SPANISH AND PORTUGUESE HOTEL NETWORKS IN BRAZIL
Evidence from the Northern Coast of Bahia

Lirandina GOMES
Universidade do Estado da Bahia, Salvador, Brazil

Joaquim RAMOS SILVA*
SOCIUS, School of Economics and Management, Universidade de Lisboa, Portugal
*Corresponding author:
jrsilva@iseg.utl.pt

Abstract

The paper analyzes the experience of Portuguese and Spanish hotel networks in Brazil, specifically on the Northern Coast of Bahia. We look at this process over the period when Brazil was opening up to international tourism corporations through promotion of national and regional policies. The research included surveying hotel representatives from investing countries. Clearly, there is a mighty convergence of interests between hotel groups, civil construction firms, and financial institutions, which appeals strongly to the political powers, particularly at a regional level. We also conclude that countries launching their tourism industry may learn from the experience of first comers with this crisscrossing research approach proving beneficial from various perspectives.

Keywords: Internationalization, regional policy, tourism location, tourist-residential complexes, business strategies, economic development, cultural links

JEL classification: M300, M310, L14

About the authors

Lirandina Gomes is assistant professor at the Universidade do Estado da Bahia (UNEB), Salvador, Brazil. She received her PhD in Geography at the Universidade Federal de Sergipe (Aracaju, Brazil). In 2012, she was postdoc at the research center SOCIUS (ISEG/UTL, Lisbon). She has published papers in several journals, and with the support of Fundação de Amparo da Pesquisa do Estado da Bahia (FAPESB) and the publishing house EDUNEB, the author of a book in print on tourism and sustainable development. Her main research interests are: tourism and hotel management; environment, sustainability, and territorial planning; local and regional development; globalization, investments, and territoriality.

Joaquim Ramos Silva is Associate Professor at the School of Economics and Management (ISEG), University of Lisbon (Technical University of Lisbon until July 2013) and a researcher at SOCIUS. He received his PhD in Economic Analysis and Policy at the École des Hautes Études en Sciences Sociales (Paris). Among many other publications, he is the author of four books, editor or co-editor of six, and has around fifty scholarly papers in refereed journals and chapters of collective books. His main research topics are related to international economics and business, more specifically: international trade and foreign direct investment analysis and policies, the process of firms' internationalization, globalization, regional integration and the economics of international organizations, the internationalization of the Portuguese economy and firms and particularly its relationship with Brazil.

1. Introduction

Since the 1970s, world tourism flows have increased significantly and tourism industry internationalization, in particular hotel networks, closely followed these dynamics. The rapid growth in the number of hotels associated with transnational corporations in developing countries is a good illustration of this. In the 1980s and 1990s, major hotel chains established subsidiaries, for example, in Latin America (Mexico, Costa Rica and Panama) and in the

Caribbean (Dominican Republic and Cuba), where they installed large resorts, combining the multiple supply of leisure and entertainment services including marinas, golf courses, SPAs, among others. Subsequently, in order to diversify their activities and to offset the seasonal effects of tourism, these international hotel networks began to serve not only tourism demand but also increasingly residential purposes, especially in places of relative accessibility, and not far from big cities and airports.

In their process of global expansion, hotel chains have generally opted to adopt contract agreements such as management and rent contracts, franchising and, in some cases, joint-ventures. Moreover, the kind of contract changed depending on the origin of the company and its strategy. Recourse to franchising has most commonly characterized US companies when compared to their European peers, and this practice has contributed to the supremacy of the former in the world hotel industry. In turn, the international expansion of European hotel chains favored participation in the ownership of foreign subsidiaries, mainly in developing countries. More recently, however, they also began turning to non-equity mechanisms to expand their internationalization processes. According to the World Tourism Organization (WTO, 2011), 42% of European hotel chains operate abroad through franchising, 33% by property, and 25% by management contracts. Hotel networks in the leisure segment make less recourse to franchising than those oriented to urban and business tourism.

In Brazil, US and European international hotel chains launched operations during the 1970s,[1] and were mainly located in the Southeast region in the cities of São Paulo and Rio de Janeiro, the biggest business centers. Later, they expanded to Curitiba, Belo Horizonte, Porto Alegre, and some cities in the inner regions of São Paulo state. At this stage, we are referring to such hotel chains as Hilton and Holiday Inn (São Paulo), Sheraton (Rio de Janeiro), and Le Méridien (Rio de Janeiro and Salvador). In the 1980s, they began opening establishments in other Brazilian regions, most notably in coastal cities and areas with projects clearly oriented towards leisure and tourism purposes. In the following decades (1990/2000), other international hotel networks entered into the sector, often resulting from a combination of interests with different origins such as institutional investor funds, construction companies, and real estate agents, which began to significantly finance and participate in the expansion process. Furthermore, the trend towards the construction of tourist-residential complexes became clear in the early 2000s (Assis, 2003).

Within this context, the state has increasingly acted as a catalyst of policies favorable to the expansion of tourism through territorial planning, marketing and promotion. Moreover, in the last decades of the 20th century, as argued in the next section, the idea that tourism could prove a road to prosperity in developing countries and regions gained ground in policy terms, provided that some comparative advantage existed. In Brazil, the essence of this policy was translated into the National Tourism Plan (PLANTUR – "Plano Nacional de Turismo", 1992). In the Northeast, the region with the lowest GDP per capita but with clear potential for tourism, the Northeast Tourist Development Program (PRODETUR/NE, launched in 1991, and with several subsequent revisions), was the framework under which the guidelines necessary to promoting the sector were designed. Hence, broadly speaking, there was a convergence between the hotel network internationalization process and the outwardly orientated national policies which attributed a significant role to the tourism industry sector.

In the 1990s, several US and European hotel chains, specialized in the "sun and beach" segment, began a more intense process of internationalization and deploying different strategies, including the Spanish groups Iberostar and Sol Meliá, the French Accor, and the

Notes

[1] The first establishment was opened by Hilton Hotels (1971), however, by the late 1970s, other US hotel networks had subsidiaries such as Intercontinental Hotels Group (which runs several brands, presently seven: Intercontinental Hotels & Resorts, Holiday Inn Hotels & Resorts, Crowne Plaza Hotels & Resorts, Holiday Inn Express, Holiday Indigo, Staybridge Suites and Candlewood Suites), and the Sheraton and Marriott International oriented to the urban market segment. With regard to European companies, the Accor group pioneered the leisure segment in Brazil with the 1971 inauguration of the Club Med in Itaparica (an island near to Salvador).

US Marriot, and this time not only investing in Central America and the Caribbean, but also in South America. By the turn of century, and more clearly throughout the early 2000s, international hotel networks concentrated their investments on the Northern Coast of Brazil, particularly in the states of Bahia, Ceará, Rio Grande do Norte and Pernambuco. This expansion was orientated towards the construction of tourist-residential complexes, and underlies new politico-institutional arrangements, strategic alliances between economic agents, increasing land valuations, and changes in the forms of urbanization. After the late 1990s, in this part of Brazil, such a process involved mainly Portuguese and Spanish hotel networks and, to a lesser extent, groups from other nationalities. Indeed, as underlined by Williams (2006), responding to increasingly complex demands of consumers (for example, due to their heterogeneity), international hotels and tourist resorts have to enter in less known and distant areas, and use new forms of exploration. The analysis of this internationalization process, with a focus on Spanish and Portuguese hotel groups and their expansion into the Northern Coast of Bahia is the main subject of the present paper. It is worth noting that Brazil's successful bidding for such sports events as the FIFA Football World Cup (2014) and the Rio de Janeiro Olympic Games (2016), although not particularly focused on this region, endow even more relevance on such issues insofar as the country contemporarily enters a new stage in "event tourism" on a world scale (Getz, 2008), and has a lot to learn from other experiences (Jordan et al., 2010).

This introduction is followed by an overview of the literature that explains the internationalization of hotel networks in light of tourism development where we distinguish between diverse theoretical contributions. Afterwards, we detail the main aspects of the methodology, the sample of corporations surveyed, and the research questions guiding our study. The subsequent section presents the institutional and economic framework of the internationalization of Spanish and Portuguese hotel networks to Brazil, and specifically to the Northern Coast of Bahia. In other section, a better knowledge on the sector under analysis is provided, and some new patterns in hotel network internationalization are highlighted. The main findings of the research and particularly the discussion of the survey results of the corporate executives that participated in our study are the core of the following section. Finally, the most relevant conclusions stemming from the previous analysis are summarized and some topics for future research are advanced.

2. Literature survey

Although we focus on the internationalization process of tourism sector hotel networks from the perspective of their business strategies in connection with development policies, this paper bridges a juncture in which we have to consider several other theoretical contributions. Let us first refer to economic geography. An important underpinning of policies in this sector was raised by Christaller (1963): with reference to the theory of central places,[2] this author argued that in contrast with manufacturing, for example, tourism activities tended to be located in the periphery. Thus, with the presence of comparative advantages for tourism in laggard and distant areas there was a large space to be explored within the objective of bringing about their development. This did not go without criticism, as underlined in the following passage:

> *The international tourism sector has indeed enjoyed prolonged, rapid growth in many areas of the South during the postwar period. However, there are also a number of common problems that have been linked to Third World tourism which call into question its usefulness as a component of development strategies. These include foreign domination and dependency, socioeconomic and spatial polarization, environmental*

[2] "Central places" is a relevant theory in terms of economic geography focusing on the spatial concentration of economic activities, notably foreign direct investments; for an application at the global level, see Cechella et al., 2012.

destruction, cultural alienation, and the loss of social control and identity among host communities. (Brohman, 1996, p. 48)

In spite of their interest, as referred to earlier, we do not concentrate on most of these issues within the context of this paper. Nevertheless, due to the increasing weight of tourist activities in economic structures, the process remained controversial and has attracted much attention from several perspectives. As a consequence tourism and hospitality developments became further scrutinized, and particularly at the planning stage, as regards among other aspects environmental and cultural protection (WTO, 1999), sustainability (Torres-Delgado and Palomeque, 2012, pp. 5-6), and corporate social responsibility (Holcomb et al, 2007). Due to the lack of resources and lesser experience, some of these issues are highly relevant for the case of developing countries. However, in a study on Thailand, Wattanakuljarus and Coxhead (2008) present a balanced analysis of the implementation of tourism policies from the income distribution perspective with the authors recognizing that certain layers of already favored social groups, like proprietors of land apt for tourism purposes, do benefit more but this development simultaneously causes deeper structural effects in the domestic economy – strengthened through backward and forward linkages –, than for example cases of the “Dutch disease” type.

Another direction of this research relates to the hotel network internationalization strategies, particularly as far as entry modes are concerned. As pointed out in a seminal paper by Contractor and Kundu (1998), there is a variety of entry modes in the field, and these companies have commonly internationalized through direct investment (mergers & acquisitions and greenfield investments), but also deploy mechanisms such as management contracts, franchising, and other contract agreements. In spite of these different forms of internationalization, the control of hotel networks over their subsidiaries is not in general questioned in so far as they have intangible strategic assets such as brands and worldwide booking systems. Indeed, more recently, the biggest tourist groups, particularly hotel chains, privileged recourse to mechanisms that do not involve participation in the capital of their partners in host countries with this strategy stemming from certain particular factors as underlined by CEPAL (2008, p. 154):

- The main competitive advantages of tourist corporations, particularly in the hotel industry, are supported by certain intangible assets such as global brand recognition, access to global booking systems, and business know-how.
- The majority of these intangible assets may be separated from tangible assets such as buildings, equipment and others, and protected through contracts and other legal mechanisms. This facilitates the reaching of agreements over management, rent, and franchising without the need for actually owning real assets abroad.

Another important characteristic underlying our specific case must be highlighted: the linguistic and cultural proximity that frame the investments of Spanish and Portuguese hotel networks in Brazil. Indeed, these dimensions, particularly language, are often neglected in the research (Marchan *et al.*, 1997). In the case of Portuguese hotel groups, according to a study by Breda (2008), their internationalization began in the 1990s, and at this stage the main destinations of their investments were member states of CPLP – the Community of Portuguese-speaking Countries, such as Brazil or African countries, including Angola, Mozambique, Cape Verde, and São Tomé and Príncipe. Moreover, surveys conducted by Breda (2010) of the sector’s corporate representatives demonstrated that the main motives behind the decision to invest abroad were linked to internal company issues, and including prior knowledge on these markets, the need for growth, leveraging existing firm experience and relational aspects such as accompanying their clients. Dimensions external to the firm also need taking into account in so far as the domestic market was too small to guarantee their sustained growth alongside the great potential for tourist destination growth in countries with linguistic and cultural ties, and where Brazil represents the best example.[3] It is important to note that these tourist sector investments followed a substantial increase in the economic relationships ongoing between Portugal and Brazil as from the early 1990s (Silva, 2002), and more intensely at the level of foreign direct investment (FDI) in 1996-2001.[4] A similar broad process of investment occurred between Spanish firms and Latin American countries sharing the same language (Toral, 2006). Although Spain has a different language from the host country, a study led by Costa (2005, p. 263), applying the index created by Kogut and Singh (1988), on the basis of data provided by Hofstede (1980) regarding proximity/distance among national cultures, showed that Spain reports a closer cultural proximity to Brazil than even Portugal. We would note that, as argued by some authors (Bergeijk, 1996; Silva, 2001), under the effects of globalization driving the freer circulation of goods, services and factors, the linguistic and/or cultural affinity among nations gains greater influence in the direction of trade and investment flows. Of course, this does not mean that there are no risks at all of the "paradox of psychic distance" in such environments.[5]

3. The methodological approach, the sample and research questions

As a sector in which Spanish and Portuguese economies display comparative advantages, the postwar expansion of tourism gradually stimulated the emergence of Iberian hotel groups reasonably sized and with some competitive capacity on a global scale, regardless of the obvious asymmetries between both economies and tourist industries. Indeed, multinational companies from small countries, and this is particularly the case of Portugal, tend to be successful in those few niches where they attain competitive advantages (Oladottir *et al.*, 2012). Taking the previous consideration into account, this paper is part of a research project focusing on the internationalization Spanish and Portuguese hotel networks on the Northern Coast of Bahia (Gomes, 2011), without neglecting the broader context of the Northeast Region and of Brazil as a whole, emphasizing analysis of FDI and other entry modes to the internationalization strategies of firms, and their impact on regional development.

Several sources and methods were incorporated into our research: bibliographic references, documents and direct enquiries to the corporate executives actually involved in the process even if their investments came at different stages as explained later. All three sources prove relevant, however, within the scope of studying the concrete dimensions of the interface between investing firms and their local "shareholders", the direct enquiries to the corporations' executives played a key role in this research. As in many other works on the internationalization of corporations, qualitative research is quite necessary to the improvement of our knowledge of the process. Within this context, the case study proves a valuable methodology in its own right, and defined as a "research strategy that examines, through the use of a variety of data sources, a phenomenon in its naturalistic context, with the purpose of 'confronting' theory with the empirical world" (Piekkari *et al.*, 2009, p. 569). The interviews, as previously underlined, reveal aspects of the direct experience of participants that cannot otherwise be obtained (Creswell, 2007).

In pursuit of our research objectives, we visited the head offices of hotel corporations with interests on the Northern Coast of Bahia in Portugal (Lisbon and Algarve), and Spain (Palma

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[3] For a theoretical foundation of this relationship from the point of view of a common language (easier communication, creation of linguistically segmented markets, etc.), and its relevance within the context of globalization, see Silva, 2001.

[4] For a more detailed view of this bilateral process, see Silva, 2005. Differently to the previous waves of foreign direct investment in Brazil, with the privatization program helping in the late 1990s, the process was characterized by a large penetration of foreign capital in the services and infrastructure sectors (Silva and Fernandes, 2003), following a more general pattern (UNCTAD, 2004).

[5] According to this paradox (O'Grady and Lane, 1996), in supposedly similar linguistic and cultural foreign environments, firms tend to prescind from careful analysis of the market reality (often actually quite different!), creating the conditions for a high rate of failure, particularly in the initial steps of their entry.

de Mallorca) as well as their subsidiaries in Brazil, where the interviews with representatives took place. Four Portuguese groups (Pestana, Vila Galé, Tivoli Hotels & Resorts, and Reta Atlântico Brasil) and four Spanish groups (Iberostar, Fiesta, Singlehome and Invisa International) were directly surveyed on different angles of their Brazilian experience. The questionnaires were focused on the internationalization strategies of firms, the factors driving their decisions, their integration into a new environmental, economic and socio-cultural landscape, the obstacles and supports found, and the advantages and disadvantages of investing in Brazil.

Although the number of our interviewees was not high, we gained valuable insights into the Iberian hotel network internationalization process and enabling the clarification of several questions related to tourism developments in Brazil and its Northeast Coast, most notably their gradual association with residential resorts to amplify the business benefits but also enabling the identification of their predominant entry modes in Brazil as well as answering questions such as: Did these entry modes follow or differ from the global pattern of international hotel chains? How is their internationalization financed? Which are the main support institutions in Brazil? How do they seek to optimize their presence and results in the host country? Our research establishes the foundations for more solid and accurate responses to these and other related issues, more specifically as far as concerns the Northern Coast of Bahia, while this study might also lead not only to greater knowledge on the process, but also to improved policies and better practices.

4. The institutional and economic background of tourism expansion in Brazil and along the Northern Coast of Bahia

In the 2000s, a conjunction of factors proved determinant to the internationalization of Iberian hotel networks in Brazil. First, the European market had become saturated, compromising the need for company growth. Second, the very favorable conditions, in relation to previous decades, that prevailed in the Brazilian economy with the consolidation of macroeconomic stability brought about by the Plano Real (1994), characterized by, among other aspects, the control of inflation, a trend towards a reduction in interest rates, and less currency volatility (implying less uncertainty in the international operations). Third, and more structurally, it is important to recall that, in Brazil generally, and in the areas under analysis specifically, there were major properties of land yet to be explored and available for purchase at rather competitive prices.

Within the context just described, the Brazilian Northeast Coastline, and particularly, the Northern Coast of Bahia (see Figure 1; the state of Bahia is in the bottom right), also designated “Costa dos Coqueiros”,[6] became a preferential region for investment, notably, by Spanish and Portuguese hotel networks and real estate groups. We would highlight that, according to Holanda and Magalhães (2012), across the Northeast Region, the state of Bahia concentrates most of the FDI inflows, and its Northern coast hosts some of Brazil’s leading tourist destinations, such as Praia do Forte.

[6] This coast is 192 km in length, considering the distance from the Northern limit of the city of Salvador, capital of Bahia state, to the border with the state of Sergipe - SE, and as a part of Bahia is integrated into the Northeast Region of Brazil. “Costa dos Coqueiros” contains landscapes of great natural beauty, and is also a sensitive region from the ecological point of view. Indeed, it has large and diversified eco-systems in a good state of conservation, like lagoons, river estuaries, mangrove forests, dunes, wet areas, animal and vegetal endemic species (for example, there are turtle reproduction sites).

Figure 1 – The Northern Coast of Bahia – "Costa dos Coqueiros"

Source: Ministério do Desenvolvimento Agrário, IBGE

Taking into account the policies implemented under the framework of PLANTUR, we must emphasize how the expansion of tourism in Brazil really only became viable due to a substantial increase in public investment led by several federal financial institutions aiming to endow regions with basic and tourist infrastructures. For example, as observed in Table 1, these institutions financed tourism related investments with only R$ 1,094 million in 2003, but which rose to R$ 6,678 million in 2010, with Banco do Brasil and Caixa Econômica Federal the most significant sources of financing.[7]

Table 1 - Outlays of federal financial institutions on tourist sector projects in Brazil, 2003-2010

(thousand R$)

	2003	2004	2005	2006	2007	2008	2009	2010
Banco do Brasil	738,504	693,590	1,081,238	1,155,857	1,420,880	1,776,142	2,326,099	2,327,182
Caixa Econômica Federal	244,399	403,045	680,821	817,498	986,630	1,456,136	2,977,942	3,913,741
BNDES	57,259	43,166	91,353	68,497	66,644	62,351	82,427	132,603
Banco do Nordeste	48,416	42,457	109,377	122,924	79,400	243,076	140,231	242,715
Banco da Amazônia	5,746	14,145	15,985	5,131	16,434	53,809	57,704	62,369
Total	1,094,324	1,196,353	1,978,774	2,169,907	2,569,988	3,591,514	5,584,403	6,678,610

Source: MTUR, 2011

This public spending took on particular importance to attracting foreign capital. In the case of the Northeast, the strengthening of links with Portugal and Spain also resulted from actions deliberately carried out by the private and public sectors designed to promote the region, as clearly underlined in the following passage:

> *After the second semester of 2004, entrepreneurs and public managers of the Northeast united and led a campaign to attract foreign investors through the exhibition of the potential of Brazilian Northeast both as an auspicious destination and a good*

[7] In recent years, the exchange rate between the Brazilian Real and the USD has been highly variable. Thus, whenever the amounts were not provided by Brazilian sources in US dollars, we left them in R$. For a possible conversion: in the complete year of 2011 (the average bilateral exchange rate at the beginning and at the end of 2011), one USD was worth R$ 1.771, and conversely one Real 0.565 in USD terms.

return for real estate investments. Initially, the focus was on the second residence or residential tourism market, a dimension that had proved to be promising in Europe, notably on the Spanish and Portuguese coasts. These actions basically involved participation in international real estate fairs in Lisbon, Madrid, Barcelona, and Paris. Within two years the extremely high return on these initiatives led to the founding of the Associação para o Desenvolvimento Imobiliário e do Turismo no Nordeste (ADIT: Association for the Development of Real Estate and Tourism in the Northeast). Presently, the Brazilian Northeast is one of the places with the greatest flows of foreign investment into the real estate and tourism sector in South America, including hosting the largest event in this sector in Brazil, Nordeste Invest (ADIT, 2010).

In order to leverage synergies, the project backers worked in an organized way and in coordination with several institutions set up to develop tourist and real estate businesses in Brazil. Among these business and managerial organizations, the following entities played keys roles: ADIT – Brasil/NE, and the two chambers of commerce, the CPCB ("Câmara Portuguesa de Comércio no Brasil") and the COECB ("Câmara Oficial Espanhola de Comércio no Brasil"). The tourist sector thus became a priority to the state's government, emerging as a key vector for regional economic development in their respective political programs.[8] As underlined by Hsu *et al.* (2012, pp. 478-479) for China's hospitality development, these political ties are "critical resources" in countries where the government has a considerable power, and are helpful in dealing with bureaucracy, reducing uncertainty, and improving the legitimacy of firms, although they may also raise other problems as referred to below.

In the case of Portuguese firms, we would also draw attention to the gap between the upsurge in their Brazilian investments in the second half of the 1990s across the most diverse areas (from infrastructures to telecommunications, banking, retailing and other services; Silva *et al.*, 2003),[9] while those in the hotel sector only gained momentum after 1999, i.e., with the change in the exchange rate policy (in January, 1999) that led the Brazilian Real into a period of weakness and strong depreciation that lasted until 2003 (Silva, 2007, p. 92). This delay was likely due to the scarce financial resources available for Portuguese hotel networks that, under these new circumstances, seized the opportunity in the years between 1999 and 2003. In a study undertaken by ICEP (2005, p. 22), in late 2004, 61 firms of Portuguese origin were found in the hotel sector (10.4% of total Portuguese firms in Brazil).

From the general theoretical point of view, either for Portugal or Spain, we would note the importance of this search for deeper relationships with hotel companies of these origins by their Brazilian counterparts in conjunction with some underlying rationality. Indeed, as highlighted by Lin (2009, p. 37), in the catching up process, countries that lag behind may learn more from those that are ahead, but where the distance is not so greatly accentuated, and this certainly also applies to the industry under analysis.

It is worth noting that the expansion of tourism has evolved very heterogeneously throughout all the Northeast Coast due to factors deriving from different economic, administrative and politico-institutional conditions. In particular, the politico-institutional environment associated with the mobilization of private sector associations, and the PRODETUR/NE investments proved decisive in generating the present stage of tourism development in the Brazilian Northeast. The states of Bahia, Ceará, Pernambuco and Rio Grande do Norte were strongly leveraged by the PRODETUR/NE investments. These states host the most important airport infrastructures so inherently necessary to the expansion of the

[8] In addition, as referred to in Silva (2012), during the last decades, the attraction of FDI became a major regional policy instrument.

[9] In contrast with the hotel sector, some of the biggest investments of this period, such as those by the two main Portuguese distribution groups, Jerónimo Martins and SONAE Distribuição, had no sustained sequence, and a few years later the parent companies disinvested.

tourism and residential leisure resorts (Forsyth, 2006). The Northeastern states, particularly Bahia and Ceará, where there is the greatest cluster of Portuguese hotel network investments, is also where the CPCB located its main headquarters throughout most of the 2000s (Gomes, 2011). The CPCB has proven very active in promoting this kind of transaction between both countries and through initiatives such as marketing and advising on bilateral trade, and providing incentives nurturing the development of business and economic ties between Portugal and Brazil; organizing meetings, seminars, conferences, rounds of tourist and real estate business fairs, entrepreneurial missions aiming not only to deepen reciprocal economic relations but also tourist, cultural, technological, and other forms of exchange.

5. New patterns of hotel networks internationalization

The internationalization of hotel corporations not only increased significantly after the 1990s but also deepened and diversified its forms. This is particularly true as far as concerns the distinction referred to earlier between tangible and intangible assets. Many hotels in different regions around the world operate under the name of a brand ("branding"), but only a small fraction of the properties belongs to the transnational corporation owning the brand; in some cases they rent properties from local hotel owners through an on average 20-year management contract subject to automatic renewal. Therefore, local investors without experience in hotel management own the properties, and construct the establishments that are then managed by the transnational firm. On the Northern Coast of Bahia, in the early 2000s, one case illustrates this reality well, the financing of the *Costa do Sauípe Hotel Complex* by PREVI, a pension fund belonging to Banco do Brasil employees, and Odebrecht, a construction group and owner of the real estate plot. After construction, the establishment was rented out for a 20-year period by three international hotel chains: *Sofitel-Accor, Marriott, Superclubs Breezers*. Later, in 2008/2009, these groups broke the contract with PREVI, which has in the following years managed the complex, while simultaneously attempting to attract buyers.

This change in the focus of analysis on how the internationalization of firms takes place is important not only for the case of hotel networks but also in theoretical terms. Indeed, much of the international business literature on the subject was basically concentrated on the two most important forms of FDI: greenfield investments, and mergers & acquisitions. The passage to a process where intangible assets are clearly separated from tangible assets, with usage of the former requiring much less FDI as such and even potentially no FDI as conceptually defined by international organizations such as the IMF and OECD (Head, 2007, pp. 4-5), but under contracts imposing close monitoring (from the quality point of view, for example) and other forms of supervision, generally requiring sophisticated and demanding management.[10] The entry modes approach, accepting a much broader range of internationalization strategies (Root, 1998), provides a more comprehensive understanding of the various dimensions to this process. This is highly relevant in the case of hotel networks, where display no single, standard form (Contractor and Kundu, 1998, p. 353). This does not mean that most of the FDI literature is unimportant to the study of hotel corporations because these changes also correspond to natural evolutions in the paths leading to internationalization (Dunning, 1995; Dunning and Lundan, 2008).

Pursuing our analysis of the forms of internationalization, we would stress how, within the context of rising levels of competition, hotel networks have adopted different strategies with a view to securing their positions in national and international markets. Among these strategies, we must consider those characterized by Buades (2006), as the predominant forms of association of tourist transnational corporations:

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[10] As noted by Grant (2008), for licensing arrangements "key considerations are the capabilities and reliability of the local licensee. This is particularly important in licensing brand names, where the licenser must carefully protect the brand's reputation" (p. 375).

a) *vertical integration*, when the company absorbs firms that cover all areas of the tourism business sector;
b) *horizontal integration*, when several firms in the same sector merge or form associations to gain scale and power in the market;
c) *conglomerates,* which derive from the association of firms from different sectors in order to optimize their financial capacity and to reap benefits from that process.

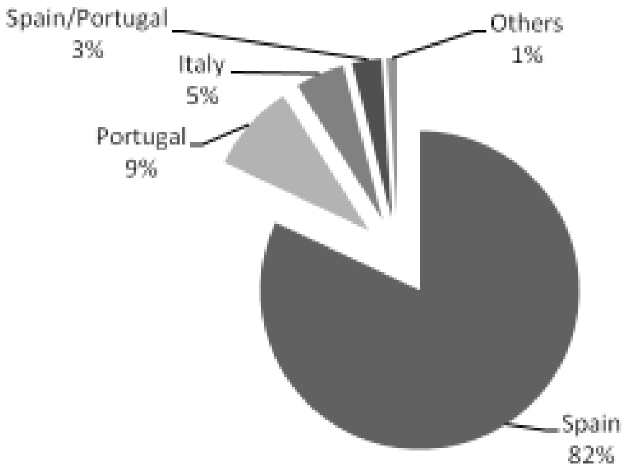
The integration of hotels and large real estate projects, civil construction enterprises, and financial institutions greatly reinforced the tourist industry. The latter institutions ended up crucial to project viability. This new model that brought together real estate capital, financial institutions and hotel networks would tend to promote greater synergies between different national economies in comparison with the "all inclusive" model,[11] which reflects the characteristics of an enclave. Strategic alliances between corporations are dominant in the tourist business sector (especially in the context of the trinity: hotel networks, real estate sector, and investor funds – financial institutions) insofar as they drive the emergence of new investment mechanisms and management by different actors seeking to enlarge their scale. A good example of this is the development of the Real Estate Investment Trusts (REITs), which underlie different forms of investment on the basis of real estate investment funds associated with the capital market and the stock exchange. In a study on their comparative risk-return, Kim and Jang (2012) show the increasing importance of REITs for the financing of the hotel corporations' projects since the early 2000s. Additionally, as their market power increases, these corporations may more easily benefit from public concessions like tax breaks (Buades, 2006). Such a strategy has been successful in the hotel and residential sectors and represents one of the most important means through which tourist transnational corporations finance their projects in Europe, the Caribbean, and Brazil.

6. Spanish and Portuguese hotel groups on the Northern Coast of Bahia: results and discussion

A brief presentation is necessary to outline the dimension of hotel groups and the associated real estate sector on the Northern Coast of Bahia and their prospects in the short/medium term. Taking the year of 2010 as our reference, 23 hotel and real estate establishments (including luxury resorts and residential condominiums) were on course at several different stages: five in operation, ten under licensing, and eight in the project planning stage. According to SETUR (2011), the total amount of private investments in the sector, already concluded or still in construction in "Costa dos Coqueiros" was approximately US$ 399 million, corresponding to 6,321 UHs (rooms) during the last twenty years. The SETUR (2011) prediction through to the end of 2014 was that US$ 462.676 million would be invested in 6,328 UHs (rooms), i.e., a total investment of US$ 861 million, representing 12,649 UHs (rooms). These investments are destined to the construction of hotel establishments with a real estate component, constituting tourist residential complexes; however, in 78% of the establishments that are still in the licensing or project stages, the residential unit numbers are well above the hotel units. Figure 2 portrays the breakdown of foreign participation in these investments, even if a significant part is only planned; Spain and Portugal are by far the most important sources of investments, Italy represents 5% and others (Belgium and France) with only 1%.

[11] "All inclusive" is a model of stay in hotels and resorts that includes in the tourist package not only accommodation but also food, drinks, and eventually other services except for SPA treatments.

Figure 2: Actual and planned international investments up to 2014 in the tourist and hotel sector - Northern Coast of Bahia



Source: SETUR, 2011

The Spanish Iberostar and Fiesta hotel groups already operate in the region, since 2005 and 2010 respectively, whilst all others are still in the licensing and planning stages, as is the case with Trusam Bensal do Brasil, Sol Meliá, Singlehome, Prima Inova, and Invisa International, among others. With regard to the Portuguese groups, Vila Galé SA and Tivoli Hotels & Resorts began operations in the coastal strip of the municipalities of Camaçari and Mata de São João in 2005 and 2008 respectively. The Pestana group is another major actor in the Portuguese camp, however, targeting the urban segment of the sector and thus implementing a different strategy to the previous groups. Nevertheless, in 2008/09, the group also managed the hotels ("pousadas") of the "Costa do Sauípe" complex, a case referred to in the previous section, but later transferred this management to the owner (PREVI). In addition, strengthening its urban orientation (for example, the group already managed since 2005 the Hotel-Pousada "Convento do Carmo", in the historical quarter of Salvador), in 2010, Pestana inaugurated, through greenfield investment, the first tourist-residential complex in the city of Salvador, the *Pestana Bahia Lodge Residence,* more precisely located in the central Rio Vermelho neighborhood.

Another Portuguese group surveyed was Reta Atlântico – Brasil. This represents an interesting case as, almost unknown in Portugal under this designation, the group's history dates back to 1999 and resulting from the union and common interests and strategies of several civil construction firms: Rufinos, Edipril, Tecniger, and Instalotécnica. In 2007, the group concluded the first phase of the establishment *Reserva Imbassaí* on the Northern Coast of Bahia, featuring a hotel with 350 "all inclusive" apartments, three residential condominiums (177 units), a shopping center, and a nautical center. The second phase includes the construction of an ecological resort with 240 apartments, residential condominiums (160 units), and another shopping center. For the third phase, the construction of more residential condominiums is planned, a "condo-hotel", a golf course, and an equestrian center.[12] After the construction of the first phase, Reserva Imbassaí was sold by Reta Atlântico to the Spanish group Fiesta Hotel & Resorts, which has managed the complex since 2008.

During their expansion in Brazil, Portuguese hotel networks have thus adopted different strategies aimed at reinforcing their market positions. The entry modes mostly deployed by these groups in the first stage were management contracts, the management of assets, and

[12] Information sourced from www.institutoimbassai.org.br

acquisitions. The hotel groups Pestana, Vila Galé, and Tivoli, began their entry into Brazil through acquisitions and management contracts; however, after the mid-point of the 2000s, there are cases of greenfield investments, a trend initiated by Vila Galé and Reta Atlântico Brasil on the Northern Coast of Bahia. We may correspondingly assert that management contracts facilitated the internationalization of the Portuguese hotel networks. Examples of this are the management contracts signed between the groups Pestana (2000), Vila Galé (2005), and Tivoli (2008) and Brazilian firms for the management of hotels in the states of Bahia, Pernambuco, Rio de Janeiro, and São Paulo (Gomes, 2011). Furthermore, with the deepening of their experience in Brazil, these groups became more committed with a greater involvement of their financial resources and, in some cases, acquisitions, and expanding the tourist – residential resorts through new investments. Vila Galé is illustrative of this general evolution. The group was already present through acquisitions made in the Northeast (Fortaleza/Ceará) in the beginning of the 2000s, and inaugurated in 2005, the Hotel Vila Galé Marés (Guarajuba/Northern Coast of Bahia), later Vila Galé initiated administration under management contracts for two hotels belonging to FUNCEF (the Caixa Econômica Federal employee pension fund), one in the state of Pernambuco, the Eco Resort*,* in Cabo de Santo Agostinho, and another in the state of Rio de Janeiro, the Eco Resort*,* in Angra dos Reis. In 2010, after establishing a partnership with the Brazilian civil construction firm Diagonal, the group inaugurated the Vila Galé Cumbuco in Ceará, which has 465 residential units distributed throughout an "all inclusive" resort, with villas and two blocks of apartments.

The corporation representatives responding to our survey detailed the main motives behind their internationalization to Brazil as the potential for market growth, and the need to reduce risk through market diversification. They considered the Portuguese hotel and real estate market saturated, and heading towards exhaustion and beyond how the country has been tremendously affected by the effects of the 2008 international financial and economic crisis and the subsequent European sovereign debt crisis that began in 2010. They recognize the relevance of the supports received from Portuguese institutions such as AICEP,[13] the Embassy and Consulates to their Brazilian projects as well as the significant role played by the CPCB in overcoming obstacles on the road to installation, and refer to employer associations and other sector groups as useful contributors to their objectives. Independent of all these supports, they emphasize that, in their expansion, the strategic alliances established between the tourist, hotel, and real estate sectors and the institutional investors were decisive for the construction of new projects known as tourist residential complexes mainly orientated towards second residence purposes. Acknowledging the externalities arising from public investments, they also refer to the benefits of tax breaks on urban property assets (IPTU – "Imposto Patrimonial Territorial Urbano"), and on services (ISS – "Imposto sobre Serviços") for a period of ten years. With regard to the disadvantages of investing in Brazil, the representatives point to the negative impacts of red tape that cause delays to licensing processes, particularly as far as environmental bodies are concerned, the operational costs due to labor charges, and the complexity of the taxation system. Furthermore, they draw attention to the fact that overly long licensing processes may lead to significant financial losses for their firms.

In accordance with the survey responses, the internationalization of Spanish hotel networks to Brazil was motivated by the growth potential in the Brazilian market, the need for market diversification and resource-seeking. Similar to the Portuguese case, the Spanish tourist market displays signs of exhaustion, and was significantly affected by the 2008 world

[13] Agency for Investment and External Trade of Portugal since 2007, formerly ICEP.

economic crisis, and the subsequent European sovereign debt crisis. Spanish entrepreneurs consider red tape and their lack of knowledge on the market as the main hurdles to their internationalization to Brazil. They refer to the lack of information about procedures, norms, and incentives, as well as the cultural differences. They also maintained close interaction with the COECB, Embassy and Consulates, and with Brazilian institutions like employer associations and development banks. However, from the Spanish corporate perspective, the most important supports came from information about how to deal with bureaucratic procedures in Brazil, and meetings with local entrepreneurs. They would also like information on incentives, financial supports, environmental legislation and consulting to be clearer and more precise.

We now proceed to compare the previous findings with the trends characterizing the internationalization of hotel networks over the last two decades. As regards the main forms of firm internationalization, Table 2 summarizes the results of our research. As far as entry modes are concerned, the Spanish groups opted mainly for greenfield investments. The Portuguese hotel groups have been more nuanced from this perspective and undertook acquisitions, management contracts and also more recently greenfield investments. Their forms of internationalization have thus been adapted to an evolving situation, possibly due to internal changes in the firms involved, such as better market knowledge and better business prospects. The difference between Spanish and Portuguese hotel groups seems to conform to the following conclusion of Contractor and Kundu (1998, p. 353): “Higher equity and control modes are preferred by companies with longer international experience and geographical reach”. As far as cultural distance is concerned we may adopt the view of Chang *et al.* (2012, p. 1160) that “scholars are still unable to depict a clear picture of the relationship of MNEs’ entry mode preference with cultural distance”. In contrasting again our two cases, however, it may be asserted that linguistic proximity (Portugal) leads to a more “collaborative mode of entry”.

Table 2 – Forms of internationalization according to hotel and real estate network nationality*

Forms/Nationality	Spanish	Portuguese	Others
Greenfield investment	Iberostar, Sol Meliá, Fiesta Hotels & Resorts, Invisa International Hotels, Ed. Prima, Singlehome SA, Trusam Bensal do Brasil.	Pestana (2007) Vila Galé (2005), Tivoli Hotels & Resorts (2008), Reta Atlântico/Brasil.	--------------
Acquisitions	Fiesta Hotels & Resorts (2008), Singlehome SA, Trusam Bensal do Brasil.	Pestana, Vila Galé, Tivoli Hotels & Resorts.	----------------
Contracts (management, rent, and others)	Iberostar	Pestana, Vila Galé, Tivoli Hotels & Resorts.	----------------
Unknown	------------------	--------------------	Italy, France and Belgium

* Reference to the year means the adoption of a different form of internationalization to that initially taken. Source: Gomes (2011)

Other conclusions extracted from the enquiries to corporations’ representatives show that, despite some differences, Spanish and Portuguese hotel networks converge in their alliances with the construction and real estate sectors to build large tourist-residential resorts, i.e., with a significant component of second residences, for leisure, sport and similar purposes. Also with slight nuances, both groups of hotel networks have been supported in their endeavors by public agencies from their countries of origin, and often replicate practices current in their homeland. With respect to the behavior of governments, they especially appreciate tax breaks, and other economic incentives.

7. Concluding remarks and agenda for further research

Taking into account the issues that have been tackled in this study, it becomes clear that conditions were highly favorable to the internationalization of Spanish and Portuguese hotel networks to Brazil as from the late 1990s. On the one hand, the saturation of the European market, also meaning increased competition internally, and the need to diversify to reduce the risks of exposure to a limited number of markets, impelled these companies into outward looking orientations. The international financial and economic crisis, beginning in 2007 and followed by the European sovereign debt crisis, gave even more impetus to taking such a path. On the other hand, as described above, specific factors related to the destination country were additionally very important, particularly the great growth potential of the Brazilian economy in keeping with the macroeconomic stability brought about by the Plano Real (1994), and later in association with the brighter prospects experienced by many parts of the developing world in the first decade of the 21st century (including a significant decline in inequality; Lustig *et al.*, 2013).

Also, it was emphasized that the installation of these hotel networks in Brazil results from actions jointly carried out by the government and its institutions (at the municipal, state and federal levels) and the private sector through diverse organizations, in particular, implementing the guidelines of PRODETUR/NE and more specifically those of Bahia concerning the strategy established for the tourist sector. Interestingly, if we consider the “inclusive” characteristic of socio-political developments in Brazil during the last decades (Acemoglu and Robinson, 2012, pp. 455-460), and in light of the mass movement that shook the main Brazilian cities in June-July 2013, accompanying the games of the Football Confederations Cup, this alliance between public entities and private interests will likely be more closely scrutinized in the future, i.e., more transparency and effective social benefits will be required in the tourism and related sectors.

In their internationalization to Brazil, among other factors, the Iberian hotel groups, based on their own experiences and track records, benefited from the comparative advantages of the host economy, such as relatively low labor costs, and competitive land prices (it is a country relatively abundant in land and with a long maritime coast). Moreover, this competitive pricing of land suitable for transformation from rural soil to urban soil with corresponding new uses (housing, services, infrastructures), made the investments much more profitable to their owners. It is therefore not surprising that, in their projects, they increasingly opted for residential-tourism resorts instead of exclusively tourism dedicated units. It must be added that the initial focus was on the European market (there was an early expectation that 50% of clients would be of this geographical origin), however, with the deepening international crisis, the current buyers are, in their majority, Brazilians. Notwithstanding this, the construction of high standard mega tourist residential establishments definitively puts the region onto the world market. This process is characterized by new economic, political and social relationships, under the aegis of those groups deriving the greater benefits from the changes prevailing. As we have just pointed out for the case of transparency, it is, however, a dynamic context, and conflicts arise, for example, from the environmental and sustainability point of view, implying new arrangements between all the parties involved.

In this paper, we have dealt with the internationalization of Spanish and Portuguese hotel networks towards Brazil, its Northeast Region, and the Northern Coast of Bahia in particular, its main forms and institutional background. Certainly, many important and related issues were not deepened and require further work; we refer here to three such examples. Firstly, there are the environmental problems raised by the installation of international hotel corporations on the Northern Coast of Bahia, a sensitive region from the ecological point of view, and this dimension has a doubly large impact on the region and on the firms’ projects. How to create a sustainable tourism cycle is thus one of the most relevant topics to be explored. Secondly, it is important to ascertain to what extent the alliance between hotel networks, civil construction groups, real estate agencies, and institutional investors does not run the risk of driving the conditions favorable to the development of a serious “real estate bubble” (as happened, for instance, in Spain), with its devastating effects and hence questioning just which precautionary measures might prevent such a negative outcome? Thirdly, we need to identify how the projects we analyzed are not reproducing the mistakes that characterized the hyper-specialization in tourism of some coastal regions of Spain and

Portugal, and leading to their later disqualification, and thereby effectively and consistently nurturing the terms and conditions for the sustainable development of tourism based on a long term perspective in harmony with local communities and economic structures. We believe the present study is a first step on the way to clarifying these issues.

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