

# Chapter 1


## Inward Internationalization: A Case Study From the Hotel Industry

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### EXECUTIVE SUMMARY

*This chapter analyzes the internationalization strategy of a small hotel firm of Central region of Portugal. It is based on a case study and the main objective is to discuss what internationalization theory best explains the company's internationalization strategy. This chapter explores a gap in the literature on inward internationalization involving a player of service-based firm of the hotel industry. The literature reviews the main internationalization patterns—Uppsala model, network-based model, and inward internationalization—in order to analyze behavior of small hotel and its internationalization. At the end of the chapter, a table summarizes the main characteristics of the internationalization process of each model presented. This chapter adds value by explaining how a small service-based firm of the hotel industry manages to address its inward internationalization process.*

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## **INTRODUCTION**

Internationalization of enterprises is a phenomenon often related to the entry in international markets and a process of growing international involvement (Moreira, 2009; Ribau, Moreira, & Raposo, 2018a). Normally, Small and Medium-sized Enterprises (SMEs) seek to exploit their competitive advantages in overseas markets (Ribau, Moreira, & Raposo, 2018a; Stanisauskaite & Kock, 2016), which involves outward internationalization processes. However, inward internationalization processes are not as extensively analyzed as outward internationalization processes (Moreira, Ferreira, & Silva, 2018).

Research on inward internationalization activities have been neglected given the scarce number of studies in this area when compared to outward internationalization (Karlsen, Silseth, Benito, & Welch, 2003; Moreira, Ferreira, & Silva, 2018). One of the possible explanations is that most of the theory analyzing internationalization is based on the typical industrial large companies, on one hand, in which the service perspective is marginally analyzed, and, on the other hand, the internationalization of the hotel industry players has been largely overlooked. Moreover, inward activities are more frequent in the early life of firms, particularly through the imports of raw materials, components, and machinery.

Companies must refine their resources and capabilities to operate internationally, in order to achieve a good export performance (Leonidou, Palihawadana, & Theodosio, 2011). This upgrade can lead to the development of an effective export marketing strategy, which will help companies win a competitive advantage. Therefore, companies look forward to improving their market and financial performance in both international and domestic markets. In the Hotel Industry, the flexibility of options presents challenges that differ from country to country and hotel to hotel. Thus, each country and hotel should evaluate their industry and establish the most appropriate way for its international market (Correia, Lengler, & Mohsin, 2019).

Although several theories have been put forward to explain the different internationalization strategies implemented by SMEs (Ribau et al., 2015; 2018a; 2018b), the Uppsala theory has been extensively used to explain the incremental perspective SMEs tend to use to become gradually involved in international markets despite their passive or active internationalization behavior (Ribau et al., 2015; Moreira et al., 2018a). SMEs also need to develop their capabilities and competitive advantages and assume a proactive behavior to internationalize (Ribau et al., 2017; 2019), which might involve a network-based approach to reach overseas markets.

The provision of services, namely in the hotel industry, means that internationalization represents the development and improvement of skills and competences of institutions that seek to exploit their competitive advantages in international markets. However, the provision of services in the hotel industry means that the service provider not only needs to have certain competitive advantages to outcompete their local rivals but also needs to be internationally competitive in order to attract international tourists. As such, service providers of the hotel industry face quite specific challenges in international markets in order to arrange inter-organizational activities so that they can generate a continuous flow of tourists so that they can 'export' their services. The same occurs in the higher education industry (Nogueira & Moreira, 2018).

This chapter aims to investigate the internationalization of a Portuguese company – named GAMMA for confidentiality reasons, established in the market since 1902 – that competes in the hotel industry and seeks to provide its services to international guests. As a Portuguese company, GAMMA belongs to the group of inward internationalizers that desires to expand their activities and embraced export promotion programs to achieve their goals.

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Based on the literature on internationalization, this chapter aims to examine the internationalization process of GAMMA from a historical perspective and debate the intricacies of the internationalization process. As such, the following objectives were defined:

1. To analyze how GAMMA is preparing the internationalization process.
2. To analyze how this company embraced new restructuring opportunities and export promotion programs to successfully embrace inward internationalization.
3. To analyze what led this company to choose its strategy.
4. To contribute to a better understanding of how small companies competing in the hotel industry manage their inward internationalization process.

The chapter is structured in six sections. After the first introductory section, the second section reviews the literature on internationalization. The third section presents the methodology used. The fourth section briefly describes GAMMA business activities. While the fifth section presents the results obtained, the sixth section discusses the results. Finally, section seven presents the conclusions.

## **LITERATURE REVIEW**

### **Internationalization**

The international environment is very complex since both SMEs and multinationals firms adopt various forms and strategies of internationalization to serve global markets, adapt and quickly develop new products in many countries and adapt their brands in the global situation (Ribau, Moreira, & Raposo, 2015; 2018a; 2018b). The internationalization process can be described as a dynamic, multidimensional process that depends on the accumulation of business knowledge in international markets and has the consequence of the increasing presence of enterprises in overseas markets. Internationalization has been defined as the process that increases the involvement of international operations (Karlsen et al., 2003), which is consistent with an outward internationalization process.

The world has witnessed rapid internationalization of markets, industries, and companies that have led to different theoretical and analytical perspectives regarding the evolution of internationalization and their main theories (Ribau et al., 2015; 2018a; 2018b; Ietto-Gillies, 2012). Although there is no single definition about internationalization, it is normally understood as a business activity across countries, which involve both outward and inward perspectives of internationalization (Olejnik & Swoboda, 2012; Chetty & Campbell-Hunt, 2003; Moreira, 2009, Moreira, Ferreira, & Silva, 2018).

SMEs face two main challenges during the internationalization of their activities (Johanson & Vahlne, 2009): liability of outsidership, and liability of foreignness. The former is related with the lack of knowledge about international target markets and their players. The latter is related with uncontrollable factors such as (different) laws of destination markets and language barriers.

Despite the risk assumed when competing abroad in unknown environments, markets and clients, the decision not to internationalize is seen as an even riskier decision (George, Wiklund, & Zahra, 2005) as firms that do not internationalize can lose competitiveness as they rely excessively on their domestic markets (Hilmersson, 2014).

Different international entry modes have been proposed to explain how companies compete abroad. The internationalization of enterprises is a phenomenon that normally assumes an entry mode into international markets and a growing process of international involvement and exposure. Firms are able to choose between a wide range of entry modes, which suggests there are several levels of commitment, control and risk in international engagement (Fernandes, Simões, Pereira, & Moreira, 2019; Furtado, Pereira, Pereira, & Moreira, 2019; Moreira, Ramos, Ferraz, & Martins, 2018; Ribau et al., 2015).

Following a historical timeline, Ribau et al. (2015) provide a schematic analysis of the main internationalization theories, their focus, and underlying assumptions. They claim there are two well-known approaches explaining the internationalization processes of SMEs (Hakansson & Snehota, 2006; Johanson & Vahlne, 2009): the Uppsala Model and the network-based view.

The Uppsala model defends that internationalization takes place in a gradual and linear form (Johanson & Vahlne, 2009; Rhaïem, 2015). In other words, the company increases its international participation (knowledge and experience) gradually (Johanson & Vahlne, 2009; Ribau et al., 2015) and has four main phases (Rhaïem, 2015; Ribau et al., 2015): (1) non-regular export activities; (2) exports through independent representatives (agents and distributors); (3) establishment of international sales subsidiaries and (4) establishment of international production units.

The Uppsala model argues that firms follow a sequential path in their international operations and is based on a linear cumulative path in which the absence of international experience reduces the propensity of the firm to engage in unknown international markets. For firms to get involved in far-flung international markets they have to internalize knowledge of different cultures, languages, laws and industrial competitive ecosystems (Ribau et al., 2015), which might force SMEs to internationalize their activities to low psychic distant markets and as soon as they internalize form the experience they expand their activities to more psychic distant markets.

The logic of this model is based on the evolution of the internationalization process because of the increased knowledge and operations in international markets, as well as a result of the increased commitment of resources in international markets (Ribau et al., 2015). The gradual acquisition, integration, and use of knowledge about operations and overseas markets are considered vital for the internationalization process since it leads to a greater commitment to those markets (Karlsen et al., 2003).

Following a network-based perspective, Johanson and Mattsson (2015) argue that internationalization is the outcome of the development of (internal and external) inter-organizational relationships among individuals and/or firms that have resources and experience/knowledge. This inter-organizational network helps explain different internationalization paths, based on an interactive perspective among different players (suppliers, buyers, competitors, or other institutions) involved in the business environment (Moreira & Alves, 2016; Durão & Moreira, 2019).

The network theory states that the development of firms occurs in context-based relationships. For this purpose, firms establish long-term relationships among them. The firms' domestic network and the relationships within it can be a starting point for companies to go international. When entering new countries, companies establish new relationships to get access to other international markets. Therefore, internationalization is a process led by relationships and by the evolution of a firm's network (Johanson & Mattsson, 2015; Ribau et al., 2015).

Johanson and Mattsson (2015) claim that the number and depth of relationships increase among clients, suppliers, distributors, and competitors as firms internationalize. As such internationalization, according to the network approach, takes place when firms: (a) build inter-organizational relationships in new countries (i.e., involving international expansion); (b) increase their commitment in international

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networks (i.e., international penetration); and (c) integrate their position in several networks in various countries (i.e., international integration).

Many service companies, namely in the tourism industry, support their competitive advantage in resources connected to locations, which are used to provide services to international clients in the domestic market (Turunen & Nummela, 2017). A well-succeed tourist product tends to be based on network cooperation between companies, organizations, and public authorities. In short, one can argue that tourist firms internationalize through and within the networks in which they are inserted. Those networks can be social, institutional, technological, regional, and/or virtual ones (Turunen & Nummela, 2017).

As the business environment changes, inter-organizational relationships become more and more important; as such companies must have in mind the use of relational marketing to compete more efficiently. Although traditional marketing is necessary, it is no longer enough for companies to remain successful (Sin et al., 2006). Moreover, the literature suggests that in order to acquire and maintain a competitive advantage, the organization providing the service must develop long term relationships with clients (Sin et al., 2006). Sin et al. (2006) outlined five strategic elements for practicing relational marketing: the development of core activities around building a relationship with the customer; the customization of the relationship for each client; the introduction of service-based benefits; the creation of specific services to increase customer loyalty; and training employees to achieve better performance and satisfy customers. Sin et al. (2006) shows that relationship marketing has a bigger effect than traditional marketing in overall performance, marketing performance (retention of clients, customer satisfaction and trust) and financial performance (sales growth, market quotation, return on investment, and return on sales). These results suggest that relationship marketing is crucial to determine the performance of the hotel industry (Sin et al., 2006).

There are two different kinds of motivations for firms to internationalize (Westhead, Ucbasaran, & Binks, 2004; Ribau et al., 2017): proactive and reactive. When firms initiate the internationalization process drawing on their own internal competencies in order to exploit market opportunities, one is before typical proactive motivations. On the other hand, when firms react to some events, internationalization is closely linked to a passive attitude. Some examples of proactive motivations are the following (Westhead et al., 2004; Ribau et al., 2017): the creation of unique products for certain target markets; managerial commitment to entering new markets abroad; and a clear focus on product/market diversification. Reactive motivations are the result of competitive pressures, excess production capacity, and saturation of the domestic market. Although both types of strategies are common among SMEs, the performance of proactive internationalizers is better than that of reactive internationalizers (Ribau et al., 2017).

Business internationalization encompasses two processes (Li, Yi, & Cui, 2017): inward and outward activities. Inward activities refer to activities in which companies get involved with international companies in their own country, namely, technology and product import activities, internal franchising, and the provision of services to international tourists. Inward activities can create a good opportunity for companies to learn about international trade techniques, operations characteristics, and other ways to use different operation modes. Through the active use of the knowledge acquired in international markets, the company can achieve a better positioning and assume operations in overseas markets. On the other hand, outward activities refer to activities that companies have in international markets, namely, franchising and licenses for international enterprises, mergers, and acquisitions in the exterior and the establishment of subsidiaries in external markets (Li et al., 2017).

## **Internationalization Incentives**

Previous studies have shown that the participation of companies in export activities can be stimulated by internal and external agents of change (Serिंगhaus & Rosson, 1994; Naidu et al., 1997; Ayob & Freixanet, 2014). The first emerges within the organization, as is the case of possessing unique resources and capabilities that confer businesses competitive advantages, while the second refers to external forces, such as export promotion programs (EPPs) organized by the governments that drive companies to embrace higher risks abroad. It was also observed in several studies that, among SMEs, the involvement in exporting activities is more influenced by external than internal incentives (Ayob & Freixanet, 2014).

In a study involving SMEs, Francioni, Pagano, and Castellani (2016) distinguish two types of internationalization drivers: internal and external drivers. Several authors have recognized that the internal drivers can be related to companies Human Resources, I&D, innovation, and productivity activities, Marketing and Purchasing (Holmlund et al., 2007; Frishammar & Andersson, 2009; D'Angelo, 2012; Onkelinx et al., 2015).

As for the Human Resources, three different categories of factors that stimulate export activities in SMEs are emphasized: competencies (proficiency in foreign languages and international experience), cognitive factors (risk attitude, cost perception and benefits, commitment and global mentality) and sociodemographic factors (origin of shareholders, entrepreneurs, or owners). Human Resources, R&D, and Marketing are the factors most positively associated with the beginning of the SME internationalization process (Rundh, 2007; Francioni, Pagano, & Castellani 2016).

The external drivers can originate from factors related with the home country and the host country as well as the business networks (Francioni, Pagano, & Castellani 2016). Networks have been stated as the most influencing factor in driving the export activities of SMEs, bearing in mind that the more involved in established international networks executive directors are, the better their understanding and knowledge about foreign markets, which eases the internationalization process. Relationships and networks play an important role, mainly when SMEs carry out projects of international expansion in countries with less social and institutional diversity, such as emerging markets.

Additionally, once in a declining domestic market, there is a bigger chance of SMEs' success in internationalization, even if this is a secondary factor. Regarding the host country, several studies point out that the role of identifying better opportunities abroad in the development of export activities is very important.

The combination of proactive, internal, and external stimuli has led Portuguese hotels to internationalize (Correia et al., 2019). The internal or organizational incentives are sustained by marketing actions and interpersonal capabilities. On the other hand, external stimuli are supported by the identification of market opportunities based on confidential and institutional information gathered by participating in trade fairs and commercial missions, by formal and informal networks with commercial associations, by the privileged knowledge of managements and by the target country's initiatives. Moreover, the managers' resources, entrepreneurial capabilities, and international attitude also help Portuguese hotels to internationalize (Correia et al., 2019).

Destinations and strategies for entering foreign markets are decisions that can be conditioned by the company's family nature (Andreu, Claver, Quer, & Rienda, 2020). Some reasons for the growth strategy are (Andreu et al., 2020): improving the company's image and reputation, ensuring business continuity, achieving greater prestige and renown, seeing the internationalization effort recognized, and increasing the company's value for the next generation.

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In order not to lose control, Andreu et al. (2020) argue that both family businesses and most SMEs prefer to go to geographically or culturally close destinations.

Additionally, Bianchi (2011) proposes the following drivers of export performance: market orientation, service quality, cultural sensitivity of service providers, organizational communication strategy, business networks, government support, and the image of the service of the home country. Regarding market orientation, the author argues that it is important that the company has a complete knowledge of the preferences and individual needs of the international market and adapts itself adequately to the market variation to obtain a good performance in the long term. Furthermore, in order to properly compete at an international level, the provision of quality service needs to be set and maintained at international quality standards.

Cultural sensitivity is an important stimulus. According to Bianchi (2011), due to the inseparable nature of services, service providers need to interact with consumers from different cultures. Dealing properly with cultural differences is a core competence for the performance of service exports.

In addition, Bianchi (2011) mentions the international activities – visits done by managers to the target countries, the participation in fairs, the use of international agents, the use of internet and merchandising development of communication – as important drivers. Another important driver is “domestic” networking, which is the exchange of information and marketing practices between tourist establishments and joint promotional efforts abroad. Government support is also an important factor. Industrial associations, export promotion companies, etc. (national and regional) can provide essential support for travel and participation in fairs. Finally, Bianchi (2011) refers to the image of the home country. This plays a significant role in providing a tangible suggestion to shape the service’s perception and assess its quality in an international context. Thus, the brand and promotion of the country are relevant for these companies.

## **Barriers to Inward Internationalization of Services**

In general, barriers to the internationalization of enterprises can consist of high costs, strong competition, protectionist regulation, lack of information, difficulties in locating or obtaining representation abroad, among others (Ayob & Freixanet, 2014).

Regarding consumer services, these generally require a high degree of face-to-face contact and interaction between service providers and consumers for the service to be produced and consumed. Therefore, there is a greater probability of problems arising due to cultural differences and communication errors during the service meeting (Bianchi, 2011).

The inward internationalization of services faces some barriers and factors of international performance unique to the service industry. Bianchi (2011) identifies three main barriers to inward internationalization of services: government regulations, exchange rate fluctuations, and cultural differences.

Finally, cultural differences are barriers that strongly influence the internationalization of services, especially if they arise in the domestic market where the service is provided. In addition, Bianchi (2011) also highlights the importance of the difference that exists between the expectations of the service between the provider and the consumer, as these aspects may differ, depending on the culture of each country. Thus, there are Export Promotion Programs (EPPs) whose main purposes are to reduce or eliminate export barriers, motivate companies to internationalize, assist planning and preparation for export and provide financial and non-financial assistance (Ayob & Freixanet, 2014).

EPPs' main objective is helping firms overcome the barriers to the entry of new international markets (Freixanet, 2012). These services include seminars, trade fairs and trade missions, consultancy, export financing advice, and information on foreign markets (Freixanet, 2012; Jalali, 2012).

Trade fairs are one of the promotional programs that aim to provide empirical knowledge supporting companies in international markets. These fairs are considered a marketing and information platform that allows international expansion of companies. They are also an important promotional tool for marketing products and services and an opportunity to contact directly with potential international buyers and therefore create new relationships (Haddoud, Jones, & Newbery, 2017).

These trade fairs are positively related to the satisfaction and export performance of firms since firms that use fairs promoted by governments tend to have positive export performance results. (Geldres-Weiss & Monreal-Pérez, 2018; Wilkinson et al., 2009). Additionally, the use of sponsored fairs and trade missions is related to a wide range of export areas, improvements in product marketing, cooperation agreements, and better internationalization planning (Francis & Collins-Dodd, 2004; Freixanet, 2012).

## **METHODOLOGY**

This chapter is based on a case study – GAMMA – and involves a qualitative analysis of a Hotel in São Pedro do Sul, Portugal, whose core business is based on providing SPA activities for two different market segments – Portuguese and foreign nationals – through two different activities – hotel and aparthotel premises. GAMMA was chosen for their choice in looking for export promotion programs in order to increase their inward based internationalization strategy.

The case study method was selected to analyze GAMMA, as this allows the analysis of particular situations, the combination of known theories with new empirical results drawn from the specific situations under analysis, investigating phenomena within their real life contexts, the analysis and interpretation of retrospective information and the possible development of new theoretical and practical insights (Chetty, 1996; Eisenhardt, 1989; Ghauri, 2004; Ribau et al., 2019; Yin, 2008). Moreover, the case study method is particularly adequate for analyzing a dynamic perspective over time that involves a complex nonlinear internationalization process (Vissak & Francioni, 2013; Silva & Moreira, 2019; Welch & Welch, 2009).

As this chapter is based on a single case study, it is possible to deepen the analysis of the object of study (Piekkari et al., 2009; Voss et al., 2002), as well as to use a research method with inductive/deductive approaches. Those approaches are particularly appropriate: firstly, when addressing explanatory and exploratory aspects (trying to deal with the 'why' and 'how'); and secondly, when uncovering relational aspects that take place over time (Yin, 2008).

GAMMA was selected based on judgmental/purposive sampling (Patton, 2015). This sampling method involves the selection of cases that meet four important requirements for this research: (a) being involved in the exploration of the idiosyncrasies associated with inward international business activities; (b) the participation in the provision of service-based activities in the hotel industry; and (c) having core activities aimed at different market segments; and (d) actively seeking to increase the international market segment.

A semi-structured interview with the head of GAMMA's marketing department in May 2019 was used to collect data, typical of a qualitative methodology. Data collection involved obtaining primary and secondary information both from interviews and public sources, such as the firm's website, marketing information from industrial associations, and multiple observations, which was important to ensure the

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validity and reliability of data (Ghauri, 2004). The interview lasted approximately one hour and thirty minutes, complemented by a visit to the hotel facilities and environmental atmosphere where the hotel was located. The interview allowed us to understand the internationalization activities and strategies and supported our goal of studying the business transformation the hotel is going through and the active seeking incorporation of internationalization activities. This procedure helped the interviewee feel more comfortable while speaking in her own environment and enabled events to be observed in their natural setting. The researchers maintained a passive and unobtrusive presence, not to interfere with on-going events and activities.

The visit to the hotel facilities and environmental atmosphere where the hotel was located was important for the interviewers to aware of both the different types of segments and strategies the hotel was seeking to implement. After the visit, the researchers' impressions were attached to the summary of the interview.

In order to facilitate the interviewing process, the interviewers began by explaining the research, guaranteeing anonymity, and requesting authorization to audio-record the interview. The interview script sought to explore the evolution of international paths, the importance of the restructuring process the hotel was going through, and activities used by the hotel in its internationalization process. The interview script included questions to triangulate the information obtained from informants with additional information obtained through the firm's website and public sources (e.g. firm size, age, international presence/experience, main current markets, etc.).

Data from all sources were collected and transcribed into a single case story, helping to identify missing information.

## **PRESENTATION OF THE COMPANY**

Over the years, Portugal has witnessed a progressive increase in the demand of rural areas for tourism and leisure activities, mainly by urban populations (Silva, 2007). Moreover, tourism has been increasing worldwide, with the number of international tourists reaching 1235 million in 2016 (Carrasqueira, Garcia, & Carrasqueira, 2018). As such, companies seek to follow this growth through not only the consolidation of their domestic market but also developing new tourist destinations. In 2016, Portugal received 21.3 million guests (INE, 2017; Carrasqueira et al., 2018).

Although there is a growing demand for rural tourism, it is still very seasonal. Seasonality of demand is generally considered a challenge within the tourism business – particularly ecotourism, rural, nature, and adventure tourism – potentially jeopardizing its development. This is predominantly true for tourist destinations that are more vulnerable to systematic fluctuations of demand, typically those related to climate, as in the case of Portugal (Kastenholz & Almeida, 2008).

In Portugal, as in some other European countries, the therapeutic use of hot springs is very common, known as “thermalism” or “water cures”. The most famous area in Portugal is São Pedro do Sul, located in the Centro region of Portugal (Quintela, 2011).

The GAMMA hotel, in São Pedro do Sul, Portugal, has a great strength in terms of its geographical location because it is in a specific and unique thermal area. However, like this hotel, there are others that are located in the same area. Thus, in order to respond to the seasonality of demand and to be able to attract different target audiences in both low and high season, adding an indoor SPA to its services not only makes the customer experience more complete but also differentiates this hotel from its competitors.

GAMMA is a family-run hotel founded in 1902 and, until today, remains managed by family members. It is in the São Pedro do Sul thermal area and consists of a Hotel, now with 48 rooms and an Aparthotel with 20 rooms.

GAMMA's core strategic pillars are essentially SPA and health tourism, and its target audience is the senior market, which, for health reasons, needs thermal treatment. Regarding the number of employees, during the normal season they have around 20 employees, however, during the high season they have around 30 to 40 employees, considering the holding of events such as christening and wedding celebrations at the Hotel.

The hotel has partnerships with nature and adventure companies in the nearest geographic area and with the transport company Vale do Vouga to take and pick customers up at Porto's airport. They are the first Hotel in São Pedro do Sul to have these kinds of partnerships.

Located in a touristic area, GAMMA has direct and indirect competitors. Some examples are Hotel Lisboa, Pensão David, Monte Rio, among others. However, competition is not considered strong nor a negative factor, because each hotel has a different strategy.

The main markets GAMMA reaches are Portuguese, Spanish, Dutch, French, English, and German. According to its clients' evaluations, the Hotel has as main differentiating factor the food and friendliness of staff. GAMMA's internationalization is quite recent and emerged to increase the average annual occupancy, both for the hotel and the aparthotel. As the occupation of its regular (senior) customers is much lower in the low season, GAMMA aims to attract a younger market, especially in this season.

It is important to mention that senior clients have specific needs and look for specific accommodations when they're looking for a hotel, such as quietness and comfort, and health treatments. However, to be able to attract a younger market it requires almost the opposite. The younger clients belong to the adventure segment that seeks pleasure and fun. Comfort is important but younger customers also look for a hotel that can provide dynamic and adventurous activities in the nearest areas, a SPA to relax in and a restaurant and/or a bar to have some fun. In short, the two segments the GAMMA hotel looks to get to are quite different and the hotel must take that into account.

## **RESULTS**

GAMMA started its internationalization strategy in 2018. At that time the Hotel participated in two projects, co-financed by Portugal 2020. One of the projects consists of remodeling the Hotel for health and well-being activities. The second project consists of the internationalization of GAMMA.

Portugal 2020 "is a partnership agreement between Portugal and the European Commission that includes activities of the 5 European Structural and Investment Funds – ERDF, Cohesion Fund, ESF, EAFRD and EMFF – which was adopted in order to apply the principles of the Europe 2020 strategy and to focus on the economic, social, environmental and territorial development policy that could stimulate growth and job creation in Portugal for the upcoming years" (Portugal 2020, n.d.).

The first project includes the qualification, innovation, and modernization of the services GAMMA offers. Thus, the company added two strategic pillars, in addition to its main ones – thermal and health tourism: (1) physical and mental wellbeing (SPA); (2) Nature and adventure tourism. These pillars' main goal is to have a broader offer of thermal and wellness tourism activities and to become more attractive for other kind of audience, namely a young and "urban" customer – couples who appreciate nature, adventure and rural environments and have the need to take a break from the city life.

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To attract the new target audience, the hotel building underwent a renovation of the exterior and common spaces, transforming it into a sophisticated and modern space in terms of design and decoration. To focus more on their quality, the company invested less on the wedding/christening celebration services hitherto performed. Furthermore, GAMMA created a new floor, modernized the existing rooms, and added five new rooms (48-53). They also created a SPA, a bar (“Guarda-Rios”), a restaurant (“1902”), a gym, and an indoor pool. These changes made it possible for the Hotel to go from 3 stars to 4 stars.

The renovation project of GAMMA adds crucial value for the second perspective – internationalization – to have better results. Since the strategic pillar of the Hotel is thermal and health tourism, with a mostly senior target audience, over 65 years, it is easy having maximum occupancy during high season, due to the good weather. However, throughout the low season, it is difficult to have this audience’s presence, due to the weather conditions and their negative impact on elder people’s health. Therefore, the company feels the need to increase the affluence during the low season.

Through a market research, it has been possible to determine that even though Portuguese customers do not search much for activities such as those mentioned above during winter, people with different cultures have a different mindset. For example, northern Europeans do not mind carrying out activities in the rain and cold weather. However, Portugal is not ready to receive these customers in low season. Maybe that is why there is not a great influx of foreign people in this season either.

The company used Portugal 2020 to co-finance the investment in the participation of business fairs. For this project, the hotel aims to achieve the following objectives: (1) to achieve a solid position in international markets; (2) to increase turnover, occupancy rate, and number of foreign guests; (3) to internationalize its activities related to welfare.

The project includes the involvement in four foreign tourism fairs, namely the World Travel Market (WTM), in which they obtained thirty contacts, and the World Tourism Fair, in Paris, FITUR, in Madrid and BTL, in Berlin. Until the moment of the interview, the company had participated in the WTM fair and the World Tourism Fair. All the fairs were considered as interesting; however, the WTM is more oriented towards the goals that GAMMA wants to achieve, while the World Tourism Fair is more focused on Business to Consumer kind of business. In these fairs, the company can obtain contacts, for example, with Destination Management Companies (DMC) – tourism companies that plan trips. There will also be four trips made with the purpose of doing some market research, collecting data on how the hotels are positioned, among other aspects. Additionally, the Hotel offered vouchers to the new partners/contacts they found, for them to have a post-remodeling hotel experience.

Additionally, the GAMMA redesigned the company’s website. The marketing plan also includes an online blog which will post interviews to the inhabitants of São Pedro do Sul about the positive and negative aspects they find in living in this place, with the purpose of providing testimonials about the rural environment to potential clients.

In terms of social media, the Hotel has Instagram and Facebook pages, in which they publish the latest news and seek to attract new customers. GAMMA has also collaborated with influencers: an older couple with a daughter to promote calmer activities, and a younger couple, more adventurous. This way they reach the different audiences they aim to attract. The website is available in more than two languages. They also invested in language training for their employees, as another aspect of the internationalization project. For example, the French market is sensitive to language barriers, and hotel’s staff feels the need to be fluent in order to establish a better communication.

From the very beginning, word of mouth among its network of contacts has been the hotel’s main marketing strategy. Since it is a family business, the sharing of contacts happened naturally, contribut-

ing to greater customer loyalty. At that time, the company did not feel the need to invest in its online brand image.

However, in the past few years, the GAMMA hotel wanted to balance out the low occupancy rate during the low season, so it had to create a new target audience, which includes young adventurous people who enjoy nature. In addition, the company perceived the need to attract foreign visitors, due to cultural differences.

Given the evolution of the market through the years, for example, urban tourist’s search for calm and relaxing environments and for health and well-being tourism, it became necessary for the hotel to reinvent itself in order to respond to the new market needs and to be able to attract their new target audiences. Thus, it was necessary to adopt and invest in new strategies. The new strategies also allowed the GAMMA hotel to become more competitive.

Considering that GAMMA started the new projects in 2018, and they will end in 2020, it is only possible to have access to some short-term results. So far, it has only been possible to determine that there are already some measures that have been implemented in relation to social networks and the website. In relation to other strategies, the company expects to achieve other results in the medium/long term.

A summary of the main objectives and strategies adopted can be found in Table 1.

*Table 1. Summary of main objectives and strategies*

<b>Projects – Portugal 2020</b>	<b>GAMMA 4*- Health and Well-being</b>	<b>GAMMA - Internationalization</b>
<b>Main objectives</b>	<ul style="list-style-type: none"> <li>- Increase the number of rooms;</li> <li>- Have a more complete offer in terms of SPA and wellness;</li> <li>- Attract another type of audience, namely a young and urban one;</li> <li>- Balancing revenue during the low season.</li> </ul>	<ul style="list-style-type: none"> <li>- Achieve a consolidated position in international markets;</li> <li>- Increase turnover;</li> <li>- Increase the occupancy rate;</li> <li>- Internalization of activities associated with Wellness, such as Gymnasium and SPA;</li> <li>- Increase the number of foreign guests.</li> </ul>
<b>Implemented Strategies</b>	<ul style="list-style-type: none"> <li>- Add strategic pillars: physical and mental well-being and nature and adventure tourism;</li> <li>- Remodeling of outdoor and common spaces - creating more rooms, SPA, open bar, restaurant, gym, and indoor pool.</li> </ul>	<ul style="list-style-type: none"> <li>- Investment in participation in business fairs: four business fairs (WTM - World Travel Market, World Tourism Fair, FITUR, and BTL) and four prospecting trips.</li> </ul>
	<ul style="list-style-type: none"> <li>- Partnerships with nature and adventure organizations;</li> <li>- Remodeling of the website and online blog;</li> <li>- Dissemination through Social Networks;</li> <li>- Collaboration with influencers.</li> </ul>	
<b>Results Achieved</b>		<ul style="list-style-type: none"> <li>- 30 contacts made at the WTM fair</li> </ul>

## **DISCUSSION**

Geldres-Weiss and Monreal-Pérez (2018) describe trade fairs as one of the export promotion programs that aims to provide experiential knowledge. These trade fairs are an instrument that can be used to market products and services and it offers the opportunity to create new relationships (Haddoud, Jones, & Newbery, 2017). Geldres-Weiss & Monreal-Pérez (2018) and Wilkinson et al. (2009) also consider that the use of trade fairs positively affects the export performance of companies.

### ***Inward Internationalization***

It is possible to observe that GAMMA acquires experiential knowledge and new contacts and develops partnerships with travel agencies through its participation in trade fairs. Although it is not yet possible to determine the success of the use of trade fairs by this company, since it is still a process in development, it can be verified that GAMMA has already managed to establish some contacts. This demonstrates a plausible positive effect of fairs in its process of internationalization.

According to Ribau (2015) and Nummela (2017), companies that have their national networks already consolidated will find it easier to create networks internationally. This will consequently develop new relationships and make the company network evolve. This, in turn, will contribute positively to the success of the internationalization process. Thus, it can be argued that GAMMA could be an example of these authors' perspective. The offer of vouchers at trade fairs enhances the loyalty of international partners since, using vouchers, partners have the possibility to first-hand experience the various hotel services. If they consider it a good business opportunity, they will ask GAMMA for a profit margin for each recommendation given to their customers. The investment in transactional relations with different intermediaries is essential not only to increase the number of international guests but also to publicize the hotel in foreign markets.

Li et al. (2017) define inward export activities as internationalization activities in the company's country of origin. They consist mainly of importing products, knowledge or technology, and joint ventures. The authors argue that these activities can be advantageous for the company's learning about foreign markets, foreign trade techniques, among others. As a service organization, GAMMA does not have products that can be exported abroad. This acts according to the inward perspective, choosing to travel to other markets, through trade fairs for tourism and prospecting trips. Hence, the company not only attracts new customers but also acquires knowledge about foreign markets.

According to Correia et al. (2019), in the hotel industry, each hotel must evaluate its own industry and establish the most appropriate way to enter its international market since the challenges may vary by country. Additionally, Andreu et al. (2020) also argue that family businesses in this sector tend to internationalize to culturally close countries. However, this theory does not apply to GAMMA, which is a family business, since the company intends to reach different markets in order to resolve its low occupancy rate in the colder seasons. For example, the French market does not mind carrying out nature activities in the winter. Nonetheless, GAMMA must be cautious in this change of position. When trying to attract a new target audience it is possible to drive away and lose its current audience. At the moment, the company's target audience is senior customers who need a sober and calm environment and, by involving a more dynamic and young audience, they can interfere with the needs of the senior audience and thus lose them.

Currently, customer relations are increasingly important, especially in the hotel industry. Consequently, hotels should pay special attention to marketing since, according to several authors, traditional marketing is no longer sufficient to attract and retain customers (Sin et al., 2006). Thus, it can be argued that GAMMA should strengthen its relationship marketing, standing out not only for the special and personalized service offered but also for the lasting connection they create by doing so. Since relationship marketing, in comparison with conventional marketing, leads to an increase in the business performance in general, as confirmed by Sin et al. (2006).

## **CONCLUSION**

Many companies fail in their internationalization process as they believe that this is a solution to the poor results they present. This perspective is not ideal. GAMMA can be considered a good example to follow since before starting its internationalization process, they decided and invested in improving not only its infrastructure but also its attitude in the market.

Despite always obtaining successful results, this company was not settled and decided to seek out new opportunities that would increase its competitive advantage. The GAMMA hotel saw internationalization as a good opportunity to increase its average annual occupancy rate and to reaffirm itself in the market. This situation was what led the company to choose its strategy, which includes not only the strategic restructuring and physical remodeling of the hotel but also its internationalization process. Therefore, the hotel applied to the Portugal 2020 Project in order to acquire financial support for participating in business fairs and prospecting trips. With the participation in these export promotion programs, they expect not only to reach new markets but also to create new relationships and consequently achieve success in their internationalization process.

GAMMA was proactively motivated to start its export activities, which typically leads to a greater performance among SMEs and, as part of the hotel industry, this company's internationalization process was clearly based on inward activities.

One can affirm that the hotel's restructuring along with the use of export promotion programs, such as trade fairs, was essential for the company to successfully embrace inward internationalization.

GAMMA is the first hotel in the São Pedro do Sul area to have so many partnerships and to offer a wide range of activities to its customers – from sports and adventure activities to rural experiences. Thus, it changes and increases its offer, modifying the idea that São Pedro do Sul is only a place for SPA tourism and trying to make the public associate this tourist destination with adventure, nature and youth. GAMMA considers that the change of the company's image in the mind of the consumer, after all its remodeling and internationalization process, may take some time. In other words, the hotel expects to achieve positive results only in the long term – five or six years.

It is also important to mention the role that the UPPSALA and Networks models play in the GAMMA's internationalization process. The UPPSALA model can be used to explain how the Hotel behaved to gather a gradual and sequential knowledge of the international markets it seeks to achieve. The Hotel is starting to internationalize to countries with less psychic distance such as Spain, France and the UK. The fact that these countries have close cultural aspects to Portugal helps GAMMA to acquire knowledge and experience in international markets investing and allocating resources that will be needed once they decide to internationalize to other countries.

Furthermore, being a family-based business allowed the hotel to build, from the start, a network of contacts only through word of mouth. However, it was important for the company to build new partnerships and relationships with suppliers, competitors or other institutions involved in the business environment, especially abroad, in order to increase their international presence.

We cannot fail to highlight GAMMA's efforts to be the first hotel in the area to internationalize and to innovate a large part of its processes in order to create more lasting international connections. However, during this process, GAMMA should pay careful attention to the problems they may face in terms of positioning, financial, and linguistic barriers.

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## KEY TERMS AND DEFINITIONS

**Case Study:** It is a qualitative methodology, normally used in social sciences, that seeks to interpret a reality through a particular perspective. It is normally used to answer questions like “how” and “why.” It is commonly used to address constructivist research processes.

**Internationalization:** It is normally associated with a strategy carried out by firms that decide to operate in foreign markets. It involves the implementation of goods and services that can be easily adapted and adopted in different countries. It could involve business to consumer activities, as well as business to business activities. It may involve cross border transactions of goods, services, or resources between two or more firms or organizations that belong to two different countries, as well as foreign direct investment.

**Inward Internationalization:** Inward internationalization activities pertain to internationalization activities in which the firm is the buyer in a business exchange situation. It normally involves indirect imports, direct imports, purchasing office overseas, and license in Portugal for overseas firms.

**Network-Based Approach:** It is based on the industrial networks theory, which states that firms evolve on the basis of established relationships. It considers the companies’ internationalization process through their integration into networks and relationships. Following this perspective, the internationalization process occurs in interactive environments where companies of a well-established network of companies have an opportunity to develop new relationships that give them access to broader markets in other countries.

**Outward Internationalization:** Outward internationalization activities pertain to internationalization activities in which the firm is the seller in a business exchange situation. It normally involves indirect exports, direct exports, sales branch overseas, license overseas, and production activities overseas.

**Uppsala Model:** It has been one of the most discussed dynamic theories in Nordic School and International Business Studies. It explains the process of internationalization of companies. It explains how organizations learn and the impact of learning on the companies’ international expansion. This theory defends that the companies’ internationalization process is carried out in stages, from non-regular exports to the establishment of companies abroad.