

Foreign direct investments in hotel properties to tunisia finance essay

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Tunisia is a country situated in Africa, on the Northern coast boarding the Mediterranean Sea. The country is located between Libya and Algeria. “ Tunisia has a mixed economic system in which there is a variety of private freedom, combined with centralized economic planning and government regulation. “ (Global Edge, 2011). Since the Independence Day, the Tunisian Government constantly encourages foreign direct investments in many industries such as electronics and textile (The PRS Group, 2010). Although Tunisia followed a relatively high growth rate, a combination of negative events such as the Iraq crisis or the Casablanca terrorist attack had a very negative impact on the Tunisian tourism industry led to a significantly decrease in the GDP (Siegle, 2008) . It is known that foreign direct investments (FDI) in hotel properties are way riskier than any other investment (Timurlenk & Kaptan, 2012). To attract the foreign direct investments especially in the hotel properties, the host country needs to give the freedom of choice and the much incentives possible. However, a Tunisian law does not authorize franchising except for some special case which is very rare in the Tunisian society (The PRS Group, 2010). Moreover, added to this lack of freedom in FDI, Tunisia goes through a very instable period due to the Arab uprising (Index of economic freedom, 2013). Even if the situation is relatively calm and that no tourist was ever hurt during this period, the media is increasing the scare among the locals, the tourists and the future foreign investors.

Rationale

This research needs to be done as there are a lot of studies on how to attract foreign directs investments in general but not specifically in the hotel

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properties industry and more specifically in developing country such as Tunisia. Another motivation is also the lack of diversification in the tourism industry in Tunisia as it clearly defined as a tourism mass destination. It is interesting for the researcher to measure if since the Arab uprising have changed about the foreign direct investments as the corruption is the gangrene of the society.

Research questions

Is the lack of foreign direct investments in hotel properties to Tunisia that important? What are the main reasons that don't attract the FDI in hotel properties? Is Tunisia offering enough incentives to attract FDI investing in hotel properties? How can Tunisia increase its advantages in the main factors considered by the foreign investors when deciding in investing in hotel properties to Tunisia? Why foreign investors would like to invest in Tunisia? Are they enough and what are the benefits for the investors and the hosting country? How much time need to Tunisian government to create enough incentives to attract foreign direct investment in hotel properties?

Aim and Objectives

Aim

The aim of this research is to investigate on plans on incentives that the government could adopt to attract foreign direct investments in hotel properties to Tunisia.

Objectives

To identify a shortage of foreign direct investments (FDI) in hotel properties.

To understand why the FDI in the hospitality industry are regressing. To

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identify what are the adopted reforms, plans or incentives to attract these FDI in hotel properties. To determine what are the benefits for both investors and hosting country. To define what are the conditions or plans that could attract FDI in hotel properties

Littérature review

Foreign direct investment

Definition

The foreign direct investment increased worldwide in general during the last years (Vargas & Martinez, 2012). The pure definition of a foreign direct investment is when residents or company of a country acquire the control of an asset in the host country which is Tunisia in our case (Moosa, 2002).

According to the OECD, " Foreign direct investment reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise." (OECD, 2008). Others will say that foreign direct investment is not the correct name that should be given for the process which gives the total control of all international activities to a single firm. As a foreign investment is an international transfer of capital, this concept should be called an " international extension of managerial control over certain activities" (MacManus, 1997). Even if all those definitions seem to be different, they all have a common point which is the total control of the operations (Moosa, 2002).

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Foreign direct investments (FDI) entry modes

Nowadays, the literature about the different entry modes of FDI is very vast (Gorynia, Nowak, & Wolniak, 2007). According to Osland et al., it is crucial for the investor to choose an entry mode to enter in a foreign market. There are four main modes distinguished which are: exporting, licensing, joint ventures, and wholly-owned subsidiaries (Osland, Taylor, & Zou, 2001). Other authors will focus more on three kinds of entry modes which are acquisitions, joint venture and Greenfield investments (Kogut & Singh, 1988).

Investment Development Path (IDP) applied to developing countries

According to Vargas et al., the IDP is a model that connects the economic development of a specific country to the FDI received and emitted in this specific country taking into account that this development will create advantages to the local business and will help the multinationalization development. This will consequently attract new FDI in the hosting country thanks to the creation of new advantages (Vargas & Martinez, 2012). This theory shows that by increasing the multinationalization, the country will increase the income of FDI in the country. It is stated that the IDP is characterized by five stages that country have to go through. The first two stages are related to the developing countries, the third one for the newly industrialized countries (or emergent countries) and finally the last two stages correspond to the developed countries (Siegle, 2008). According to Siegle, Tunisia is a developing country so the researcher will focus more specifically to the first two stage of the theory (Siegle, 2008).

Hotel property investment in the developing market

Hotel property characteristic

Tourism is a very important part of the Tunisian economy (Siegle, 2008) and very important in most the world economies. “ Given the stature of international tourism, hotel properties are an important property investment sector.” (Newell & Seabrook, 2005). According to Rushmore, hotel properties investments are considered as a high risk investment. The big problem is the volatility of the real estate property associated with the secondary activities such as the food and beverage department. Even if there are big consequences with this kind of investments, the important potential gain continue attract investors from all around the world (Rushmore, 2002).

Developing countries

Definition

The term developing countries is not always used depending on the organization. According to the library of congress collections policy statements, the United Nations also use the term of “ less developed countries” or “ least developed countries” (Library of Congress Collections Policy Statements, 2008). Some authors define developing countries as countries where the economy can “ only support low standards of living and in the early stages of development. Developed countries are one of the three categories defined by the WTO which are developed countries, developing countries and least developed countries (Macrory, Appleton, & Plummer, 1959).

Country risk

Country risk has to be taken into consideration when investing in a developing country. It shows the risk related to the factors that will affect the hosting country ability to pay interest on time. According to Timurlenk et al., country risk refers to “ the volatility of return on international business transaction considering several facts associated with a particular country” (Timurlenk & Kaptan, 2012). There are three main factors composing the country risk which are: the economic, the political and finally the financial risk (McAleer, Da Veiga, & Hoti, 2010)

Factors to be taken into consideration in the investment process

According to Newell et al., it seems to be three different levels of importance in the decision making processes which are (from the more important to the less important): financial, location, economic, diversification and relationships factors (Newell & Seabrook, 2005).

Risk on investment in hotel properties

The conversion of an empty land into a luxurious hotel property can drive to an economic threat for the investor. The more the asset is complicated and luxurious as they are the most complicated to develop; the higher the risk will be for the entrepreneur as they will be much complicated to manage compared to the others kind of hotels (Younes & Kett, 2006). “ This risk impacts the ability of the owner of the hotel property to exit the investment or extend its economic life. This risk involves the potential decrease in a property’s value as at the envisaged exit period. It is the uncertainty of the future value of the hotel asset” (Younes & Kett, 2006).

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Conclusion

After a broad definition of the foreign direct investment, the researcher will be able to better understand what are the opportunities for the foreign investors to penetrate a market. He will have to go through the theories to better understand how to attract foreign investors to invest in hotel properties in Tunisia. By understanding the needs and threats of the investors, the host country able should be able to attract those investors by giving them more incentives in the factors taken into consideration before an investment.

Research methodology

Research method

Research philosophy

During all the stages of the research, the researcher will have to make assumptions that will profile the way he apprehend his research questions and how he is going to interpret the results. This is why choosing the right research philosophy is important as it will contain assumptions about how the researcher interprets his environment (Saunders, Lewis, & Thornill, 2012). We can say that choosing the research philosophy is decisive as the assumptions made will establish the chosen method. Taking into consideration that the researcher's aim is to understand what could be done by the Tunisian government to attract foreign direct investments in hotel properties to Tunisia including feedback from investors and governmental personalities, the research will use the interpretive philosophy (or interpretivism approach). Interpretivism support that it is crucial for the

researcher to discern the differences between the social actors which are here the foreign investors (Saunders, Lewis, & Thornill, 2012).

Research approach

The researcher will use already existing theories and use the data collection to assess hypotheses linked to a theory. We can say that a deductive approach will be used to test these theories (Saunders, Lewis, & Thornill, 2012).

Research design

The researcher will use a qualitative approach as the collect and analysis of primary data will be based on interviews (Saunders, Lewis, & Thornill, 2012). This approach will allow the researcher to better understand what incentives the investors are looking for. An exploratory study is an important way for the researcher to better understand the topic that he is working on (Saunders, Lewis, & Thornill, 2012). Therefore, the researcher will use an exploratory study to collect as much information from the interviews. The interviews will also be conducted with government workers to better understand what is currently done by the government to attract the investors. Moreover, the researcher will keep a record of all communications with the interviewees to confirm the credibility of the research (explained in the credibility part). Consequently, the researcher will use multi-method qualitative study (Saunders, Lewis, & Thornill, 2012). Finally, because of the time constraint, the research will be cross-sectional (Saunders, Lewis, & Thornill, 2012).

Data collection

Data collection method

The researcher will collect qualitative data through one-to-one interviews with investors and government workers. Those interviews will be either face to face or by any electronically device or drivers such as Skype™ calls. The researcher must be familiar with the chosen topic to avoid any data quality issues. He will have to prepare the interview theme and increase his knowledge on the topic before the interview (Saunders, Lewis, & Thornill, 2012).

Selecting the sample

The researcher needs to select samples as it is impossible for him to survey the whole population with the time and budget constraints (Saunders, Lewis, & Thornill, 2012). In this case, the researcher tries to understand the investor's behavior and their perception about investing in hotel properties in Tunisia but also the government worker's point of view on what is done or could be done to attract them. The researcher will use the non-probability sampling as the samples will be chosen upon their convenience and interest for the topic (Stehman, 1999). All people selected for the sample will be related the hospitality industry and the regulations having an impact on these investments.

Interview design

As seen in the research design, the researcher will collect and analysis his qualitative data through interviews. These interviews will be one-to-one interviews and will be held either face to face or by the intermediary of a

phone or Skype™ call. The researcher will use semi structured and in depth interviews. He will dress a list of questions and themes related to the topic. Moreover, the interviewed will be able to freely talk about his thoughts and behavior in the topic area, as the questions will be open-ended, to extent the interviewer's knowledge and guide him to additional questions (Saunders, Lewis, & Thornill, 2012). Finally, as the interviews will be in the form a conversation, the data will be collected by live note taking during the interview and video or audio recording to facilitate the future transcription of the data. (Saunders, Lewis, & Thornill, 2012)

Data analysis

Data analysis method

The qualitative data is based on the interpretation of word to express meanings. By using the semi structured and in depth interviews, the researcher will have to classify the data by categories and analyze them by using the conceptualization which means forming a concept out of observations in this case interviews (Saunders, Lewis, & Thornill, 2012). The division in data categories will led to a concept driven analysis derived from existing theories (Saunders, Lewis, & Thornill, 2012). The pattern matching seems to be the appropriate procedure for the researcher as it involves the prediction of patterns of outcomes from existing theories. Those theories will have to be tested to the researcher's framework to explain the result that he finds. This result will allow the researcher to implement a change in a specific management programme in the specific institution related to the topic (Saunders, Lewis, & Thornill, 2012). The researcher will be able to

compare the collected data to his confirm hypothesis and discuss the theories proposition made (Saunders, Lewis, & Thornill, 2012).

Credibility

The credibility of a research lays on how the findings are believable. The credibility of a research can be measured by maintaining a continued contact with the interviewees to better understand their behavior (Lincoln & Guba, 1985). As the researcher will keep a record of every communications with the interviewees, he will be able to consolidate the relation with the interviewees and increase the credibility of his work. It is important that the researcher make sure that the topic chosen is important to the field of inquiry. The results must bring something additional to the existing research and theories. He will make sure of the clarity of his argumentations (Silverman, 2011).

Limitations

One the main limitation that researcher will have to face is the time constraints to do the interviews and analyze the information in a proper manner. He will have to correctly manage his time. Another important limitation will be an important literature gap on hotel properties in Tunisia. This is why the researcher will be able to explore and fill the gaps thanks to interviews.

Results, findings and conclusion

With this study, the researcher try to better understand how the investors act or think when investing in hotel properties to Tunisia and what could be done by the Tunisian government to attract them. He will find thanks to the <https://assignbuster.com/foreign-direct-investments-in-hotel-properties-to-tunisia-finance-essay/>

results of the interviews the investor's behavior for this kind of investments and measure if the strategy taken by the government is successful or not.

Appendix A : Gantt Chart

Time Chart

JanFebMarAprMay

Week as per Month

2341234123412341

Week as per Dissertation

0123456789101112131415Contact survey respondents

Security Data Collection

Review Topic, Objectives & Methodology

Finalize Aim & Objectives

Read Literature

Draft Preparation of Literature Review

Initial Draft Hand-In

Read Methodology Literature

Revise Research Approach

Draft Research Strategy and Method

Initial Draft Feedback

Develop Questionnaire

Administer Questionnaire

Initial Analysis of Data Collected

Develop Data Analysis

Administer In-Depth Review

Second Analysis of Data Collected

Second Draft Hand-In

Finalize literature review

Final Analysis of Data Collected

Draft findings as per chapter

Finalize reading chapters

Second Draft Feedback

Revise Draft, Format for Submission

Print, Bind

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