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Building Multinationals in the Mediterranean: Balearic Island Hotels in the 1990s.

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Abstract

This paper analyzes the international expansion of five hotel companies based in the Balearic Islands that expanded their operations to the Caribbean and other tourist destinations throughout the last fifteen years of the twentieth century and successfully became multinational firms. The five companies, which were strictly family-run enterprises, went through an initial phase of rapid growth in the Balearic Islands market and the broader Spanish market. In this initial phase, they accumulated assets, skills and competences that laid the groundwork for their subsequent international expansion. This accumulation took place within a very specific environment: the tourism market of the Balearic Islands, which was governed by an institutional framework for business development and internationalization that was much more favorable than in the rest of Spain.

Keywords: Institutions, Multinationality, Firm performance, Emerging markets, Hospitality

Introduction

In recent years, the internationalization of companies has become one of the central themes in the academic literature on the analysis of companies and business. Today's globalized economy would simply not exist without companies deciding that their home market has become too narrow for them and then seizing on opportunities to expand abroad.

Current scientific literature uses widely adopted concepts like 'entry mode', 'cultural distance', 'varieties of capitalism', 'formal and informal institutions', and so forth that provide a broad theoretical framework in which to situate the study of specific cases of internationalization such as the one addressed in this paper. The aim of the present case is to understand how a set of five hotel companies were able to make the transition from large national firms to giant multinationals in only a decade and a half.

The focus of the analysis is to identify the initial conditions and lived experiences that enabled the five companies to acquire the skills and competences needed to develop and perform successfully in international markets. The study, which is therefore longitudinal and historical, has the distinctive feature of examining the most immediate institutional environment in which the companies first emerged. The paper's chief contribution is to demonstrate that it is, in fact, the immediate environment that really matters in explaining the process of internationalization under scrutiny.

The object of study is five hotel companies whose headquarters are located in the Balearic Islands, the leading tourism center in the Mediterranean region. The various islands in the archipelago now account for more than for 200,000 hotel rooms dedicated to tourist accommodation. This is an enormous supply that has been in the hands of local businesses since the birth of the sector a century ago. Throughout this long trajectory, the tourism sector in the Balearic Islands has experienced a number of explosive expansions and brutal downturns, but ultimately it has become an extraordinarily diverse and competitive industry. The archipelago is now home to companies of all sizes that exhibit every possible degree of internationalization: large, moderately internationalized regional firms; small but highly internationalized firms; strictly local firms of every size, etc.

The long trajectory of the tourism sector in the Balearic Islands

The birth of modern tourism in Majorca can be date back to the year 1903, when the *Grand Hotel* of Palma opened with the primary aim to attract aristocrats seeking a mild climate in which to spend the winter. By 1914, Palma already had a significant tourist nucleus which then expanded further in the 1920s and 1930s, spreading along the Majorcan coastline and over to the neighboring island of Ibiza. In 1935, the islands boasted an exceptional hotel network and the port of Palma welcomed hundreds of large passenger ships from all over the world (Cirer 2014b).

Around 1950, the hotels that had been built in the 1930s for the international market reopened in the wake of the Spanish Civil War and the hardships of the immediate post-war period. These establishments sought to attract a clientele of moderately-high economic status: doctors, professionals, middle-range businessmen, and so on. Majorca continued to attract tourists of this type, but a new market was beginning to emerge, skilled workers from northern Europe who were now entitled to paid holidays and could afford the price of a ticket on the recently-invented charter flights.

This new type of tourists with lower purchasing power was largely ignored by the traditional hoteliers, but it aroused the interest of a small group of perceptive young tourism professionals who saw that the times were changing. The new generation of entrepreneurs understood that the future of tourism lay in the beach rather than the city, and that prices and costs had to be cut drastically to cater for the new middle classes of Europe.

In 1953 Juan Riu opened his first hotel, the *San Francisco*, in 1954 Simón Barceló set up a travel agency (the forerunner of the hotel chain *Barceló*), and in 1956 Gabriel Escarrer, founder of the group *Sol-Meliá*, took over the hotel *Altair*. Also in 1956, the Fluxà family entered the tourism sector by purchasing *Viajes Iberia*, the origin of the hotel chain *Iberostar* founded in 1983, and in 1968 Matutes family (*Fiesta*) opened their first hotel.

The distinguishing feature of the firms' exponential growth is that it occurred in a network environment in which entrepreneurial capabilities took the form of network capabilities. Outsourcing supplies and services of every type was the norm. As a result, rapid hotel growth drove development of an extensive set of ancillary companies of all sorts: suppliers of food and beverages, construction companies, bars and restaurants, nightclubs, leisure parks and more. The Balearic Island entrepreneurs even made substitutions in response to the ineffectiveness of the Spanish public sector (under the Franco dictatorship) in areas like overseas promotion (subsumed by the local tourism board *Fomento del Turismo*) and the training of human capital (provided by private-sector tourism schools).

In a short time, the Balearic Island firms dominated the Spanish market and they wasted no time in turning their sights towards overseas expansion. *Barceló* was the first hotel group to venture into the Caribbean, in 1985, when it opened the *Bávaro Beach Resort* in the Dominican Republicin 1985. *Sol-Meliá'*s international expansion began in 1985 with the opening of *Bali Sol* in Indonesia, though the exotic location did not prosper and the firm centered its international expansion on the Caribbean. *Fiesta*, acquired its first hotel on foreign soil in 1989, *Riu* opened its first hotel in the Caribbean in 1991, and *Iberostar Hotels* followed suit in 1993.

Between 1996 and 2001, our five firms doubled in total size (Table 1). Their growth on foreign soil was particularly impressive – 168% – and within Spain it was as high as 54% (Murray 2012; Such 2013).

Table 1. Evolution of the number of hotels managed by the five Balearic Island chains in Spain and abroad between 1996 and 2001.

Chain		1996	2001
Sol-Meliá	Spain	115	179
	Foreign	90	162
	Total	205	341
Barceló	Spain	20	31
	Foreign	16	81
	Total	36	112
Riu	Spain	52	58
	Foreign	8	38
	Total	60	96
Iberostar	Spain	12	31
	Foreign	3	30
	Total	15	61
Fiesta	Spain	17	34
	Foreign	2	8
	Total	19	42
TOTAL	Spain	216	333
	Foreign	119	319
	TOTAL	335	652

Source: Murray (2012); Such (2013).

The common path taken towards internationalization

The expansion of the globalized Balearic Islands firms is characterized by a common shared sequence of five steps o phases:

1. Very rapid expansion in the island of origin.
2. Construction of hotels on another island in the Balearic archipelago at an early stage.
3. Construction of hotels in mainland Spain or on the Canary Islands in the 1970s and early 1980s.
4. Construction of a first hotel, with full rights of ownership, in the Dominican Republic in the late 1980s.
5. Expansion to other countries in the Caribbean in the 1990s.

The almost simultaneous entry of the chains into these new markets allowed them to share the political and economic risks and it substantially reduced the costs relating to the transmission of entrepreneurial know-how (Audretsch & Feldman 1996; Contractor 2007). By offering practically the same product in a new environment that they were offering in their home market, they were able to derive maximum benefit from the intangible knowledge that they had accumulated (Hennart 2007).

After the success of the first investments, the Dominican Republic developed rapidly as a tourist destination owing to the emergence of agglomeration economies (Kronborg & Thomsen 2009; Papatheodorou 2004), which bolstered the creation of infrastructure such as airports and roads. In the Dominican Republic, the Balearic Island hoteliers were able to reproduce the conditions necessary to guarantee growth (Boschma & Lamboy 1999) and they did so by using cooperative Lamarckian mechanisms: as they adapted to their environment, they modified it in accordance with their own needs (Saviotti 1996).

By the start of the twenty-first century, each firm had chosen its own path forward: *Barceló* concentrated its expansion in the US, *Sol-Meliá* in continental Europe, *Fiesta* in the Spanish urban market, and so on. They had no qualms about selling any establishments that they had just constructed or acquired but that no longer suited their new strategic objectives – just as they had done some years earlier in the Balearic Islands.

Another point we should stress is that the case under analysis here has no parallel in the rest of the Mediterranean; only in Majorca and Ibiza have the hotel chains grown so dramatically. In the ranking that appeared in the publication *Hotels* in 2000, only eight Mediterranean firms figure among the top 100: the five Balearic Islands chains hold 11th, 33th, 37th, 52th and 88th positions. Among the other ranked chains are three Spanish concerns with an urban profile: the Madrid-based firms *NH* and *Occidental* (40th and 48th, respectively), and the Catalan firm *HUSA*, which comes in at 68th.

Theoretical Background

Chabowski and Mena (2017) have carried out a thorough analysis of the existing literature on international competitiveness from the viewpoint of international marketing, international business, and strategic management. When examining the reasons why some companies are more competitive than others internationally, they identify two broad sets of perspectives:

i. Perspectives that are based on internal company factors: the resource based view (RBV), the dynamic capabilities, market orientation and internationalization process model.
ii. Perspectives that use external factors as the main indicators of international competitiveness: industrial organization, which includes an analysis of a market's competitive forces, and institutional theory.

According to RBV, every company has a unique set of tangible and intangible resources that provide it with sources of eventual competitive advantage (Amit and Shoemaker 1993; Schmit and Keil 2013; Turunen and Nummela 2016). The dynamic capabilities framework refers to the ability of companies to continuously adapt their use of these resources in response to changing demands in a competitive environment (Eloranta and Turunen 2015). Thanks to their dynamic capabilities, companies are able to identify and seize opportunities and reconfigure their available assets in order to improve their competitive position (Kindström et al. 2013; Pitelis and Teece 2010; Teece 2007). The market orientation perspective requires a company to interpret its customers' needs correctly and sustain a mutually beneficial long-term relationship with them (Chabowky and Mena 2017; Narver and Slater 1990). The internationalization process model, which is also known as the Uppsala Model, proposes that internationalization typically takes the shape of a gradual process (Johanson and Vahlne 2009). Given its dependence on the export of goods, the Uppsala Model is the only perspective that has no direct application to our case.

An analysis both of the competitive forces in a market and of the effects arising from the geographical agglomeration of companies features prominently in the work of Porter (1990). Porter's propositions have led to an analysis of the influence exerted by factors such as relative position with respect to customers and suppliers, market structure, company size, and the effects of geographical agglomeration on the processes of innovation and international investment (Delgado et al. 2010; Porter 2008).

The last perspective is the institutional one, which provides the key theoretical underpinning for the present study. The institutional perspective emphasizes the importance of the environment in which a company conducts its activity and the possibilities for absorbing resources that this environment offers the company. In no way, however, must the business environment be understood as a set of static phenomena fundamentally disconnected from the company's own activity. Rather, the viewpoint here is essentially a dynamic one in the sense that entrepreneurial activity is a key agent in the definition of the environment and, as such, strives to adapt the environment to its own interests and needs (Boschma and Lamboy 1999; Feldman et al. 2005; Jones 2002). Much of a company's chances for success and potential for growth will depend on its ability to build symbiotic relationships with its environment and with the other companies in that environment. As a result, a company will have two types of resources: own resources and shared resources.

The importance of shared resources has been noted by a variety of authors, some of whom adhere to an institutionalist perspective while others do not. For instance, Eloranta and Turunen (2015) stress the existence of shared knowledge, Peiris et al. (2012) underscore the role of business networks as catalysts for the capacity to seize opportunities, Panne and Beers (2006) emphasize the link between concentration and innovation, and Turunen and Nummela (2016) highlight the specific advantages obtained by firms in the tourism sector when they cooperate among themselves in a given geographical setting.

The use of shared resources over the long run necessarily entails the existence of regulatory mechanisms, shared norms and standards of legitimacy that will put their stamp on companies that embark on a process of internationalization, because they are part of the original home environment of the companies. A firm's home environment includes a culture, a legislative tradition, public institutions, practices that govern labor and commercial relations, etc. (Campbell and Pedersen 2007; Cao et al. 2018; Carbonara et al. 2018; Estrin et al. 2017; Moen 2016). This entire set of formal and informal elements constitutes the institutions of the place of origin in which local businesses are embedded (North 1991; Thornton and Ocasio 2008). The analysis of the effect of regional institutions on the behavior and competitiveness of internationalized businesses has generated an extensive literature, most notably the work of scholars such as Busenitz et al. (2000), Geleilate et al. (2016), and Marano et al. (2016), to name but a few.

The institutionalist approach has given rise to a number of different lines of analysis, two of which are particularly important for the subject of this paper: the evaluation of cultural distance and the varieties of capitalism (Hall and Soskice 2001; Kogut and Singh 1988). The first line of analysis ─the evaluation of cultural distance─ is relevant because of the major importance that it attaches to an analysis of the institutions of the country of origin, while the second line of analysis ─ the varieties of capitalism─ seeks to classify countries in terms of their long-term economic policies, an aim that will be very helpful in characterizing the form of Spanish capitalism in the period under study.

Nonetheless, both lines of analysis raise issues of interpretation. The extensive literature that utilizes the evaluation of cultural distance does not succeed in arriving at conclusive results (Beugelsdijk et al. 2017; Harzing and Pudelko 2016; Morschett et al. 2010), while a number of scholars have underscored the need to expand the tools that are used to classify the different forms that capitalism has taken (Donzé and Smith 2018; Ebner 2016; Jackson and Deeg 2008; Keulen and Kroeze 2014).

While many empirical studies have been conducted using both models, they have used data only at the level of the nation-state in their analysis, even though many scholars point to the importance of institutions at the regional level (Crouch et al. 2009; Ebner 2016; Fortwengel 2017; Hopp and Stephan 2012; Phillips et al. 2009). As a result, the academic analysis of international business suffers from a significant knowledge gap in this area. Accordingly, the present study aims to focus directly on this gap by analyzing the importance of institutions at the regional level, drawing sharp distinctions between their characteristics at that level and the characteristics that appear at the level of the nation-state.

While focusing attention on the regional level is one of the two basic elements of the present study, the other is its dynamic, historical character. The paper analyzes the initial steps toward internationalization taken by a set of companies that have now become large multinationals and rank among the global leaders in their sector. The contention here is that it is not possible to grasp the major international importance that has been attained by these firms without adopting a long-term analysis that helps to understand how they succeeded in developing a set of specific, valuable skills and knowledge and transferred them to their foreign business dealings (Buckley and Casson 1998; Casson 2018; Helfat and Lieberman 2002; Kobrak et al. 2018). Following Jones and Khanna (2006, 459):

> We maintain that dynamics and not statics are central. Things change. Firm strategies and organizations are shaped by the economic, social and political environment. Environments change, often and sometimes radically.

A final factor that must be adequately appreciated is that the focus of the analysis is not an isolated case that involves a single, distinctive personality or an exceptional situation (Miskell 2018). Rather, the five companies from the Balearic Islands embarked on processes of internationalization practically in parallel (Dosi et al. 2017). This simultaneity attests to the fact that there existed both an 'institutional logic' and an 'entrepreneurial identity' that were shared by all five firms (Aguilera et al. 2018; Thornton and Ocasio 2008). The most important elements of this 'entrepreneurial identity', the initial competitive advantages that enabled the five companies to expand into international markets, were an excellent knowledge of the interests and demands of European tourists and a strong position in tourism distribution and marketing channels (Cirer 2013; Dunning and Kundu 1995). Beyond their initial competitive advantages, the institutional variables analyzed in this paper served as available resources, functioning as levers that helped the Balearic Islands firms to achieve their successful international take-off.

Analyzed features

The 'nationality' of a firm is determined by the prevailing formal and informal institutions in the firm's home country and by the characteristics of the markets in which it has developed in that country. Since an analysis of the environment cannot be done as a whole, so it is necessary to separate the elements to understand and evaluate their individual impact on entrepreneurial behavior, isolating and treating the institutional elements as features (Jackson and Deeg 2008). In the present case, the study will analyze a set of seven features that are regarded as important in practically every cases according to the existing literature.

Firm size: Size is always an advantage in capital-intensive sectors (Acs and Audretsch 2005; Lu 2002). Luxury tourism is highly capital-intensive and requires large and infrequent investments in very specific assets, sharply increasing the risk exposure for small companies (Teece 2007). Accordingly, if the tourism companies of the Balearic Islands were larger in size than other Spanish firms in the same sector when the former embarked on internationalization, then they would have a comparative advantage.

Table 2. Comparison of average firm size in Spain and the Balearic Islands in the main tourism sectors, measured by average number of workers.

Average number of workers	Spain	Balearic Isl.
551 Hotels	15.6	34.6
62 Air travel	117.5	438.3
633 Travel agencies	6.5	10.4
All activities	4.4	4.1

Source: INE, DIRCE 1999.

Table 3. Distribution of firm size for companies in the Balearic Islands engaged in the main tourism sectors, with size measured as a percentage of the number of Balearic Islands businesses out of the Spanish total in each segment.

Percentage out of total Spanish firms	Small 0–49	Medium-sized 50–199	Large ≥ 200
551 Hotels	8.4	20.0	25.5
62 Air travel	5.6	10.7	36.4
633 Travel agencies	8.0	17.7	26.7
All activities	2.7	2.3	2.1

Source: INE, DIRCE 1999.

Three tourism sectors in the Balearic Islands stand out because of the large size of the firms that are included in them. Table 2 above shows the three sectors in question. In all three cases, the firms in the Balearic Islands are, on average, much larger than Spanish ones.

Lastly, as Table 3 shows, the islands were particularly overrepresented in the tier for large companies in 1999. In short, the islands were home to considerably more tourism companies in 1999 than the Spanish average and the companies were also much larger than their Spanish counterparts.

Competitiveness in the tourism market of the Balearic Islands

Competitive markets cannot exist if business leaders are not immersed in a social setting that facilitates their freedom to act and forces them to adapt to intensely competitive situations, such as the ones encountered when seeking to gain entry to foreign markets (Acemoglu and Johnson 2003; Crossland and Hambrick 2011; Hofstede 2011; Hopp and Stephan 2012; Klyver and Foley 2012; North 1991). The three tables below (Tables 4, 5, and 6) lay out information on how the hotel market in the Balearic Islands was divided among the various chains between 1975 and 1999 (Alcover and Sard 2000; Cirer 2014a; Sastre 1995).

Table 4. Market shares of the Balearic Island chains as a function of their ranking by number of hotel rooms managed in the archipelago.

Ranking of chains	1975	1980	1992	1999
Top 5	12.4	15.2	12.3	14.6
6 to 10	7.3	8.6	5.0	8.4
11 to 15	4.0	3.8	4.0	6.8
Remaining chains (1)	2.1	5.5	10.8	24.7
Independents (2)	74.2	66.9	67.9	45.5
TOTAL	100.0	100.0	100.0	100.0

(1) Firms operating two or more hotels.
(2) Hotels operated by firms that have only one establishment.
Source: Alcover and Sard 2000; Cirer 2014a; Sastre 1995.

Table 5. Market shares of the top five internationalized chains in the Balearic Islands. Percentage of total rooms in the Balearic Islands managed by each chain.

Chain	1975	1980	1992	1999
Sol Meliá	3.79	5.05	5.68	3.43
Iberostar			0.29	2.57
Barceló Hotels	1.40	1.94	1.21	1.43
Riu Hotels	0.95	1.52	1.22	2.08
Fiesta	1.17	2.14	2.49	3.60

Source: Alcover and Sard 2000; Cirer 2014a; Sastre 1995.

Table 6. Evolution of the Herfindahl index.

	1975	1980	1992	1999
Herfindahl Index	0.0082	0.0057	0.0072	0.0050

Source: Cirer 2014a.

The three tables above show that Balearic Island market had a highly competitive structure throughout the period under consideration. Specifically, the largest firm dominated only 5.68% of the market and the Herfindahl index was twenty times smaller than the value of 0.15, which is generally regarded as the threshold at which a market must be considered concentrated. The five hotel companies in the analysis grew at a dizzying speed, but the tourism market in the Balearic Islands grew at nearly the same rate. As a result, while the companies increased their market share, they never achieved a dominant position.

Between 1975 and 1986, the major Balearic Island hotel chains recorded levels of performance that were clearly superior to the performance of the remaining local firms, enabling them to apply predatory practices and drive most of their small competitors out of the market (Sastre 1989). Where they did not so, it was precisely to redirect their investment efforts outside the archipelago when the local market showed signs of exhaustion. By the early 1980s, no more large plots of land remained on the beachfront and the high tourism density was giving rise to congestion costs that curtailed the returns on new investments (Suedekum 2006; Ter Wal and Boschma 2011).

Tables 4 and 5 show that the large companies continued investing in the Balearic Islands, but they slowed the pace of their outlays in the archipelago as they acquired new hotels first in mainland Spain and on the Canary Islands and later in the Caribbean. Indeed, after the turn of the twenty-first century, all the companies that had internationalized their operations reduced their presence in the Balearic Islands in order to free up financial and human resources for use in their international expansion, and they reconfigured their assets and structures to take advantage of new opportunities (Cirer 2014a, Teece 2007). This behavior respected their social capital, that is, the set of informal rules that had hitherto fostered cooperation (Stephan and Uhlander 2010).

On the demand side, the market showed a much higher level of concentration. In the years under study, major European tour operators were systematically winning market share (Bastakis et al. 2004; Klemm and Parkinson 2001; Tapper 2001). The data provided by Sastre (1995) indicate that there was significant concentration in 1992, with the five leading tour operators (*TUI*, *Thomson*, *Neckerman*, *Airtours*, and *Owners Abroad*) taking 47% of the market. Yet only the top two had a market share greater than 10% and the corresponding Herfindahl index was 0.079, which was much higher than the figure for the hotel industry, but still pointed to a sufficiently competitive market that was not dominated by any one agency.

Openness to trade: An entirely outward-directed tourism sector

A number of authors have posited that companies that do not yet operate in international markets, but do have strong contact with them prior to internationalization (for example, through exports), develop capacities that prove very useful to them subsequently when they embark on a process of integration into foreign markets (Fitjar et al. 2013; Geleilate et al. 2016; Oviatt and McDougall 2005).

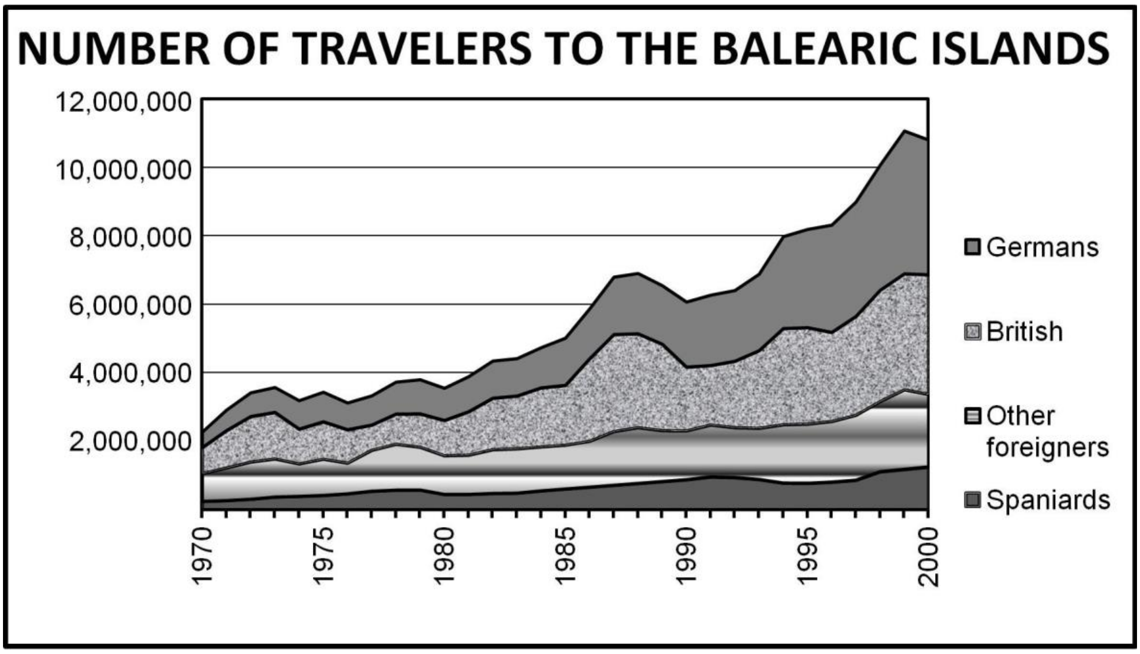

Figure 1. Number of travelers coming to the Balearic Islands.

Figure 1 above shows the evolution of passenger traffic to the Balearic Islands between 1970 and 2000. It reflects a sustained increase in the number of tourists arriving between 1980 and 2000, with an average growth of 5.3% per year. It is also striking that a low percentage of Spanish tourists have normally come to the Balearic Islands, with the figure hovering in the region of 12–13% and never exceeding 15% of the total number of tourists. The Spanish market has always been secondary to the British and German markets.

At certain times, hoteliers in the Balearic Islands have also had to compete against foreign companies in their home market. From early in the nineteen-seventies, several large international hotel chains, such as *Iberotel* and *British Caledonian Hotels*, moved into the islands. They achieved rapid growth, but soon decided to abandon the market and sell their assets to local firms (Cirer 2014a).

In the years under study, the Spanish economy registered a very low level of internationalization and, Spain remained far below the average level of international openness among EU countries (Gomez 2015; Hall and Soskice 2001; Valdaliso 2004). In the nineteen-fifties and sixties when the Spanish state had an exceptionally closed economy, the tourism sector in the Balearic Islands underwent rapid growth in the face of full exposure to international markets.

Putting capital markets in the Balearic Islands and Spain into perspective

Many studies have posited that a high level of development in the financial system of the home country is a core element that facilitates the internationalization of its firms (Chacar and Balagopal 2005; Holmes et al. 2013; Popp et al. 2006).

In Spain, the financial system did not achieve a high degree of development until early in the twenty-first century. Indeed, for the years of interest in this study, international comparisons have ranked Spain lowest among the countries of Western Europe (Geleilate et al. 2016). For many years, official state credit stifled the Spanish capital market and forced the few private enterprises that managed to grow and expand overseas to do so between periods of financial tightening (Puig and Fernández 2009). Furthermore, the Franco regime never regarded the hotel sector as a priority (Cals 1974; Cirer 2019; Hernández and Mancha 1980).

The hoteliers of the Balearic Islands succeeded in overcoming the financial stranglehold that threatened them, thanks to massive self-financing and two very particular sources of credit. First, the tourism business generated such high profits so rapidly that the major European tour operators were soon in a position to provide generous financing to the hotel sector. They paid in advance for several years of room rentals in hotels that were not yet even off the drawing board (Alenya 1990; Ramon A.

2000; Ramon E. 2001). Second, the hoteliers enjoyed a relatively broad-based and competitive local finance sector that was highly responsive to their needs.

In 1990, private banking in Spain included a total of 153 firms. Of these, 97 had their headquarters in Madrid and 19 in Barcelona (CSB 1990). The Balearic Islands, however, were home to three of the 37 headquarters not located in Spain's leading financial centers, ranking fifth among Spanish provinces in number of bank headquarters, while holding only the nineteenth position in terms of population. This points clearly to the unique character of the local financial market. The three banks were the *Banca March* and the *Banco de Crédito Balear*, both located in Palma (Majorca), and *AMT-Banco de Ibiza*, located on the island of Ibiza. In 1990, the three local banks focused practically all of their business in the Balearic Islands. In fact, only 17 of their 247 branches were located elsewhere. All three were strictly private and had strong links to the tourism industry.

In the case of *AMT-Banco de Ibiza*, the link was particularly apparent, because the lead owners of the two largest hotel conglomerates in Ibiza, *Matursa* and *Fiesta*, held the posts of chairman and vice-chairman on the bank's board of directors and their children sat on the board as well. In the case of *Banco de Crédito Balear*, the bank's chairman, Miguel Nigorra, was the leader of the *Imisa Group*, one of the leading promoters of urbanization and golf courses in Majorca. While the senior leadership of the *Banca March* did not personally have shareholdings in tourism businesses, the bank did finance a host of firms in the sector. For instance, because of disputes with one of its largest customers, the *Royaltur Group* ended up in court in 1993 and the court filings show that the *Banca March* was the top financial backer of the group, which came to have 12 hotels and more than 9,000 beds.

There was also a relatively important local savings bank known as a *caja*, but the restrictive legal charters of Spain's *cajas* prevented it from playing an active role in any direct financing of the tourism sector.

A flexible labor market in a rigid environment

Having a flexible labor market in their home country also enables companies to acquire capacities that prove highly useful when they seek entry into international markets. This flexibility forces senior executives to operate in an environment that raises the demands on them, because in an open market their remuneration will tend to be in line with their achievements and their position will come under threat if results are poor (Cuervo and

Dau, 2009). On the other hand, no company will be able to exploit its full potential when entering into economies that have flexible labor markets if it lacks the necessary experience (Chacar and Balagopal 2005; Chacar et al. 2010). At an empirical level, therefore, it is clear that having a flexible labor market in its home country is a good predictor of a company's future competitiveness (Chacar et al. 2010).

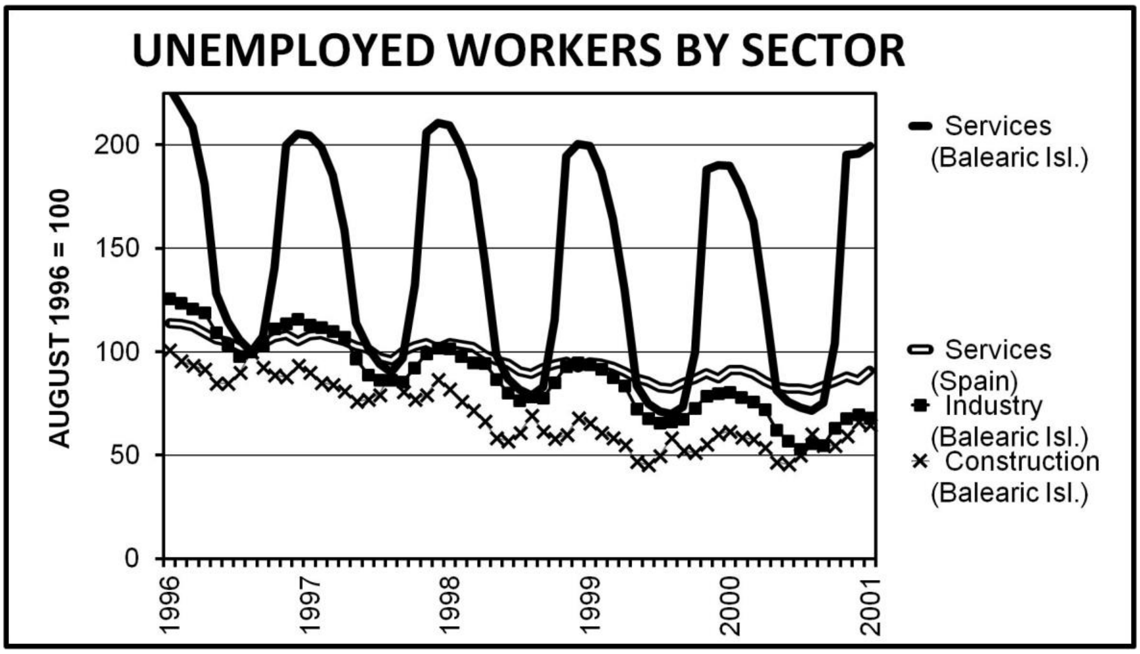

Figure 2. Seasonal evolution of the number of unemployed workers in the leading economic sectors in the Balearic Islands and in Spain's service sector.

Source: Spanish Public Employment Service (SEPE).

Figure 2 above shows the evolution of the number of unemployed workers in the service sector in the Balearic Islands between 1996 and 2001 (SEPE 2008). The graph compares these numbers with those of the industrial and construction sectors in the islands and with the service sector in Spain as a whole. Clearly, the service sector in the Balearic Islands is characterized by extreme seasonality.

It is also common for many workers to return to the same firm summer after summer, but this relies on the continuing interest of both parties because the hotelier has a very limited legal obligation. The success of these hiring techniques is unquestionable, as is demonstrated by a survey conducted in 1999, which found that workers in the hotel sector had, on average, nine years of service, but that nearly half of them had spent less than three years in the firm that currently employed them (Ramon M. 2000).

Given this situation, it is understandable that the scholar who conducted the finest studies on the labor market in the Balearic Islands in the last third of the twentieth century, A. Monserrat, (1994), has made the following assertion:

> A basic feature of the labor market is its flexibility, that is, the Balearic Islands, given their history, have a degree of elasticity in labor relations that is far higher than that of Spain as a whole.

Even now, the Spanish labor market is one of the most rigid in the developed world (Geleilate et al. 2016). Its evident dysfunctions have triggered a long series of reforms first begun in the late nineteen-seventies that have generally had limited effects (Alcaide 2012). Hoteliers in the Balearic Islands succeeded in decoupling from the Spanish labor market owing to the extreme seasonality of tourism in the islands combined with Spain’s structural unemployment.

Degree of urbanization: A recent novel hypothesis posits that the level of internationalization in emerging countries (such as Spain in the nineteen-eighties) is positively correlated with their degree of urbanization (Cavallo et al. 2018; Estrin et al. 2017).

In the period 1950–60, the Balearic Islands had a population density that was 50% greater than the Spanish average. By 1991, their density had reached 149 inhabitants per square km (57.5 inhabitants per square mile), a figure that was 91% above the Spanish average (INE Annual Report for 1995). Moreover, the difference is not new. The Balearic Islands have experienced urbanization at levels far higher than Spain as a whole since at least the seventeenth century (Segura and Suau 1984). It is clear, therefore, that the Balearic Islands have always been a much more urban region than the Spanish average.

Rate of entrepreneurship:

The existence of a high rate of entrepreneurship, that is, a high rate of start-ups that stay in business over time, has also been put forward as an indicator of the competitiveness of companies in a given geographical environment (Dvouletý 2018; Frese et al. 2016). This factor serves as an indicator of the existence of a distinct geographic space that is more developed than its surrounding environment and therefore more conducive to the creation of competitive companies that are capable of embarking on processes of internationalization.

In terms of the rate of entrepreneurship, the Balearic Islands hold the top rank far ahead of Spain's other regions. In 1989, the islands had 212 firms for every 1,000 members of the working population. This figure was the highest anywhere in Spain, and it exceeded the domestic average by 55%. (Crecente et al. 2013).

Like geography and history, institutions play an important role

Between 1950 and 1985, the hotel firms in the Balearic Islands took on a prominent role in the creation of new tourism markets and rose to a leading position within the Mediterranean Basin (Cirer 2016; Pearce 1987). They achieved accelerated growth at the same time that they resisted the monopolistic pressures that the major British and German tour operators succeeded in imposing in their business arrangements with other destinations in southern Europe (Klemm and Parkinson 2001; Pearce and Grimmeau 1985; Tapper 2001). Sustaining accelerated growth over such a long period was made possible thanks to the ability of Balearic Island entrepreneurs to adapt to the changing requirements of the tourism demand. Their ability to understand the customer and interpret the customer's future requirements is what led them to consider internationalization when the stagnation of their traditional business model became evident and falling air fares opened up a new opportunity in the Caribbean. Thus, two conditions were met that some scholars point to as key in explaining the success of a process of internationalization: a focus on the needs of the consumer and an ability to take part in the creation of new markets (Jones and Pitelis 2015; Pitelis and Teece 2010).

The hotel firms in the Balearic Islands had both the ability and the opportunity to expand into international markets, but these conditions were necessary, not sufficient. To achieve success, they also needed a favorable environment with institutions that were supportive, not restrictive. This is where the particular environment of the Balearic Islands became so important.

Various studies have compared the Spanish situation with the situations in other countries over the last two decades of the twentieth century. From the perspective of varieties of capitalism, Hall and Soskice (2001), Schröder (2009) and Stephan and Uhlaner (2010) have determined that Spain belonged to a Mediterranean model that offered few opportunities for internationalization to its companies in comparison to the other two major models prevailing in the rest of Western Europe. However, the Mediterranean model was also highly tolerant of transgressive, norm-breaking behaviors in the sense put forward by Aguilera et al. (2018). Owing to this tolerance, the Balearic Island firms were in a position to pursue a distinct growth path that drew on global components (the support of tour operators) and local components (as described earlier) in order to escape from the constraints imposed by the institutional environment of the Spanish state (Crouch et al. 2009; Ebner 2016). This distinctive path enabled the firms to achieve a genuine institutional competitiveness at the regional level (Campbell and Pedersen 2007; Moen 2016).

The global components on which the hoteliers of the Balearic Islands relied for support in their process of internationalization were the major European tour operators, which began to send them most of their tourism customers from the nineteen-fifties onwards under long-term agreements with the hoteliers (Cirer 2014a; Cladera 2009). The extensive experience gained by the hoteliers and the tour operators over many years of managing interconnected businesses spread mutual trust and cemented complex network relationships that could readily be expanded to give support to the hoteliers in their new Caribbean ventures (Besser and Miller 2011; Fernhaber and Li 2013; Johanson and Vahlne 2009).

Conclusions

The results of this study lead to two different conclusions. First, they confirm that the conditions in the initial environment are important for understanding the ability of firms to expand internationally, verifying most of the theoretical assertions concerning the effect of the analyzed features on the potential internationalization of firms.

Second, the study shows that keeping the analysis at the national level results in serious distortions that mask the effect of institutions that really do have an impact on firm behavior. To overcome this drawback, it is necessary to modify the research format substantially and accept the loss of some methodological rigor. Broadly speaking, conducting the analysis at a geographical level smaller than the nation-state raises issues about the heterogeneity and fundamentally qualitative nature of the data. As a result, it is often very difficult to pose hypotheses that can be confirmed or rejected through statistical comparisons (as the present paper does). In addition, the use of regional quantitative data requires the definition of the environment under study, drawing analytical boundaries that are, in reality, diffuse or porous. In the present case, it has proven easy to distinguish the geographical space for study because it is a group of islands, but this characteristic is not common. In this specific case, the geographical factor has facilitated the use of analytical tools, but the belief is that the study of institutions at the regional level can offer an important way to understand the processes of internationalization that affect firms in any type of spatial concentration. By adopting the regional level, the paper mitigates the discrepancies and inaccuracies that appear in studies that make use of cultural distance or the varieties of capitalism as an explanatory pillar.

Regional agglomerations of economic activity are particularly apparent in Italy and Spain and they can also be seen more broadly in all developing countries (Brusco 1986; Estrin et al. 2017; Ma et al. 2016; Martínez et al. 2015), however, they appear as well in many economically more advanced countries. The causal factors that foster the emergence of such clusters are highly varied and much contested. While some scholars emphasize factors such as the accumulation of knowledge and the propensity for innovation (Delgado et al. 2010; Fujita and Krugman 2004; Johansson and Quigley 2004), others argue that the emergence of clusters is a consequence of the development of more efficient markets in concentrated spaces (Cainelli and Iacobucci 2012; Freedman and Kosová 2011; Zehrer and Raich 2010) or the accumulation of social capital (Cohen and Prusak 2001; Staber 2007).

Whatever the historical processes and causal factors that push businesses toward geographic concentration, the empirical evidence indicates that such subnational agglomerations do exist and cannot be assumed to have no effect on the processes of internationalization in companies that are located within them.

Based on the data provided, the present study has bolstered the importance of institutions as an explanatory factor for processes of internationalization, but it has also shown that the impact of institutions can take very specific forms that are highly dependent not only on given historical moment, in keeping with the findings of Jones and Khanna (2006); Kobrak et al. (2018) and Thornton and Ocasio (2008), but also on the geographical level at which commercial activity is carried on (Crouch et al. 2009; Ebner 2016; Fortwengel 2017; Phillips et al. 2009) and the presence of networks that provide support to innovative entrepreneurs (Cano et al. 2016; Casson and Lee 2011; Witt 2004).

In an initial phase, the major growth of tourism in the Balearic Islands took place against the backdrop of a state environment that was not favorable (Cirer 2019). At the time, the Spanish economy was administered by a dictatorial regime that was deeply distrustful of competitive markets and tended to minimize contacts with the outside world as much as possible (Binda 2009; Cirer 2016; Fraile 1998; Gomez 2015; Valdaliso and García 2013). Nonetheless, the tourism firms of the Balearic Islands were able to circumvent these institutional impediments and build their own 'ecological niche', which was virtually isolated from its most immediate environment in that competitiveness and international trade were the rule, not the exception.

Based on new versions of the Darwinian evolutionary paradigm, the present case shows an environment and economic agents that have co-evolved over the long run:

> Organisms actively change their environment and the environments selectively change organisms. It means that the organism is an active player who co-directs its own evolution, systematically changing the environments and thus influencing the frame of selective pressures. (Pievani 2019, 447).

In the end, the foregoing analysis of the process of internationalization leads to a conclusion that runs parallel to the one obtained by Harzing and Pudelko (2016, 8) in their study of modes of market entry: 'relevant explanatory factors have to be established on a case-by-case basis and cannot be determined a priori'.

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