Entry of Spanish tourism firms into new businesses

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Abstract

Purpose – Diversification is one of the most promising strategies for tourism firms, the entry mode choice being an essential decision. For this reason, this paper seeks to analyze the entry mode into new business areas made by Spanish tourism firms in their diversification process. It aims to focus on firm factors drawn on the resource-based view (RBV) to examine issues such as the link between the new business and the company's original one, its diversifying experience, the reasons for diversifying and the impact of the choice of internal growth, external growth or cooperation agreements. The effects of a fit between the entry mode and the type of diversification on profitability are also considered.

Design/methodology/approach – From a mail survey to Spanish tourism firms 94 entries into new business areas were obtained and a multinomial logit regression applied.

Findings – The results show that both the diversifying experience and the reasons behind the decision to diversify influence the entry mode and support the existence of a link between the above-mentioned fit and firm profitability.

Originality/value – The paper contributes to providing new empirical evidence about entry mode decisions, with the innovation that it has focused on a group of enterprises, those belonging to the Spanish tourism sector, which had traditionally received less attention within this field of research.

Keywords Marketing strategy, Diversification, Profit, Spain, Tourism

Paper type Research paper

1. Introduction

Diversification has not only been one of the main topics of interest within strategic management research, but has also received the attention of historians, economists and researchers in such areas as finance, law, marketing and public policy (Hoskisson and Hitt, 1990; Ramanujam and Varadarajan, 1989). Diversification can be defined as the entry of a company into new lines of activity through a process of internal development or through acquisition, which entails changes in its administrative structure, system or other management procedures. Within this definition is implicit the assumption that the decision of the company to enter a new business is linked to the choice of the entry mode into that business.

Diversification can offer companies many advantages. From a financial point of view, they include cost reduction, asset depreciation and risk reduction (Bergh, 1997). Strategic advantages involve synergies or the expansion, creation and improvement of long-term strategic assets (Li and Greenwood, 2004; Markides and Williamson, 1994). These advantages are particularly evident in the tourism sector: synergies, cost sharing, risk reduction or brand improvement (Martín, 2000; Martorell and Mulet, 2003). In addition, resource diversification contributes to long-term sustainability and regional development (Ivars, 2003). Tourism depends on regional development in terms of economic, cultural, natural and historic resources. The sustainability of these resources may influence not only the attractive of a tourist destination but also firm

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performance. As Kennedy (1998) notes, policy makers and strategists should encourage diversification in order to limit the adverse effects of a downturn in tourism demand in those economies that have become dependent on the tourism industry for job creation, income generation and foreign exchange revenues. Therefore, company managers must be concerned about these issues.

The Spanish economy is largely dependent on tourism, as can be seen from its second place in the world rankings and the contribution of the sector to gross domestic product (GDP). Diversification of Spanish tourism companies can be useful in order to overcome the seasonality of tourist flows and to take advantages of the opportunities offered by emerging tourism sectors and to face up to the ever-increasing competition created by changing modes of transport and developing technology. As Martorell and Mulet (2003) note, diversification has almost become a necessity for companies to remain dynamic and to create a future. In spite of its importance, diversification strategies in the Spanish tourism sector have not been tackled as thoroughly as other corporate strategies such as internationalization (Martín, 1999; Pérez and Cazorla, 2002; Quer *et al.*, 2007; Ramón, 2002).

One of the main decisions in the diversification process is entry mode choice. This has been one of the main areas of research, with a special focus on the relationship between entry mode, diversification type and firm performance (Busija *et al.*, 1997; Chang and Singh, 1999; Chatterjee and Singh, 1999). Thus, these are the main reasons why we decided to focus on the study of the diversification process within the Spanish tourism sector.

Our first aim has been to analyze the entry modes chosen by Spanish tourism companies in their diversification process, and to identify some of the internal factors that may influence their decision. The study will also examine potential implications for performance, since it may be expected that specific entry modes will be associated with different levels of performance, depending on the type of diversification.

As Chakrabarti *et al.* (2007) note, many theoretical approaches have been used in previous diversification research. Among them, the resource-based view (RBV) "is one of the most widely accepted and has become a dominant theory on which arguments in academic journals and textbooks alike have been grounded" (Newbert, 2007). This theory states that the resources which a firm owns, or to which it has access, form the basis of its strategy, differentiate it from its competitors and, consequently, constitute the determinants of its competitive advantage.

The RBV, one of whose precursors was Penrose (1959), also tackles corporate growth strategies and the means of implementing them. This theory contributes to the explanation of the diversification strategy (Barney, 1999; Conner and Prahalad, 1996; Chatterjee and Singh, 1999; Chatterjee and Wernerfelt, 1991; Madhok, 1996). The analysis of firm resources and capabilities is crucial in deciding to carry out firm strategies. This is especially true in the case of a diversification strategy, because it usually involves the development or acquisition of new resources as well as the exploitation of current firm resources (Barney, 1999). The suitability of the RBV to explain the diversification strategy, the great amount of attention it has received in recent years and the fact that few studies in the tourism sector take into account its arguments all justify our decision to use this theoretical framework in this paper.

We believe that in this way we can provide new empirical evidence on the performance of the RBV propositions from a strategic management perspective in the tourism industry. On the other hand, this paper allows us to know the diversification pattern followed by Spanish tourism firms. In addition, it makes it possible to know the number of entries into new business areas, the entry modes used or the relatedness among businesses. To our knowledge, this paper is the first to report on these issues for Spanish tourism firms. This study may also enable tourism managers to familiarize themselves with the factors influencing diversification decisions and the means of implementing this strategy, while assessing whether certain entry modes perform better than others.

2. The choice of an entry mode from the RBV

According to Lockett and Thompson (2001), one of the most successful applications of the RBV can be found in the literature examining patterns of diversification. These authors state that diversification is not a purely random process, driven by idiosyncratic managerial decisions, but instead follows a pattern consistent with the exploitation of existing identifiable resources.

The RBV considers the company as a set of resources and capabilities, as opposed to the conventional vision whereby the company is considered as the set of products and/or markets in which it is present (Wernerfelt, 1984, 1989). This approach can help to explain entry mode choice, insofar as diversification may imply the need to develop new resources. Montgomery (1994) supports that firm's level of diversification is a function of its resource stock. Nevertheless, the diversification decision may reveal a shortage of certain resources and capabilities the company needs in order to undertake the strategy, which in turn can determine the entry mode. Faced with this situation, the company has three options to obtain the resources and capabilities required (Barney, 1999; Chatterjee and Singh, 1999; Das and Teng, 2000):

(1) developing them itself (internal growth);

(2) acquiring a company which owns those resources and capabilities (external growth); or

(3) cooperating with other companies which have them (intermediate or cooperative growth).

The earliest studies on firm diversification aimed to demonstrate that greater profitability rates were associated with the entry into more related business areas (Roberts and Berry, 1985). Nevertheless, they did not distinguish among different entry modes.

Chatterjee and Singh (1999), Lubatkin (1987) and Singh and Montgomery (1987) claimed that the company must make its diversification and entry mode decisions jointly and simultaneously. Similarly, Simmonds (1990) argued that one of the possible reasons why empirical results on the superiority of certain types of diversification are not conclusive is the fact that the analysis does not simultaneously include the extent and mode of diversification. This provides the rationale for this paper's proposal to integrate the entry mode decision into the analysis of success in diversification strategy.

Entry mode choice depends on two broad sets of factors, namely the characteristics of the sector and the internal composition of resources and capabilities within the organisation (Chatterjee and Singh, 1999). Other factors, such as managerial experience, agency problems and the availability of information, may dilute the influence of purely economic factors even more (Sharma, 1998). Taking all this into account, and focusing on the RBV, this section analyzes the role played by firm-related factors in entry mode choice.

Type of diversification, diversification experience, motivation and entry mode

Entry mode choice depends not only on the relevance of pre-entry resources and capabilities, but also on the degree of similarity between the pre-entry resources of firms and the required resource profiles of markets (Helfat and Lieberman, 2002). Diversification type determines the possibility of exploit current resources and capabilities or the need to develop new ones. When a close relationship exists between the new and the original business, the firm will stand a better chance of developing the new resources and capabilities required from those it already owns, which is why related diversification is largely associated with internal growth. Regarding this relationship, Miller (2004) found that firms using internal growth rather than acquisition pursue less extensive diversification.

On the other hand, when the degree of diversification is high, i.e. when the strategy takes the company further away from its current business, the chances of using its own resources and capabilities in order to develop new ones decrease (Chatterjee and Singh, 1999; Dundas and Richardson, 1982; Simmonds, 1990). In this case, it will probably resort either to external growth through the acquisition of a company which already owns those resources and capabilities, or to cooperation agreements. This reasoning leads to the formulation of the following hypothesis:

H1a. The degree of relationship between the new business and the company's original business favours the choice of internal growth.

Busija *et al.* (1997) attempted to discuss the preceding statement. They outlined a number of reasons why entry mode choice did not necessarily have to show a direct dependence on the type of diversification strategy:

- as the company's size or degree of diversification increases, middle management assumes an increasingly important role; different middle managers make decisions on the mode of development and inconsistencies may appear;
- strategy is a porous concept; a company can seldom be described as totally related or totally unrelated;
- internal and external development represent alternatives for organizational learning, regardless of the type of strategy, i.e. both are means of acquiring the capabilities required to manage the new business; and
- the choice of a particular mode of development depends on resource limitations at the time of diversifying.

Besides, Helfat and Lieberman (2002) state that there are at least two key factors that impact on entry mode and may cause that firms do not choose internal growth, even required resources and capabilities in the new market are closed to pre-entry resources:

(1) the time it takes to create any additional resources and capabilities; and
(2) capabilities associated with the mode of entry itself.

For example, when firms seek to expand geographically but lack knowledge of local markets, building this knowledge internally may take too long to be practical. Entrants may be better off using acquisitions to access such knowledge more quickly. Regarding the second factor, the "acquisition capability" gained through prior acquisition experience in other markets may influence the likelihood of entering a market using acquisition rather than other entry modes.

In sum, several studies support that there is not a clear relationship between the type of diversification and the mode of entry. Therefore, we propose the following alternative hypothesis:

H1b. The degree of relationship between the new business and the company's original business does not influence entry mode choice.

Other firm-specific factors also affect entry mode choice, for instance, firm size or previous diversification decisions, which will act as indicators of its accumulated diversifying experience. As Helfat and Lieberman (2002) support, established firms often possess a wider array of resources and capabilities that they can leverage in additional markets. Regarding size, Yip (1982) pointed out that the greater the size of the company, the more likely that entry into new business will be direct (internal growth), as the organization will have access to more resources and greater financial and managerial capabilities to deal with it. However, he also explained that the company might use its resources and capabilities to enter new business through external growth. Montoro and Ortiz (2005) point out that the larger the company, the greater the likelihood that it will grow through committing increased resources, since it will have greater financial and managerial capabilities. This is why larger companies are most likely to prefer entry modes which involve greater resource commitment and increased control (such as internal and external development). Cooperation agreements require lower levels of resource commitment.

One of the factors directly related to firm size is the number of business areas in which it is present, i.e. the number of entries into new business areas carried out in the past. Company's previous diversifying experience may also have a bearing on entry mode. Thus, a company with little experience on diversification is likely to have a greater perception of risk and uncertainty about entry into a new business area and may consequently be less willing to commit significant resources, opting instead to use cooperation agreements. As companies diversify, however, they gradually gain experience and their perception of the risk and uncertainty of entering new business areas decreases, and their willingness to use entry modes involving greater resource commitment grows (Chang, 1996; Chatterjee and Singh, 1999). In addition, Helfat and Lieberman (2002) argue that firms with greater pre-entry experience relevant to the market of entry are less likely to use joint ventures or acquisitions.

This argument is related to Winter's (2003) dynamic capabilities, which supports that "new product development is a prototypical example of a first-order dynamic capability". These capabilities are those that operate to extend, modify or create ordinary capabilities, being concerned with organizational change. Therefore, we can expect that previous diversification strategies will have developed dynamic capabilities in the firm. This will make it easier for the organization to enter new business areas on its own (internal development), without needing the support of another company (external development) or partner (cooperation). All these arguments lead us to the following hypothesis:

H2. The greater the company's diversifying experience, the greater the likelihood that entry into the new business will take place via internal growth.

Another determining factor is motivation, as the reasons underlying the entry can also play a role in the choice of a specific entry mode. According to Yip (1982), when the entry is made for offensive or proactive reasons, i.e. seeking to anticipate competitors or to be present in key technological sectors or in emerging sectors, internal growth is more likely to be used. This is because the company pursues the exploitation of the advantages and competencies developed in its existing businesses. If, on the other hand, the entry is defensive, i.e. seeking to compensate for below expectation results, there is a greater likelihood of entry through acquisitions. This association is based on the assumption that when growth is offensive, organizations tend to enter business areas more closely related to their original field of activity and internal development becomes more likely. When growth is defensive, the opposite happens, the company being more prone to enter less closely related business areas through external development. Besides, in the last case the firm needs a quicker response to the environment that can achieve through mergers, acquisitions or strategic alliances (Das and Teng, 2000; Helfat and Lieberman, 2002). These ideas justify the formulation of the following hypothesis:

H3. When entry is made for offensive or proactive reasons, it is more likely that it will be through internal growth.

Entry mode/type of diversification fit and profitability

As explained above, despite the traditional acceptance of the existence of a relationship between diversification type and entry mode, several authors argue that there is no direct link between them, because of the lack of conclusive empirical evidence. Nevertheless, some studies recognize that even though no direct link exists, the success of implementing the strategy do depend on the achievement of a better fit between diversification strategies and certain modes of growth.

More specifically, Busija *et al.* (1997) argued that performance patterns vary depending on the type of strategy: internal development provides higher profitability for narrower diversification levels; development via acquisition provides the best profitability rates for unrelated diversification, while mixed development provides the highest profitability rates for a medium degree of diversification. Similarly, Simmonds (1990) established a hierarchy based on the profitability of potential combinations of related and unrelated types of diversification on the one hand, and internal and external modes of development on the other. In other words, these authors argued that a better fit takes place between related diversification and internal development and, therefore, enhancing performance. On the other hand, unrelated diversification will improve results if the company uses acquisitions. These arguments lead us to the following hypothesis:

H4a. The fit between the type of diversification and the entry mode has an impact on firm profitability.

Although these ideas have often appeared in the literature, empirical evidence is not entirely conclusive. For instance, Sharma (1998) found a negative correlation between similarity between businesses and post-entry internal growth profitability. Brush (1996) showed that mergers between companies with more closely related businesses were more profitable than those in which the companies belonged to less related industries. Singh and Montgomery (1987) obtained the same results, which indicates that the profitability achieved by the acquiring company is higher if the acquired company operates in a related business sector than if it does not. At the same time, companies acquired by a related company are likely to achieve greater gains than when acquisitions are unrelated.

Focusing on the complementariness between the skills of the management teams from two merged companies, Krishnan *et al.* (1997) also found that related-type external growth provided higher profitability. If complementariness means homogeneous skills, the increased profitability will derive from a better cultural fit and higher levels of communication and understanding. If, on the contrary, it means different skills, improved profitability may result from the compensation of managerial weaknesses in one organization by the skills of the other. This improvement in profitability largely takes place in the acquisition of related enterprises, a situation in which the influence of new skills will be stronger, due to the interdependence between the merging business units. On the other hand, the influence on unrelated acquisitions will be less strong as the units are more independent. Similarly, the research work carried out by Lubatkin (1987) focused on the study of acquisition decisions and analyzed the influence that the relationship between the acquired and acquiring companies has on value creation for the shareholders of both organizations. However, the results obtained were not conclusive. The above ideas, which apparently fail to demonstrate the existence of an optimum growth pattern for firm performance, lead to the following alternative hypothesis:

H4b. The fit between the type of diversification and the entry mode does not have an impact on firm profitability.

3. Research methodology

This research used primary data collected by a mail survey of managers of 1,209 Spanish tourism companies in 2005. The total number of usable responses was 80, representing a response rate of 6.62 per cent. These 80 companies have made 94 entries into new business areas since their establishment. The database used to shape the population was the *Hospitality and Tourism Yearbook Hostelmarket 2004*, which provides information about Spanish companies operating in the following sectors: accommodation, catering, passenger transport, intermediaries (travel agencies and tour operators), leisure and entertainment, and tourism sector suppliers. This directory includes the names of the managing directors of these companies, which enabled us to send the letters for their personal attention. We considered that these managing directors were best positioned to respond to our questions, since they have a more global vision of their companies and they make decisions relating to growth strategy.

Table I shows the distribution of companies in the population and sample for each of the above sectors. The sampling error in the continuous variable "specialization rate" for a 95.5 per cent confidence interval is 4.39 per cent. The variable chosen was "specialization rate" because it enables us to distinguish between specialised and diversified firms. The non-response bias does not appear to be important when comparing the distribution of companies in the population and sample and the average size of the companies which answered the questionnaire and those which did not. Among the companies which answered our questionnaire, 47 per cent are specialized, while the remaining 53 per cent have diversified. Of those which have diversified, 71 per cent show a related diversification, as opposed to the other 29 per cent, which show an unrelated diversification[1]. Of the 94 entries undertaken by these companies, 53 were made by internal development, 13 through external development, and 28 through cooperation agreements.

Variables and measures

*Dependent variables: Entry mode (*H1a, H1b, H2 *and* H3*).* As in previous studies, the entry mode was determined using a qualitative variable (Brouthers and Brouthers, 2000; Chang and Singh, 1999; Harzing, 2002). More precisely, three categories were considered:

(1) internal development;

(2) external development; and

(3) development through cooperation agreements.

This information was provided by the managing directors in response to a questionnaire item in which they had to specify the entry mode chosen for each entry. The question regarding this variable as well as other questionnaire items are presented in Figure 1.

Table I.
Distribution of firms in the population and sample for each tourism sector

Sector	Population: Number of firms	Population: Total (%)	Sample: Number of firms	Sample: Total (%)
Accommodation	280	23	28	35
Travel agencies and tour operators	256	21	12	15
Catering	289	24	15	18.75
Leisure and entertainment	106	9	6	7.5
Hospitality equipment (suppliers)	200	16.5	15	18.75
Passenger transport	78	6.5	4	5
Total	1,209	100	80	100

Main current business areas (different from your original one)	Year of entry	Entry mode: Internal development (firm's investment in new facilities)	Entry mode: External development (merger or acquisition)	Entry mode: Cooperation agreement (management contract, franchise, joint venture …)	Degree of relationship with the original business: from (1) very low to (5) very high
Business area 1					1 2 3 4 5
Business area 2					1 2 3 4 5
Business area 3					1 2 3 4 5
Business area 4					1 2 3 4 5
Business area 5					1 2 3 4 5

Figure 1.
Sample of questionnaire items

*Firm profitability (*H4a *and* H4b*)*. Profitability was measured using the return over assets (ROA). The ROA is the most frequently used measure in studies dealing with diversification (Chatterjee and Wernerfelt, 1991; Dubofsky and Varadarajan, 1987; Li and Greenwood, 2004; Park, 2002, 2003). Using this measure offers the advantage that it allows a more direct comparison of the results obtained in this paper with those obtained in previous studies.

In the questionnaire, the managers were directly asked for their firms' ROA. Furthermore, we also asked for a non-financial profitability measurement, based on the managing directors' own perception. Specifically, we asked the directors to rate the profitability of their companies in comparison with their main competitors on a scale of 1 to 5. However, very few directors answered this question, maybe because of the lack of information about the competitors. In sum, we could not include this subjective profitability measure and we only used the objective one.

*Independent variables: Degree of relationship with the new entry (*H1a and H1b*)*

Following Stimpert and Duhaime (1997), the degree of relationship between the new business and the firm's original one, as perceived by the company's managing director, can help to measure the type of diversification. A 1-to-5 Likert scale going from a lesser to a greater degree of perceived relationship was used.

The managing directors were asked to rate the resources and capabilities that they considered strategic for each of their businesses, as well as the percentage which each business represented in the company's overall sales turnover. The relationship between businesses was determined through the opportunity to share resources and capabilities or to apply the same strategic logic to them.

No measurements based on SIC codes were used, since our aim was to determine the relationship between the businesses from a strategic point of view. Robins and Wiersema (1995, 2003) argue that these codes are unsuitable for strategic relationship analysis, since they are based on the physical characteristics of the product. In any case, Stimpert and Duhaime (1997) found a high correlation between measurements based on these codes, such as the Herfindahl or entropy indexes (Jacquemin and Berry, 1979; Palepu, 1985), and measurements based on managers' perceptions. However, as Farjoun (1998) notes, these measurements should be used in a complementary manner, given that they measure different types of relationships between businesses.

*Diversifying experience (*H2*)*. The number of business areas in which the company was present when each entry took place was used to measure this variable (Brouthers and Brouthers, 2000; Harzing, 2002).

*Diversification reasons (*H3*)*. For each of the new entries, the questionnaire asked the directors to rate on a 1-to-5 Likert scale the importance of various reasons in the diversification decision. These reasons were adapted from the studies of Reed and Luffman (1986) and Yip (1982). In order to code this variable, a principal components factor analysis was then performed. The results obtained are shown in Table II.

From that analysis, two factors were shown to account for about 79 per cent of the total variance. One of these was labelled "offensive reasons", since it included the following reasons: being present in business areas with technological innovations, exploiting R&D investments, and having access to new resources. The other factor was considered less offensive and thus labelled "defensive reasons"; it included the remaining reasons, i.e. searching for higher profitability for financial surpluses,

	Factor 1 Defensive reasons	Factor 2 Offensive reasons
Higher profitability for financial surpluses	0.619	
Being in areas with technological innovations		0.916
Exploit investments in R&D		0.946
Exploit investments in advertising	0.771	
Improving brand image	0.800	
Increasing the use of the physical capacity	0.895	
Reducing risk	0.946	
Having access to new resources		0.638

Notes: Determinant = 0.017; K-M-O = 0.788; Percentage of accumulated variance: 78.658 %; Bartlett's sphericity test; Chi-square 215.162 (Sig. 0.000); Extraction method: Principal components analysis; Rotation method: Varimax normalisation with Kaiser; The rotation has converged in three iterations

Table II. Classification of diversification reasons

exploiting investments in advertising, improving brand image, increasing the use of the company's physical capacity, and reducing risk. The scores of the factors became two new variables and were then recoded in a dummy variable where value 1 corresponds to the new business areas which were entered mainly for offensive reasons and value 0 to those entered for defensive reasons.

*Fit between type of diversification and entry mode (*H4a *and* H4b*)*. The variable used to measure the fit is a dummy one. An adjusted entry was considered in the following cases:

- when the degree of relationship with the new business was high (score between 4 and 5 in the "degree of relationship with the original business" variable) and internal development was the entry mode chosen; and
- when the degree of relationship with the new business was low (score between 1 and 3) and the entry mode was external or cooperative development. Otherwise, the entry was considered non-adjusted.

4. Results and discussion

Test of H1a*,* H1b*,* H2 *and* H3

A multinomial regression model was used, taking into account the qualitative nature of the three-category dependent variable. Internal development acted as the reference and the aim was to analyze the role played by the relationship with the new business area, the company's diversifying experience and the motivation underlying the choice of this entry mode, rather than external development or cooperation.

Checking the suitability of this technique requires an analysis of the independent variable correlation matrix and the variance inflation factor (VIF) in order to rule out multicollinearity (Neter *et al.*, 1989). This analysis appears in Table III.

Table IV shows the results of the multinomial logit regression.

Our findings show that no significant link exists between the degree of relationship of the new business and the entry mode chosen, which supports *H1b*. Furthermore, the positive sign of the beta coefficient for external development reveals that the degree of relationship with the new business increases the chances of growth through external development, as opposed to internal development. In the case of cooperation, the negative sign indicates that the degree of relationship reduces the chances of choosing cooperation agreements instead of internal development. However, there is no statistical significance in any of these cases.

These results, which support *H1b*, are justified by previous studies which defend the non-existence of a clear link between entry mode and diversification type (Busija *et al.*, 1997; Simmonds, 1990). This may be due to the ambiguity in the concept of relationship, since the perception of the degree of relationship between several business areas in terms of the possibility of sharing resources is subjective and may change depending on the person assessing it. Besides, as Lubatkin (1987) pointed out, it is sometimes only after starting operations in the new business that a company has full knowledge of the degree to which that new business relates to its original one.

Furthermore, factors other than those included in our model can also influence the entry mode. Examples of these factors are firm size, its competitive position, entry barriers, and the availability of opportunities to acquire a company or to cooperate with it (Yip, 1982). It was impossible to include these variables because they refer to the moment at which the entry into the new business takes place. This means that it is necessary to have specific and detailed information available about the company and its environment at different points in time, not all recent, as the questionnaire collected information about the entries undertaken by organizations since their establishment.

H2 was not supported. The positive coefficient shows that accumulated experience increases the likelihood of tourism companies choosing external development and cooperation agreements as opposed to internal development. This contradicts the views of authors such as Chang (1996), Chatterjee and Singh (1999) or Yip (1982), according to whom a company which is present in a larger number of business areas

Variables	Mean	SD	1	2	VIF
1. Degree of relationship	3.66	1.228			1.005
2. Diversifying experience	2.24	1.264	−0.057		1.004
3. Diversification reasons	0.55	0.501	−0.042	0.033	1.003

Table III. Correlation matrix and multicollinearity analysis

Entry mode[a]	Independent variables	Beta	Sig.
External development	Degree of relationship (*H1a* and *H1b*)	0.280	0.374
	Diversifying experience (*H2*)	0.487*	0.071
	Offensive reasons (*H3*)	−1.995*	0.079
	Intercept	−3.038**	0.036
Cooperative development	Degree of relationship (*H1a* and *H1b*)	−0.065	0.795
	Diversifying experience (*H2*)	0.512**	0.029
	Offensive reasons (*H3*)	−0.295	0.668
	Intercept	−1.680	0.125

Notes: Chi-square: 17.336*** (Sig. 0.008); [a] Internal development is the reference category; * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Table IV. Multinomial logit regression model estimates (i.e. with greater diversifying experience) will tend to grow by making investments of its own because it has a much broader resource base and more accumulated experience.

Nevertheless, our result can be justified as follows. It is possible to improve the measure used to estimate the diversifying experience accumulated by the company. Our study has used the number of different business areas in which the organization was present at the time of performing the entry. However, these businesses may be very related, which may mean that firm resources will not be as diverse as those of another company that is present in a smaller number of less related business areas. In this regard, Teece *et al.* (1994) obtained some evidence that contradicts the idea that firms with many activities are necessarily unrelated or incoherent. Their study shows that as firms growth more diverse, overall coherence does not change much. For this reason, a better measure could be the degree firm diversification at the timing of entry. However, once again, it was difficult to access that information.

Finally, in relation to the "offensive reasons" variable, a negative correlation exists for both entry modes, though it is only significant for external development. This finding partially supports *H3*. These results lead to the conclusion that when tourism companies diversify mainly for offensive reasons, they prefer internal to external development, as Yip (1982) argued. The same relationship appears to hold for cooperation, though the lack of statistical significance makes it impossible to argue in support of that relationship.

Test of H4a *and* H4b

An analysis by means of student's T technique was used to check possible differences between tourism companies in which the entry mode fits the established pattern and those in which it does not (Table V).

Average profitability appears to be higher in those tourism companies where the mode of entry into each of their business areas fits well the degree of relationship. This finding supports *H4a*, thus rejecting *H4b*.

To sum up, certain growth patterns make it possible to achieve higher profitability (Busija *et al.*, 1997; Simmonds, 1990). More precisely, tourism companies entering business areas more closely related to their original one through internal development show higher profitability rates than those which enter through acquisitions or cooperation agreements. On the other hand, those firms entering less related business areas through external development show higher profitability rates than those which do so following internal growth or cooperation agreements.

Table V.
T-test for performance according to the mode/type of entry fit

				Levene's test for the equality of variances		*T*-test for independent samples	
	Fit	Mean	Number of firms[a]	*F*	Sig.	*T*	Sig.
ROA	Yes	5.947	46	0.402	0.528	2.135*	0.036
	No	3.956	41				

Notes: [a] There were seven missing observations in all, corresponding to firms for which performance data were not available; * $p < 0.05$

5. Discussion and conclusions

The first contribution of this paper has been to provide new empirical evidence about the diversification of Spanish tourism firms, including diversification type, entry modes and the motivations underlying the decision to diversify. To our knowledge, this is the first paper addressing these issues in the context of the Spanish tourism industry.

Drawing on the RBV, this paper has analyzed some of the factors that can affect entry mode choice when a tourism company plans to diversify, and if a right decision enables better performance. From a theoretical point of view, our study proves that, in general, the ideas of the RBV are supported.

Our findings demonstrate that the degree of relationship between the new business area and the tourism firm's original one does not influence entry mode choice. Diversifying experience implies a greater likelihood of choosing external development and cooperation, rather than internal development. Finally, diversification undertaken for offensive reasons does seem more likely to take place via internal development. Furthermore, the choice of the suitable growth patterns influences tourism firm's profitability. Assuming that internal development is the best option for related diversification, and external development and cooperation agreements are more suitable for unrelated diversification, our findings show that tourism companies that have adopted these patterns have achieved higher profitability.

In sum, these results are in tune with the findings of previous studies, with the exception of those relating to firm diversifying experience. Nevertheless, we admit that the relatively low response rate might hinder the generalization of our findings to the tourism sector as a whole.

Furthermore, in our opinion, this paper has important implications for managerial practice. Thus, it may draw tourism managers' attention to the importance of the choice of business into which to diversify, as well as the entry mode, since the latter may determine the success or failure of the diversification strategy. In addition, we have highlighted the fact that tourism companies that have followed the behaviour patterns supported by the RBV obtain greater profitability. Different diversification types are not associated with the same performance, regardless of the entry mode chosen. These findings can be useful for tourism managers in order to make decisions about diversification strategies.

On the other hand, we are aware of the need to consider other variables related to the company's environment. These variables refer to its general environment (for example, considerations including the legal restrictions on mergers and acquisitions, or financing possibilities) and to its industrial environment, both in the industry of origin and the industry of destination (including, for example, growth, concentration, and entry and exit barriers). It would also be interesting to include other issues related to the company (such as size and competitive position), which may also play a role in the entry mode choice (Porter, 1980; Sharma, 1998; Sharma and Kesner, 1996; Yip, 1982). This suggests another possible way for improving this research in the future. The fact that these variables must refer to the moment at which the entry into the new business takes place makes analysis difficult. A possible way of including them in a future study would be to focus exclusively on the most recent entries undertaken by companies in the last few years.

It would also be interesting to be able to find out differences in the growth patterns of companies in different tourism sub-sectors (including hotels, restaurants, travel agencies and transport). The number of responses received in our mail survey meant that this analysis could not be carried out. Finally, another possible avenue for future research could be to concentrate on the extant literature on corporate venturing, or to carry out an in-depth analysis of growth through cooperation agreements extracting those factors which may lead companies to enter a new business while committing fewer resources. This would require the reformulation of our hypotheses. Furthermore, it would be interesting to distinguish among a greater number of cooperative agreements, such as management, franchising or renting agreements, which are increasingly used in the tourism industry.

Note

1. According to Rumelt (1974, 1982), firms with a "Specialization ratio" (SR) higher than 95 per cent were considered as specialized and as diversificated in other case. The SR is defined as the proportion of a firm's revenues that can be attributed to its largest singles business in a given year. If the SR is lower than 95 per cent but higher than 70 per cent, the diversification of the firm is related. If the SR is lower than 70 per cent, the diversification is unrelated.

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