, and especially in the recent consolidation phase, Pestana bought all the minority positions that existed, and so, it is now full owner of all its investments in Brazil. Comparing with all its world operations, it is very rare to find these kinds of partnerships.

The case of Brazil

This pattern of timing and partnerships has been evident in Brazil, since the beginning, when they waited for the Real to devalue and entered in Rio right after that event. Later on, in Angra dos Reis and also in S. Luís do Maranhão, the prior owners of the hotel were losing money and so put it for sale and the company bought it. In Natal and Curitiba the stories are the same, since in both cases it was a local constructor that owned a terrain and started to build a hotel, but at a certain point realized that it needed a partner to enter with money to end the construction and that had the expertise of managing a hotel. Bahia is also a good example of these aspects, since this hotel had gone bankrupt and so was put for sale in an auction by its creditor, and Pestana, with a Portuguese real state partner, bought it. In São Paulo, Pestana made a management contract with the previous owners, which were with financial difficulties, and after a few years bought it. In the “Convento do Carmo” they became aware that the religious institution that owned the convent was making an agreement with the group Accor, but during the process, Accor didn’t fulfil all of its obligations, and so Pestana asked the institution if they could make the same deal with them, with the promise of complying with everything that was agreed on.

Political and economic instability

In Brazil the economic cycles go up and down unexpectedly and in a steep way, so either the economy is in euphoria or is in depression, there is no middle term, being the major concern of the group the fluctuation of the exchange rate. In political terms, Fernando Henrique Cardoso was the president at the time Pestana entered Brazil, and through his policies he was able to stabilize the economic situation, more properly its high inflation, which gave the necessary conditions for the group to enter. After, Lula da Silva came, and although businessman had concerns about his view of the country, he was actually successful in his 1st term and was able to pull a lot of people out of poverty and into the middle class. Nevertheless in his 2nd term, problems started to appear with the cooling of the economy, and some political scandals that started to appear. These problems continued in 2010 when Dilma Rousseff took charge, and in her 2nd term, it reached a breaking point where she faced an impeachment in 2015 and was destitute from President. So the last years have been characterized by a considerable social instability that, off course, have a big influence in the tourism sector and its future perspectives, and therefore has significantly contributed for the recent disinvestments that the group has made in the country.

Results

According with the managers interviewed the Group has successfully implemented this strategy, both in the operational terms perspective and in the asset management one. In operational terms it had great results in good economical years, and it didn't lose money in bad economical years. In the asset management view, if it wanted to sell now all its assets in Brazil, it would make a huge return to its initial investment, even in the difficult economic moment that Brazil is experiencing.

5.1.2 Discussion

As already mentioned, there is insufficient literature regarding the service sector, especially the hotel sector. The available literature recognizes the importance of going to an EM with a partner, as was done by Pestana, in order to reduce risk. Regarding economic cycles, articles don't recognize their importance when making the investment decision, as does the top management at Pestana, they only consider briefly some macroeconomic instability. Furthermore, scholars from the hotel sector recognize the importance of management

contracts in this industry, especially in EM, and the company studied although it didn't have a pre-defined model, it made a lot of these arrangements. Another aspect not considered by the articles is the perspective of making real state returns, since they only consider the operational perspective and not the asset management one. Concluding, articles specifically from the hotel sector consider some aspects that match the venture of Pestana in Brazil, but other that were very important in the studied internationalization process are not taken into account.

5.2.1 - How do firms in the hotel sector implement their strategy in EM?

Pestana faced numerous challenges in its Brazilian operations, for which it had to come up with solutions. These problems and the response from the company are stated below, alongside a table that summarizes them.

Table 2: Challenges faced in Brazil and the solutions encountered

Challenges	Solutions
Lack of Information	Hire local expert
Infrastructure problems	Partnerships with local authorities
Exchange rate risk	Part of the revenues in strong currency
Staff issues	Invest in training
Cultural distance	Daily learning
Taxes complexity	Big back office
Institutional web	Good relations with local authorities
Political and economical instability	Adapt investment portfolio

Source: Author

Lack of Information

One of the first issues that the managers at Pestana had to face when they entered in Brazil was the lack of information available and also its transparency. It is easy to understand that this is a big obstacle when getting to know a new country, especially when *“there isn't one Brazil, there are many “Brazils”*” said the CDO of the group, meaning that there is a wide

diversity within the country. To overpass this initial problem they found a consultant in São Paulo that due to his experience and diverse contacts, was able to provide this data and also his advices in a transparent way.

Infrastructure problems

They also encountered problems with the quality and availability of infrastructures, such as in airports and roads, among others, and tried to mitigate these problems. This was the case in Angra dos Reis, where the accessibilities to the hotel were bad, and so Pestana in a partnership with the local municipal built a proper one. In Natal, Pestana built a cliff protection in exchange for the local authorities to expand the power grid to the hotel location. And in Bahia when the firm was negotiating its contract to enter the “Convento do Carmo”, the local mayor promised to recover the city historical center since it was much deuterated. In other areas, as in airports, the company couldn’t do anything to make things better. In conclusion, *“these partnerships with the public sector have worked well, although often not at the agreed timing and manner”* said the CDO of the group.

Exchange rate risk

Due to historically long periods of high inflation, the Brazilian exchange rates with the rest of the world common currencies have been unstable, although in recent years this inflation has stabilized significantly. This is a concern that affects every business in Brazil, and the hotel sector is no exception since its assets can change value overnight without the possibility of doing anything. When Pestana entered Brazil it benefited from the devaluation of the real, but this is always a danger that they take into account. *“You can’t eliminate the problem, but you can try to minimize it”*, said the CDO, and so to protect its revenues, Pestana when negotiating with foreign entities, for example travel agencies, makes the deal with strong currencies as the dollar or the euro. Due also to this uncertainty, suppliers are paid in the moment they deliver the good, and so the group hotels need to have a big and very well managed working capital.

Staff issues

When the group entered the country, they encountered a workforce that had no culture or mentality about hospitality, since the tourism sector was underdeveloped and the presence of big chains was scarce. There were almost no professionals with training in this area, and the quality of the workers were very despair as the CFO of the group at that time, and now current CEO José Theotônio, commented “*you had excellent ones and others that were with a laissez-faire mentality*”. To overcome this problem, Pestana invested heavily in training programs that gave its staff the basics on the quality standards that the Group has, but also adapted its educational approach to the local environment. This glocalization approach is part of the group’s strategy, and by doing this they were able to assure professionalism behavior and at the same time allowing workers to have a local touch when dealing with the client, since the type of client also differs from region to region. You also had other issues with staff members as absenteeism due to fake illness, and lack of commitment to the job (if the employees were fired they received an amount of money from the national social security and there were numerous jobs opportunities available in the job market). Additionally, according to the CDO, Mr. José Roquette, “*labour law has become too protective of the employee and some employees take advantage of that*”. In what refers to the managers level, in the early years, all the expansion was made by its headquarters in Rio de Janeiro, mainly with Portuguese people, and from then on they formed local teams as the group expanded.

Cultural distance

In this matter, both managers told that the proximity between Portugal and Brazil is not that big. In the words of the Groups CDO, there is “*the illusion of proximity*”, which is also confirmed by the groups CEO, saying that “*they even seem to have a different language*”. The legal, fiscal and judicial system are completely different from the ones in Portugal and have as reference the ones in the US. So in the paper it is very well developed, but the problem is that in practical terms things don’t match, and a lot of inefficiencies do exist. This has required a very flexible management along the years to overpass these cultural barriers.

Taxes complexity

Taxation constitutes a big challenge for businesses in Brazil, as a consequence of its complexity, cost, ambiguity and differences between different regions. Although all the rules are written, it can lead to different interpretations, and since Brazil is a Federation, it changes

from state to state and you have three layers of government to comply too (Federal, State and Municipal). You have a lot of the so called “small taxes” that are everywhere, and according to the CEO, *“it’s even sometimes complicated to know to which institution should each one be paid to”*. While the CDO calls also the attention that *“alongside with their complexity, they have been increasing throughout the years”*. This obviously creates major difficulties in the work flow, and Pestana has in Brazil a huge back office team of experts just to deal with this matter. Furthermore, all the usual software used in other countries to track these expenses doesn’t work in Brazil, due to this tremendous complexity, and so they have to use a local one, that is less efficient and creates a challenge in trying to standardize all the group’s operations.

Institutional complexity

As already mentioned, Brazil has 3 different layers of government, each of them with its corresponding institutions. This often creates a complex institutional web, in which you don’t know who is in charge of what, and there is even disputes between public organism of who should you address in each matter. To overpass this complex system some companies use their networking to overpass these constraints, sometimes in a not so clear way, allowing some cases of corruption to occur. The group, due to its values and reputation, doesn’t take legal shortcuts, and at times this constitutes a competitive disadvantage. Nevertheless *“there has been a significant evolution in this field”*, according to the Group’s CEO, and Pestana works to maintain a good relationship with the local authorities, by complying with all their requirements and being in constant contact with them, in order to prevent future legal problems.

5.2.2 Discussion

Most of the challenges addressed in the literature review are a direct match with my findings, even due most articles address the manufacturing sector, it seems that the service sector has the same problems when internationalizing to EM. The only missing challenge was the exchange rate risk, which is curious since many companies face this problem in EM. Another important thing to note is that articles say that cultural distance is lower between countries that had a past history together, as is the case of Portugal and Brazil, which collides

completely with my findings. Something that was not so mentioned were the solutions to these problems, literature tends to focus too much on describing the problems and not looking for answers to solve them.

6- Conclusion, limitations and future research

This dissertation had the objective of studying how did a company from the service sector adapted to an emergent country. Throughout this work, it was obvious that there is a gap in the literature in what concerns the service sector, and especially the hotel sector, since the great majority of the articles available are about the manufacturing sector. So, with this work, I hope to make a contribution to diminish this gap.

In order to do so, a case study was conducted of a Portuguese company, Pestana, to study its internationalization into an EM, Brazil. And so, two managers of Pestana were interviewed with the purpose of answering to my research question: "How to internationalize to an emerging market in the hotel sector?". To answer this research question, two sub-research questions were made.

The first sub research question was "How do firms in the hotel sector manage turbulence in emerging countries?", and findings show that timing is essential since the return of the investments made in EM are dependent of the economic cycles in which they are made, and these cycles are more unpredictable, frequent and severe in EM. Findings also show that partnerships are important in the beginning of these ventures into EM, since it contributes with capital and to reduce the exposure to the inherent risk, but when the internationalization is in its consolidation phase these partnerships lose part of its initial importance. Another finding was that there are no pre-define models of entry and establishing its ventures, as the literature suggests, since it is most up to the opportunities that appear.

The second sub research question was "How do firms in the hotel sector implement their strategy in EM?", and findings show that companies face numerous challenges of various natures when going into EM, but there are several responses a company can make to eliminate or at least mitigate the problem. Also, some obstacles are a surprise for the company, as was the cultural distance between Portugal and Brazil, and so management should expect these unforeseen events. In conclusion, a company needs to have a constant flexibility, and learn on a daily basis, and if they so, they will have good chances of succeeding.

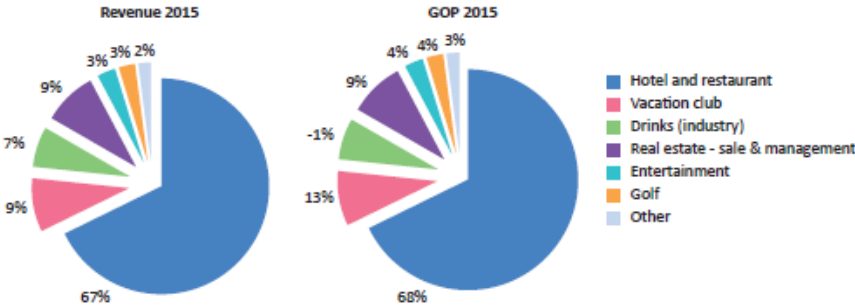
Nevertheless, this thesis has some limitations that should be noted. There was only one company and one country studied, so the findings can be influenced by specific characteristics of each, and not be that representative of the general experience of a service company internationalizing into an EM. We should also consider that only two managers were interviewed so maybe the findings can be influenced by their subjectivity. As mentioned, the literature available is insufficient and so it would have been positive to have more articles available, especially in the so called “A” journals.

Regarding recommendations for future research, it should be interesting to study more internationalization cases of other service companies into EM, to widen the literature available and diminishing the gap that currently exists in the literature. Also studying the internationalization of service firms into developed countries could contribute to this field, in order to compare the difficulties faced in different kinds of countries.

7 - Appendices

Exhibit A – Group’s revenue per area

Table 18 – Revenue and GOP 2015 by business area



Source: Pestana International Holdings S.A Annual Report 2015

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