

Title Page

Title: *German capital and the development of the Spanish hotel industry (1950s-1990s): a tale of two strategic alliances.*

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Abstract

This article examines the long-term development of two strategic alliances between major Spanish (RUI and Iberostar) and German (TUI and Neckermann) tourist firms. Our research builds on the literature on foreign direct investment and institutionalism applied to cross-border cooperation, yet using business history research methods. The study aims to understand how the local Spanish context shaped the interaction between foreign and domestic firms and how this interaction influenced the development of the Spanish companies. Our cases suggest that the Spanish institutional framework affected the nature and strength of alliances. Foreign partners were crucial in providing financial and commercial support, brand consolidation, market knowledge and reputation. However, local actors also played an important role as proactive partners eager to develop their domestic business and upgrade their existing capabilities. Ultimately this strategy would contribute to the internationalisation of Spanish firms after 1990.

Key words: Foreign Direct Investment, Cross-border cooperation, Institutionalism, Tourism industry, Hotel companies, local context, Spain, Germany.

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GERMAN CAPITAL AND THE DEVELOPMENT OF THE SPANISH HOTEL INDUSTRY (1950s-1990s): A TALE OF TWO STRATEGIC ALLIANCES.

Introduction

Over the past seven decades, Spain has become a major tourism destination and home to a competitive hotel industry that operates worldwide. According to the World Tourism Organization, Spain is the second country in the world in terms of both foreign tourism income and tourist arrivals.¹ Tourism also plays a key role in the Spanish economy: it accounted for 12.3 per cent of Spanish GDP and 12.7 per cent of total employment in 2018². Within this industry, Spanish hotel companies are major players in the international market. Indeed, the four largest Spanish hotel companies, Meliá, Barceló, Iberostar and RIU, rank among the top 50 in the world and hold a very competitive position in the Caribbean, their first international destination.³

This article explores the role of foreign capital in the rise of the Spanish hotel industry, through the lens of the early strategic alliances between two Spanish firms (RIU and Iberostar) and two German touristic operators (TUI and Neckermann). Based in Palma de Mallorca (Spain) and family owned and managed, RIU and Iberostar, are leading companies in the Spanish and global hotel industry. Meanwhile, TUI – founded in 1928 – and Neckermann (Thomas Cook between 2001 and 2019) – founded in 1963 –, are German tourism groups with a long history of operations worldwide. With a turnover of €19.2 billion in 2018, TUI currently covers the entire tourism value chain consisting of tour operators, travel agencies and online portals, airlines, hotels, cruise liners and incoming agencies⁴. Regarding Thomas Cook, it operated until 2019 from 16 countries running airlines, tour operator and hotels businesses with sales of £9.6 billion

¹ In terms of tourist arrivals, in 2018 the global ranking was headed by France, and Spain ranked second, with 83.7 Million arrivals. In terms of international tourism receipts, Spain also ranked second with 74 Billion USD, after that came the US with 214 Billion USD (World Tourism Organization (UNWTO) 2019).

² Spanish National Institute of Statistics (2019).

³ Meliá Hotel International is the third largest in Europe and the 18th in the world. RIU ranks 35th in the world. Iberostar holds the 44th position and Barceló the 29th. (Hosteltur 2019)

⁴ "TUI Group Annual Report" 2018.

and 19 million customers⁵. In recent years, the tour operator experienced financial problems that stem from rising competition, Brexit, the high cost of an aging air fleet, the slow adaptation to new technologies and the emergence of new, cheap destinations, which threaten profit margins.⁶ In September 2019 Thomas Cook collapsed after 178 years in business (Hernández 2020).

The first alliance between TUI and RIU dates back to 1954, when the German company agreed to send its customers to the first RIU hotel in Palma de Mallorca. Some years later, in 1976, both companies established a joint venture. Meanwhile, in the 1960s Neckermann started working with Viajes Iberia, Iberostar's travel agency, and became one of Neckermann's inbound agents in Spain (an inbound agent handles tourists arriving in a destination). In 1979, Iberostar and Neckermann signed a first contract whereby Viajes Iberia became Neckermann's exclusive representative in Spain.

Our research focuses on the period between the beginning of the German-Spanish alliances, mid 1950s, and the internationalisation of the Spanish firms in the early 1990s. It relies on business history methods and concerns (Jones 2014b and 2019; Álvaro et al. 2020) while building on literature on foreign direct investment (Wilkins 1970, 1989; Lall and Narula 2004; Te Velde 2006; Meyer et al. 2011) and institutionalism applied to the study of cross-border cooperation (Jagersma 2005, Jun et al. 2014).

More specifically, we analyse the drivers, nature and outcomes of the associations between German and Spanish players in the host context of the Spanish tourism industry, and the way that collaboration shaped the domestic growth and the subsequent internationalisation of the Spanish hotel companies. Through this study, we extend current knowledge about the

⁵ "Thomas Cook Annual Report and Accounts 2018"

⁶ Thomas Cook recorded a net loss of £1.5 billion (€1.9 billion) in the first half of year 2019. In June 2019 the company experienced a severe drop in the stock market. The travel company has announced a reduction of 12 per cent of its capacity for the summer season and said that it would close 21 shops, affecting more than 300 jobs. See Hancock (2019).

nature and outcome of cross-border collaboration by tackling the host economy point of view. Business historians are well equipped to address this because of their long term perspective and use of primary source to analyze contexts and identify path dependent business developments.

Two research questions underpin our paper: How did the local host context shape the interaction between foreign and domestic actors? And, how did this interaction influence the development of the Spanish hotel companies? Our cases suggest that the Spanish institutional framework determined the entry form of the foreign partner and granted a preeminent position to local firms. The German partners were crucial to provide financial and commercial support, brand consolidation, market knowledge and reputation. Nevertheless, local actors also played a key role, due to their existing capacities and proactivity. The effect of FDI and cross-border alliances on these proactive and empowered local players allowed them to consolidate their domestic business and, therefore, launch their own international ventures without the initial financial support of the former German partners.

The article is organised in four sections. The first section presents the theoretical framework along with the extensive archival and oral sources of this research. The second provides a brief history of the Spanish hotel companies, RIU and Iberostar, and their German partners, and describes the emergence and evolution of the business alliances that joined them. As our focus is on the local host context, the German tour operators are considered secondary actors and will receive attention in accordance with this role.⁷ The third section analyses the drivers, nature and outcomes of that cross-border collaboration between RIU and TUI, and between Iberostar and Neckermann, in the light of the proposed research questions. The last section includes the main conclusions of this article.

⁷ There is abundant literature on the German tour operators. See for instance Brendon (1991), Smith (1998), Hamilton (2005), Sezgin and Yolal (2012), Kopper (2009), Gratton and Richards (1997). These literature agree on pointing out the power and influence of German tour operators in the 1960, highlighting their financial strength and their knowledge and control of the German market, which for most of the period under study was the target of their Spanish partners. Undoubtedly the German approach constitutes a fascinating topic to be further explore in future research.

1. Theoretical framework and sources

The impact of inward FDI on the development of host economies is a crucial issue in the international business and business history literatures (Jones, 2013, 2014a). We argue that historians can contribute in a meaningful manner to understanding which contexts, strategies and vehicles maximise or minimise such an impact.

However, evidence is not conclusive, as this impact on host economies largely depends on the characteristics of the local context and varies across specific industries and firms (Dunning and Lundan 2008; Te Velde 2006; Jones 2005, 2014b, 2015; Oddou, et al. 2009; Wilkins 2010). This calls for contextualization and empirical research at the industry and firm levels (Narula and Driffield 2012; Narula 2014; Lipsey 2004; Lipsey and Sjöholm 2005; Moran 2005, 2011; Meyer, et al. 2011; Caprar 2011; Brewster et al. 2014; Froese and Toh 2016). It also calls for an institutional perspective because the activities of the multinational enterprises (MNEs), as the main actors of FDI, will be facilitated or constrained by ongoing processes of institutional relations in host countries (Cantwell et al 2010; Van den Broek and Smulders 2015). These processes will be defined by political-economic structures, and organizational practices (Yeung 2002).

Although traditionally concerned with the driving forces and specific advantages of MNEs, international business scholars have observed the potentially positive effects of multinationals on host countries (Lall and Narula 2004; Narula and Dunning 2010; Dunning and Lundan 2008; Moran et al. 2005; Borensztein, et al. 1998; Buckley and Casson 2016; Verbeke and Kano 2015; Kogut and Zander 2003). This process is hard to capture by conventional proxies such as wages, productivity and educational levels, but a focus on cross-border alliances could provide a deeper insight into the dynamics between players. As Jagersma (2005) explains, cross-border alliances are international agreements of collaboration between two or more independent companies that exploit a tangible or intangible asset. They constitute an interesting

path to access the capabilities of other companies and also provide a way to overcome challenging markets. Initial evidence suggests that acquisition or merging represent a more frequent entry mode in a foreign country than alliances with local players. It is due to the intrinsic difficulty of sustaining the association between multinationals and local firms, typically characterized by a power imbalance in terms of their transactional exchanges (Bae and Gargiulo 2004; Das and Teng 2002; Inkpen and Beamish 1997; Yan and Gray 1994). Therefore, the unequal distribution of power between partners is likely to affect the nature and outcomes of alliances (Ang and Michailova 2007). Despite difficulties, alliances have some advantages as they allow firms to share risks and costs, reduce institutional uncertainty, as well as to deal with the liability of outsidership (Johanson and Vahlne, 2009). Therefore, cross-border alliances are an efficient mechanism for building on the established reputation and legitimacy offered by local partners (Hitt et al. 2004; Czyzewska and Roper 2017).

Research on cross-border alliances has developed several perspectives including the role of cross-border networks and agreements in the emergence of new industries (Fitzgerald 2017), the transfer of practices, knowledge or innovative systems between associates (Jun et al 2014; Malik, 2013; Van den Broek and Smulders, 2015), and the consequences of cross-border alliances within close neighbours (Tosun *et al* 2005; Studzieniecki *et al* 2016), for emerging economies (Ang and Michailova 2008), or even for wider organizations or states (van der Molen and Letswaart, 2012).

Within this stream of research, there is a general agreement on the importance of cross-border cooperation for both home and host markets and players. Yet, it is not entirely clear how the form adopted by this cooperation affects its subsequent development and outcomes (Fitzgerald, 2017; Jagersma, 2005). While some studies suggest that, when faced with conditions of country risk and cultural uncertainty, companies tend to use greater commitment entry modes, such as joint ventures, other researchers have concluded that non-equity agreements

with local partners can help avoid mistakes and promote stability in uncertain contexts (Villar, et al. 2012; Pla-Barber, et al. 2010). Again, researchers have focused more on the strategy adopted by MNEs (Jagermas 2005), using static or short-term approaches, downplaying the influence of the local host economy and the local actor (Ang and Michailova 2008). A closer look at local contexts and local companies can also shed light when exploring how business capabilities and resources are leveraged through the interaction between foreign and local actors over time.

So, we acknowledge that more detailed, empirical research, with a long-term approach, is needed to assess how the set of interactions between foreign and local players develops and, more specifically, to understand the way local partners take advantage of the embeddedness with foreign firms. Following this approach, Meyer et al. (2011) provide a useful framework to address long-term cross-border alliances, identifying two dimensions of the local context: the institutional framework and resource endowment. The institutional framework refers to legal frameworks and regulatory systems that influence business practices and strategies. Resource endowments include the existing human capital and business capabilities that are organisationally embedded in local companies (Meyer, et al. 2011).

Our choice of Meyer *et al.* (2011) offers a valuable theoretical perspective from which to assess how local context variables intertwine with the foreign capital. What we add to this exclusive theoretical framework is the empirical approach: the business history research as a way to explore those two particular dimensions of the host market and their influence on cross-border alliances, in order to open the black box of how local contexts particularly matter in international relationship. Indeed, as our research shows, the entry mode of German tour operators and the way alliances between them and Spanish companies developed were strongly influenced by the Spanish institutional framework and by the capabilities and intangible assets that local actors possessed.

In our study we deal with a very particular host institutional framework that deserves to be described. Spanish development in the second half of the 20th century is probably one of the most complex and interesting processes of economic growth and socio-political change in the Contemporary European history. The country experienced civil war (1936–1939), then stagnation and isolation in the 1940s, and recovery in the following decades thanks to help from the United States and increasing liberalization in the 1950s and 1960s. Yet, the Spanish economic catching up began and consolidated earlier than the socio-political one, and the former worked as a virtuous breeding ground for the latter. However, the country did not complete its industrialization and reach Western socioeconomic levels until the 1970s. Indeed, after Franco's death, Spain held its first Democratic elections and approved and signed its Constitution in 1978. The arrival of democracy paved Spain's way towards Europe. Its integration into the EEC, in 1986, allowed the country to initiate another wave of fast growth.

The persisting institutional imbalances, legal restrictions and domestic resource constraints in Spain during most of the second half of the 20th century, shaped the way business worked at home, and gave a distinctive importance to the institutional framework and to cross-country collaboration in order to access critical resources mostly provided by foreign markets and foreign companies. So, turning to abroad was very often the channel for Spanish companies to develop businesses at home. Foreign firms chose to cooperate with local companies not only to overcome their lack of knowledge of the domestic market and overall liability of foreignness, but also to accommodate Spain's economic nationalism and the resultant dominance of local business groups (Puig and Álvaro-Moya, 2018)⁸. Although business growth and modernization relied heavily on foreign investment and technology, recent literature has also suggested that Spanish companies had an overwhelming capacity to absorb knowledge from foreign firms

⁸ Even if the Francoist Administration was highly nationalistic, it did never influence the business of the two family firms studied in this paper. Mallorca was far away from where the economic power resided and neither the Fluxá nor the Riu families belonged to the entrepreneurial dynasties that thrived around the Franco regime. (San Román 2017).

therefore building and supporting their competitive advantage (Puig and Álvaro-Moya, 2015, 2018; Valdaliso, 2018; San Román, 2017; San Román and Gil, 2020; Fernández-Moya, 2010; Fernández Pérez, et al 2017). These outstanding patterns of cross-border collaboration, their drivers and implications are what deserves our attention, by examining how the local context shaped the interaction between foreign and domestic actors and how this interaction influenced the development of the Spanish hotel companies.

Our empirical research is grounded on an extensive collection of written and oral sources gathered between 2012 and 2017. Thanks to a business history project commissioned by Iberostar Group, we were able to set up a fully digitised historical archive containing over 4,000 documents and the transcripts of 71 interviews with owners and managers of the company, external informants, family members and other key players in the tourism industry. In the case of Riu, we have received the documents from the Archive of the company through the help of her Co-president, Carmen Riu⁹.

Given the purpose of this article and following specific suggestions about how to deal with business documentation, from our collection of data sources we selected for a closer study those sources that helped shed light on our research interests –see table 1– (Rowlinson 2004).

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2. A tale of two strategic alliances: The actors

Iberostar and RIU share two main features. First, both hotel companies are family firms originally based in Palma de Majorca (Balearic Islands) that began operating in Spain around the 1950s, capitalising on the sun and beach business. They took advantages of the flourishing tourist

⁹ After interviewing Carmen Riu within the Iberostar project, we shared with her the purpose of this paper and she kindly gave us access to the documents that could help us.

business that was growing in Spain at that time. Two reasons explain the rise of Spanish tourism. On the one hand, the change in the national economic policy towards increasing market openness and liberalisation after the isolationism of the 1940s. On the other hand, the beginning of mass tourism, driven by the economic recovery of the United States and Western Europe, which turned Spain into a strategic destination for the growing vacation flows. These factors meant that, from the early 1950s, foreign visitors entered the country “peacefully but massively” (Vallejo 2013, 427). One decade later, the number of tourists in Spain had already increased ten-fold and the global outreach of this industry was becoming crucial for Spanish economic growth (Vallejo 2013). Although the tourism industry was still in its infancy, its early rapid expansion already pointed to its future importance: while in 1950, Spain only received 1.8 per cent of the world’s tourists and 0.8 per cent of the derived income, ten years later it was hosting 6.2 per cent of the world total and had reached 4.3 per cent of world tourism revenues (San Román 2017).

A second common feature between Iberostar and RIU is the starting point of their internationalisation process, which began in the early 1990s in the Caribbean¹⁰. Since then, their international presence has not stopped growing and recently, unlike other Spanish hotel companies, their foreign portfolio significantly exceeds the domestic one (see figure 1): 68 per cent of RIU’s hotel portfolio and 60 per cent of Iberostar’s is located abroad.¹¹

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¹⁰ The internationalization of the Spanish hotel companies was the result of a long process that began in the 1980s, fueled by the devaluation of the Spanish currency, the descending prices of holiday packages, and the economic recovery of the Spanish touristic products. These factors increased the number of visitors to Spain and turned the Balearic Islands into a mature market with a decreasing profitability. Therefore, the situation moved the main Balearic hotel chains, Barceló, Meliá, Riu and Iberostar, to go international. Barceló and Meliá moved first, in 1985, and Riu and Iberostar followed them by the early 1990s. They looked for markets as the Caribbean where they could develop a sun & beach tourism model similar to the Spanish and in countries with an undoubtedly cultural proximity (Manera, 2014).

¹¹ Data compiled from Iberostar’s and RIU’s web pages.

This section shortly describes the historical development of the two Spanish players along with that of their German partners, focusing on how they built their alliances, how they evolved and the role cross-border collaboration played in the subsequent evolution of the Spanish companies. Table 2 offers a preliminary and summary description of the four players.

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RIU Hotels & Resorts and TUI.

RIU Hotels & Resorts started in 1953 with a small hotel in Majorca. Its founder, Juan Riu (1908-1996), had begun his career as a mechanic and a modest entrepreneur in the domestic fruit trade. In the 1950s, driven by the constraints of post-war Spain, he emigrated to Venezuela, along with his family, where they stayed for three years managing a hotel. Having returned to Spain, the Riu family bought the San Francisco hotel, a small 80-bed establishment located in Playa de Palma (Majorca)¹². An early association with the German tour operator Dr. Tigges, later TUI (Touristik Union International), helped consolidate the business and shaped a strategy based on a steady equity partnership with the tour operator¹³.

Dr. Tigges was founded in 1928 in Wuppertal and is considered one of the pioneers in the study tours market. Focused on organizing educational trips to domestic destinations, in the 1930s it started operating in the Mediterranean and, in the 1950s, the company launched the first tourist guides school. In 1968, Dr. Tigges merged with other three major family-owned tour operators (Touropa, Scharnow and Hummel) to establishing a joint holding company, the Touristik Union International (TUI) (Kopper 2009). This operation turned them into the biggest tour operator in Europe.

¹² Interview with Carmen Riu (February 26, 2016).

¹³ A sample of the terms of the association are shown in Riu Archive, 20-25, "Several contracts between TUI and RIU (Bonaire City Holiday)" 1963-1965.

The relationship between the Spanish company RIU and the German firm TUI dates back to 1954 when Luis Riu Beltrán, Juan's son, went to Germany on his honeymoon and also arranged to meet Dr. Tigges. Luis Riu aimed at bringing new customers to the recently acquired San Francisco hotel, so he proposed an informal agreement based on simple terms: Dr. Tigges would market the rooms of RIU's hotel while RIU would offer a number of full-board accommodations granting a fixed, affordable price during the whole season, paid in advance¹⁴. The agreement provided RIU with two main advantages: secure customers and pre-financing. This informal agreement resulted in German tourist inflows that drove RIU's growth in the Balearic Islands.

The ground-breaking association between RIU and Dr. Tigges also constituted the breeding ground for a close, long lasting relationship between the two companies. By the beginning of the 1970s, RIU had already opened two other hotels, Concordia I and Obelisco, and they had a campsite, called *Ciudad de Vacaciones Bonaire*¹⁵. All of them were located in Majorca. However, Luis Riu understood that a new formal and strengthened agreement with TUI could provide financial and marketing support for the forthcoming expansion he had in mind. Therefore, in June 1971, he offered a new strategic alliance to the German tour operator: the proposal included a joint venture, owned 60 per cent by RIU and 40 per cent by TUI, and a five-step plan for building and operating new hotels, as Table 3 shows¹⁶. Since the building of new hotels required financial resources, Luis proposed that TUI provide him with a loan that would be converted into 40 per cent stock of the joint venture, as soon as the Spanish bureaucracy approved it.¹⁷

¹⁴ A sample of contracts and commercial terms are shown in Riu Archive, 26-30, "Contracts and clearing documents between RIU and TUI" 1963-1966.

¹⁵ See Riu Archive, 19, "Terms of payments and contract condition (Bonaire City of Holiday), 13.7.1966.

¹⁶ See Riu Archive, 1, "Letter from Luis Riu to Dr. Jürgen Fischer (Touristik Union International)" 24.03.1971; 2, "Letter from Luis Riu to Dr. Jürgen Fischer (Touristik Union International)", 19.04.1971.

¹⁷ Riu Archive, 3, "Join Venture Project describing the plan and next steps", 1971.

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The Spanish context of the early 1970s certainly stimulated the entry of foreign capital. After a long history of isolation since 1939, with a restrictive legal framework that had imposed major entry barriers including the prohibition on foreigners being majority shareholders of companies, the Spanish economy had come a long way in terms of openness and liberalisation. The first steps were taken in the early 1950s, through a new government that established a new Ministry of Tourism in 1951. This milestone illustrates the role that the authorities started giving to tourism as a force to offset the Spain's foreign trade deficit, deeply affected by the increasing imports to foster industrialisation (Vallejo 2014). The 1953 Pact of Madrid officially ended the period of virtual isolation for Spain and pledged the US to furnish economic and military aid to the country. However, it was the Stabilization Plan of 1959 that constituted the real turning point in Spain's development and a new Spanish legal framework started to acknowledge the need to attract foreign capital to fuel the country's development.¹⁸ With the new laws that came into force, foreign capital could start entering Spain, without ownership restrictions, in several economic sectors. From 1963, it was allowed specifically in the tourism industry for hotel construction and management (Tascón 2002; Vallejo 2014).

In 1971, given the improved host country context, TUI managers showed interest in the agreement proposed by Luis Riu.¹⁹ However, the Board of Directors finally rejected it.²⁰ Despite the evident change in the Spanish context, TUI was worried about an equity agreement in a

¹⁸ Decree Law 16/1959, of July 27, 1959, on investment of foreign capital in Spanish companies.

¹⁹ The agreement was well received by TUI and they even started working on a by-law draft as stated in the correspondence between Luis Riu and Dr. F. Fischer. Riu Archive, 1 "Letter from Luis Riu to Dr. Jürgen Fischer (Touristik Union International)" 24.3.1971; 2, "Letter from Luis Riu to Dr. Jürgen Fischer (Touristik Union International)", 19.04.1971.

²⁰ Riu Archive, 4, "TUI participation. Negative to Riu project", 24.6.1971.

country that still had many institutional constraints. The instability associated with the last years of Franco's dictatorship, as well as the relative backwardness of Spain, outweighed the growing openness and liberalisation. Although the proposed joint venture fell through, TUI was willing to provide the loan, worth 36 Million (current) pesetas, and this was critical for RIU's domestic expansion.²¹ As Vallejo explains, the shortage of both public and private funding, especially during the late 1960s and early 1970s, increased the dependence of Spanish hotel chains on foreign agencies and tour operators, which provided the financial resources needed to build infrastructures, in exchange for preferential hotel rooms at stable, low rates (Vallejo 2014).

In 1976, after Franco's death, the joint venture proposed by Luis Riu in 1971 was reconsidered and signed, while the Spanish institutional context was turning to democracy. The new company, called RIU Hotels S.A, was established under the same terms of shared ownership formerly proposed by Luis Riu: 60 per cent RIU, 40 per cent TUI. The joint venture worked as a hotel management company, and the profits were invested in the building of new hotels whose ownership was shared by the partners²².

The partnership between TUI and RIU helped expand the Spanish hotel company, first in the Balearic Islands and then in other destinations. In 1985, RIU opened a hotel in the Canary Islands and in 1991 the company built a hotel in the Dominican Republic. That constituted the first step of the international growth that RIU experienced during the 1990s and 2000s.

Luis Riu's son understood the strategic opportunity of having an external partner which could fuel the expansion overseas by providing financial and commercial support. However, the first international venture was launched by RIU alone. In fact, the RIU family offered the German partner the opportunity to venture abroad together, but TUI, being aware of the risks, was initially reluctant. Only after RIU opened its two first hotels in the Dominican Republic did TUI

²¹ 36 Million pesetas in 1971 is equivalent to about 4 Million euros in 2019.

²² Interview with Carmen Riu (February 26, 2016).

ask RIU to join the venture. Understanding the value of having the support of their lifelong partner, the RIU family took a step forward in strengthening its alliance with TUI. Thus, in 1993 the two partners founded a new hotel management company, called RIUSA II S.A, owned equally by TUI and RIU, which took on the role of jointly operating all the foreign RIU branded hotels, following the same scheme as the former RIU Hotels, S.A²³.

This partnership was the beginning of a major hotel expansion all around the world. This shows that RIU's local organisational capacities and the financial support of a long-lasting joint venture were strong pillars for driving international growth. Today, RIU has 92 hotels, in 19 countries, with more than 43,000 rooms and almost 27,000 employees (Hosteltur 2018).

Iberostar Group and Neckermann

The origins of Iberostar can be traced back to the Fluxá family (San Román 2017: 19-52). In 1877, Antoni Fluxá (1853-1918) started working as a shoemaker, opening a small artisanal workshop in the town of Inca (Majorca)²⁴. In 1956, Antoni's son, Lorenzó Fluxá, decided to diversify his business activity and moved into the tourism sector by purchasing a travel company known as Viajes Iberia – founded in 1930 – which, by the mid-1950s, had 8 offices.²⁵ This company specialised in outbound tourism, that is, it operated as a mere travel agent. Yet it was not long before Lorenzo Fluxá's son, Miguel Fluxá, expanded the business in two other directions: inbound tourism and hotels²⁶.

Meanwhile, the German Iberostar partner, Neckermann, had originated in the textile company of Josef Neckermann, a German entrepreneur who thrived with a business focused on

²³ "RIU Hotels & Resorts; About RIU" n.d.

²⁴ Iberostar Historical Archive, 34, "Timeline of Viajes Iberia Group", 1930-1996).

²⁵ Iberostar Historical Archive, 3, 4 "Manuscript on the history of the company written by the Vice-president" (1930-1990).

²⁶ Iberostar Historical Archive, 2, "Chronological summary of Viajes Iberia history", (1930-1990): 35, "Descriptive memorandum of Viajes Iberia Group", 1930-1994).

department stores and catalogue sales. Drawing on his existing business infrastructure and customer base, he set up a tour operator company in 1963 and brought mass tourism to Germany, breaking down social boundaries. In 1967, just four years after its foundation, the company already had an annual turnover in excess of 100 million marks and, by the end of the 1970s, it had become the second most important tour operator in Europe after TUI (Smith 1998).

However, the 1973 oil crisis came as a hard blow for Neckermann and, in 1977, a majority shareholding was sold to Karstadt, a long-standing department store chain that emerged in the early 19th century. In 1984, Karstadt acquired the remainder of Neckermann, modernised its corporate image and renamed it NUR Tourismus, an acronym for “Neckermann und Reisen”. In 1997, NUR became part of a new enterprise that linked the activities of Karstadt and Condor, the vacation airline of Lufthansa. With the union of NUR and Condor, Karstadt and Lufthansa laid the foundations of a large tourist consortium that, two years later, took over the historic British group Thomas Cook, turning it into Thomas Cook A.G., which later became Thomas Cook Group. The importance of the Neckermann brand name in the German market and in other northern European markets explains its survival within Thomas Cook Group.

The partnership between Neckermann and Iberostar began in the 1960s, when Viajes Iberia became the Neckermann’s representative on the *Costa del Sol*.²⁷ For the German tour operator, the Spanish company was “one of their agents, among many”²⁸. However, in the late 1970s, Neckermann decided to concentrate all the inbound business in only one agent. Wolfgang Beeser, the CEO of Neckermann at that time, explained that “it was very difficult to have one agent in Ibiza, another on the Costa del Sol, another on the Costa Brava. It was a mess!

²⁷ The Iberostar Archive holds some of the first contracts signed with Neckermann for Viajes Iberia inbound business. See Iberostar Historical Archive, 993, “Contract Cervantes Hotel” 11.11.1971; 1012, “Several contracts between agencies”, (1968-1972); 1006, “Agency contract between Neckermann and Viajes Iberia” 31.10.1974

²⁸ Interview with Miguel Fluxá (March 20, 2013)

...and we chose Viajes Iberia”²⁹. Hence, in 1979 Neckermann offered Viajes Iberia the opportunity to be its exclusive representative in Spain. Through this agreement, Iberostar and Neckermann signed a solid alliance that took shape as the entry of the German partner in the stake of Iberojet, the tour operator that Miguel Fluxá had launched in 1973.³⁰ The joint venture reflects the improving institutional Spanish context, increasingly interested in attracting foreign capital, but also demonstrates that local capabilities and resources existed and were organisationally embedded in the local firm. A second agreement, which was even more crucial, immediately followed this first one. Neckermann still found it difficult to get the “right beds”, according to quality, in the Balearic Islands. Supply was limited, and tour operators found it difficult to secure accommodation. Wolfgang Beeser decided to look for a hotel partner who could guarantee him the number and quality of rooms demanded by his customers. At that very moment, Miguel Fluxá was breaking up the small hotel chain inherited from his father, and based on poor quality standards. Beeser asked Fluxá to begin a new hotel business according to Neckermann’s requirements. Unlike TUI and RIU, Neckermann was not interested in ownership of hotels. Wolfgang Beeser realized the difficulties of diversification and operating as a hotel company with properties in a foreign country. The option of a local partner made more sense to him: “You need a local partner who knows everyone and knows where the problems are and how to avoid them. The total and final responsibility has to be in the hands of someone who lives there and who is knowledgeable and in control”³¹.

From this starting point, Besser and Fluxá established a second financial and commercial agreement based on an interesting partnership, splitting the hotels ownership from the management of hotels. The hotels ownership was 100 per cent in Fluxá’s hands although the

²⁹ Interview with Wolfgang Beeser (November 21, 2013).

³⁰ At that time Neckermann bought 45 per cent of the share capital of Iberostar’s tour operator. Iberostar Historical Archive, 2512, “Agreement appointing Viajes Iberia as the exclusive representative of Neckermann in Spain”, 21.09.1979.

³¹ Interview with Wolfgang Beeser (November 21, 2013).

building or buying of hotels could rely on Neckermann's financial support. The management of hotels was entrusted to a company created *ad hoc*, owned 75 per cent by Fluxá and 25 per cent by the German partner. In sum, on the one hand, the German partner would always stay as a financial and commercial partner with no stake in hotels ownership. On the other hand, Miguel Fluxá would build or buy his own hotels, and would lead the management hotel company. This company would include not only the hotels owned by Miguel Fluxá but many others entrusted to him by hoteliers that wanted to operate under Iberostar brand. As a tour operator, Neckermann would bring the clients to all the hotels included in the management company (San Román 2017: 212).

As already mentioned, the provision of funding by foreign operators was crucial for the Spanish hotel companies given the limited availability of public and private funds. Regarding hotels' quality, the German partner insisted on working only with best locations, and with a minimum of four stars. This second agreement marked a turning point for Miguel Fluxá: up to then, inbound and outbound tourism had constituted his main activities, but from then on, he increased the focus on the hotel division that today constitutes the core business of Iberostar Group.

The agreement between Neckermann and Iberostar fuelled Iberostar's expansion in the Spanish hotel market during the 1980s: between 1984 and 1990, Iberostar built seven hotels in Majorca and one more in the Canary Islands (San Román 2017). In addition, it drove international growth: In 1993, Iberostar opened its first hotel in the Dominican Republic. As in the case of RIU and TUI, to go international Fluxá asked Neckermann a similar financial and commercial agreement as the one they had in Spain. But the German partner rejected to become the financial partner and only accepted to commercialize the hotels. In Wolfgang Beeser's opinion, the financial side was too risky in the Caribbean market: "I didn't want to go to my Board with the idea because... the Dominican Republic! Where on earth is that? Impossible... It was my mistake". In hindsight, Beeser acknowledges that he should have visited

the beaches to find out their potential for himself: “I told someone to have a look at those beaches and he told me he didn’t see any future there. I made the mistake of not checking on it myself”.³²

In the short term, Neckermann’s decision not to join the full partnership abroad increased Miguel Fluxá’s risk. However, in the medium and long term, it grew his non-shared profits and allowed him to broaden his client base. Although Neckermann did not contribute abroad with financial support, as the commercial agreement remained in place, the German firm continued marketing Iberostar’s hotels in the Caribbean. “(...) We were interested in the beds. We didn’t make a distinction: Iberostar hotels were our hotels”³³.

Since the beginning of the internationalisation process, the expansion of Iberostar Group was progressive and based on a strong owned hotels portfolio. In 2019, the company has more than 120 four- and five-star hotels located in 19 countries, more than 38,000 employees and a turnover of 2.3 billion euros. In addition to the hotels, the Group has two other business units: travel and incoming activities, and a holiday club.³⁴

3. Understanding the two alliances: A ‘marriage model’ vs a ‘symbiotic model’

This section aims to compare the agreements between the Spanish and German companies. Our sources show that the institutional context in Spain along with the existing local capabilities and entrepreneurial orientation of local players shaped the alliances and ultimately fostered a close and long-lasting collaboration between foreign and domestic firms. We also show that the alliances of Spanish and German tourism players channelled significant marketing and financial resources to fuel the expansion of the Spanish hotel companies.

³² Ibid.

³³ Ibid.

³⁴ Website of Iberostar Group (retrieved June 6, 2019)

The alliances between German and Spanish partners share some common features but also offer interesting differences that help us explain why the two Spanish hotel companies developed in different ways, and how further steps in their expansion were taken – see Table 4–.

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Insert table 4 around here

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Regarding common features, there are three factors to highlight. First, alliances pursued similar objectives and constituted win-win agreements. For the Germans, these included taking advantage of the local know-how and the socio-cultural embeddedness within the local context (Figueiredo, 2011; Narula and Dunning, 2010; Tavares and Young, 2005). Agreements also helped German companies simplify their business model by consolidating their Spanish operations in one local agent. At the same time, foreign partners could exploit the opportunities of a changing institutional context that increasingly welcomed foreign capital and diminished entry barriers. For the Spaniards, the alliances with the Germans provided commercial and financial support, and the opportunity to learn from a bigger partner that helped them enhance their existing capabilities, increase their markets and build a solid brand reputation. As Miguel Fluxá explains, Neckermann was somehow the partner who drove him to expand his activity as an hotelier and an agent: “Whenever I talk to them, I always tell them I’m the oldest member of the firm because I’ve represented them for 45 years. (...) I have great affection for them because I grew up with them.”³⁵ In the case of RIU, Carmen Riu also highlights this learning experience that cross-border collaboration forged: “(...) They [the Germans] are very organised and very systematic, and we learned these traits from the Germans. The cleaning standards of hotels, the

³⁵ Interview with Miguel Fluxá (March 20, 2013).

guest satisfaction level: we learnt this call for quality from them.”³⁶ This win-win view of the two alliances differs from Jun *et al.* (2014) vision, applied to practice standardization in cross-border activities of MNEs. According to them, in contexts of high government influence, local firms find it difficult to adopt MNEs’ practices and quality standards. The Spanish experience in the hotel industry seems to be an exception to this rule. And it is not the only one. As Puig and Álvaro Moya (2018) pointed out, recent research has highlighted the overwhelming capacity demonstrated by Spanish firms to learn from foreign companies and absorb, and even upgrade, their practices.

Second, alliances between Spanish and German firms were launched under the initiative of the Spanish partners and driven by their proactivity which pushed them to knock at the Germans’ door. RIU’s current Co-President explains: “In 1954, my parents’ honeymoon consisted of travelling around Europe. They took two suitcases: one with clothes and the other with hotel brochures. (...) My father had a crucial vision and the ability to make such a difficult decision: I am going to have a foreign partner”.³⁷ Similarly, the agreement between Iberostar and Neckermann emerged and took shape because of the many trips Miguel Fluxá made to Germany “to see if they would give us a chance, because they had several partners in Spain”. Miguel Fluxá had grown up with his father vision to go international: “when we were 11, 12 or 13 years old, my father used to tell us: you have to be international”.³⁸

At the heart of this was the willingness and capacity of the local actors to look for a partner abroad to widen the scope of the business and fuel expansion domestically. The availability of either experienced or promising Spanish-based professionals played an important role as Puig and Álvaro-Moya (2018) emphasised. Miguel Fluxá belonged to a first generation of businessmen graduated at College and Luis Riu Bertrán had a long experience proved first in

³⁶ Interview with Carmen Riu (February 26, 2016).

³⁷ Ibid.

³⁸ Interview with Miguel Fluxá (March 20, 2013).

Venezuela and then in Majorca. The fact that the German partners ultimately joined them shows that they saw prospects for business expansion and trusted relationships based on professional local partners exceeding the hindrances that the Spanish institutional environment still presented at that time. In fact, the German partners were aware of that proactivity and the business capabilities. As stated by Peter Fankhauser, Thomas Cook ex-CEO: “Mr Fluxá had, at that time, a wider vision than others (...). The rest were more concentrated on their areas, they were more local”.³⁹ The German tour operator felt that Iberostar was the trustworthy partner they needed. In the words of Wolfgang Beeser: “the Spanish company also had a touch of aggressiveness, a willingness to put up a fight, ‘to do more’”.⁴⁰ It is that proactivity which explains why, in the case of RIU, they have always been granted total operational freedom by their German partner. Carmen Riu explains: “When we were already in the Canaries and, especially, in America, TUI was not aware of how we designed hotels, they were not interested in that matter (...) There is total freedom. They do not interfere at all. We definitely know a lot about our business so the tour operator does not need to tell us anything about hospitality”.⁴¹

Third, alliances were based on trust. Our sources show that Spanish and German actors worked to establish a trust-based, flexible collaboration that consolidated and, indeed, outlived the original agreements. Moreover, the close contact between the Spanish and German partners and the existence of a previous relationship of trust facilitated future negotiations. “We were always in permanent contact. There were the numbers and we agreed everything in one sentence or a very short protocol: no papers, no attorneys (...)”.⁴² “How did it [the partnership] work? I always say the same thing: like a marriage. Exactly the same (...) at some point I cannot do what I want, and I have to accept your proposal and then you have to do exactly the same

³⁹ Written Interview with Peter Fankhauser (May 24, 2017).

⁴⁰ Interview with Wolfgang Beeser (November 21, 2013).

⁴¹ Interview with Carmen Riu (February 26, 2016).

⁴² Interview with Wolfgang Beeser (November 21, 2013).

with me. What is the advantage? Well, the two parties (...) have been generous enough and we wanted to continue together, sometimes taking a step back so that the other could take the step forward or the other way around. Being flexible.”⁴³

Interestingly, Jagersma (2005) highlighted the inherent cultural, economic and political difficulties associated with cross-border alliances. And he went one step further stating that history has shown the difficulties to sustain longer term relations within companies. As recent research points out (San Román *et al* forthcoming) the family character of the Spanish hotel companies is key to understand the trust that underpinned the establishment of cross-border alliances with international partners, giving them a long-term vision (Villar, et al. 2012; Pla-Barber, et al. 2010). Indeed, the family nature of the firm helped consolidate alliances sustained by strong, sometimes still informal, and trusted relationships (Kellermanns et al. 2008). This family nature was key because it helped the international partners trust the domestic companies (Andreu et al. 2018). Even more, while the alliances developed and consolidated, and more experience was generated, the family turned into a sort of repository of this accumulated experience which continuously backed the development of the company and then supported, even further, its internationalization (Colli et al, 2013).

Despite the three remarkable resemblances between the Spanish-German alliances, there are relevant differences in the way they worked. The alliance between RIU and TUI constitutes ‘a marriage model’ as Carmen Riu significantly termed it, pointing to the deep engagement between the two partners that resulted in a long-lasting relationship which is still alive. Indeed, RIU and TUI relied on an equity joint venture whereas Neckermann never took a stake in any of the Iberostar-owned hotels⁴⁴.

⁴³ Interview with Carmen Riu (February 26, 2016).

⁴⁴ Although Neckermann never took a stake in Iberostar hotels, it was a minor and temporary stakeholder in Fluxá’s tour operator Iberojet and in Iberostar’s management Hotel Company.

In the case of RIU, the existence of a shared equity nurtured a strong bond. This, in turn, helped shape its partnership with a sense of mutual commitment and dependence towards the business. This helps to explain why RIU's business has been strongly focused on hotels and has not diversified towards other areas of the tourism business. It also explains why ownership, instead of renting or management, constitutes its main formula. Indeed, 86 per cent of total RIU hotels are owned by it and RIU and TUI co-own more than 60 per cent of them⁴⁵.

The case of Iberostar-Neckermann's alliance was different. As Peter Fankhauser pointed out: "Iberostar Group and Neckermann expanded together in a symbiotic relationship. For Neckermann, the key factor was accessing the Iberostar hotels as a competitive element, and for Iberostar, Neckermann was the platform on which building its brand name and reputation in Germany and, also, in Belgium and the Netherlands. Neckermann became the market leader in Spain, thanks mainly to the support of Iberostar, and Iberostar expanded to become a leading hotel chain with the help and support of Neckermann's client base"⁴⁶.

Therefore, the relationship between Iberostar and Neckermann was mainly based on inter-firm cooperation in non-equity agreements. However, Neckermann has provided its Spanish partner with financial and commercial support and has contributed to growing intangible assets crucial for an industry such as tourism: brand name, reputation and commercial skills. Unlike the case of RIU, the link joining Iberostar and Neckermann was weaker, and resulted in greater business diversification and growing independence for the Spanish partner. In fact, they continued working on a long-lasting friendship basis for many years but with no alliances between them. Until its bankruptcy, Thomas Cook acted as a significant account for Iberostar Group, but one of many, and Iberostar Group was an important supplier for Thomas Cook but, again, one among many for the German company.

⁴⁵ Interview with Carmen Riu (February 26, 2016).

⁴⁶ Written Interview with Peter Fankhauser (May 24, 2017).

Why are these two models for similar alliances between Spanish and German partners so different? The answer has to do with the two dimensions of the local context mentioned by Meyer et al. (2011): the existing institutional framework, and the resource endowment of local firms. In the case of RIU and TUI, the beginning of the partnership dates back to 1954 when RIU was in its infancy, with very limited know-how and financial means, operating in a country with strong institutional barriers and resource constraints. In 1954, Spain had hardly begun a timid openness and liberalisation, and inward FDI was still restricted. Therefore, the initial association with TUI in 1954 constituted the only chance to develop RIU's business. The need for resources underpinned a deep dependency between the partners and a long-lasting relationship that took a formal shape in 1976, a few years after legislation removed restrictions on FDI in Spain. In fact, the German partner took its time to trust the new institutional context and to accept the joint venture, and this explains why the first joint venture proposed by Luis Riu in 1971 fell through.

However, the conditions of the local context and the local partner were different in the case of Iberostar-Neckermann. Their partnership started on the basis of inbound tourism, an activity that, unlike hotels, required limited external funding. Therefore, Neckermann acted solely as a commercial partner supplying the customers that Viajes Iberia received in Spain. It was in 1979 when Neckermann asked Iberostar to become a hotel owner under his financial support and offered the Spanish company the means and commercial aid to build hotels. By then, Iberostar had a consolidated and diversified business, with accumulated experience, reputation and know-how in inbound and outbound tourism. In addition, the Spanish institutional context had also changed as the country made the transition to democracy with the enacting of the Constitution. As a result, Neckermann proposal represented an interesting opportunity for Iberostar to expand its business in Spain and enter the hotel sector. However, the German partner was not as significant for Iberostar as TUI had been for RIU when the latter started its hotel chain in the backward Spain of the early 1950s.

So, what these differences in the two models of alliances between Spanish and German firms suggest is that the more uncertain the local environment and the less endowed the local actor, the stronger the relationship between the local and the foreign partner in the context of the Spanish hotel industry (Villar et al. 2012; Pla-Barber et al. 2010; Schwens et al. 2011; Meyer et al. 2011).

Interestingly, the difference between the alliances also played a role at the beginning of the internationalisation process of the two Spanish companies. Iberostar and RIU launched their first internationalisation venture on their own, at the same time – the early 1990s – and both without German support. However, when the two German companies saw the initial success of their Spanish partners abroad, they sought to join them. Yet, the ‘marriage model’ and the ‘symbiotic model’ proved to be different. After almost 40 years of relationship in Spain, RIU allowed TUI to join it. The cooperation model they had developed in Spain, based on a strong dependence and mutual collaboration, led them to replicate it abroad. In contrast, Neckermann and Iberostar did not have that strong relationship involving sharing property. Besides, the diversification of Iberostar Group provided the means to go international without the German partner. Indeed, Miguel Fluxá financed the first hotels abroad after selling his tour operator, Sunworld, in 1996. In his own words: “It gave us the courage we needed to invest”⁴⁷. Cooperation between Iberostar and Neckermann in foreign markets was based on commercial collaboration under non-equity agreements in the hotel business, same as in Spain, but without

⁴⁷ In 1991 Miguel Fluxá set up the first Spanish-owned tour operator in the United Kingdom, Sunworld and later sold it in 1996 in a transaction which, as we shall see, turned out to be one of the most important in his life (Interview with Miguel Fluxá (March 20, 2013).

financial support from the German side. As we have already pointed out, the link between the two companies became weaker as time went by.

4. Conclusions

This paper has sought to analyse the way the local context shaped the interaction between foreign and domestic firms in the Spanish hotel industry, and the impact of that interaction on the development of two major Spanish companies. To do so, we have focused on the drivers and nature of the alliances signed between the German tour operators, TUI and Neckermann, and the Spanish hotel chain companies, RIU and Iberostar. Theoretically we have drawn on literature on foreign direct investment (Lall and Narula 2004; Te Velde 2006; Jones 2014b and 2019) through the lens of an institutional perspective that takes into account the impact of cross-border cooperation between companies from different institutional backgrounds (Jagersma 2005, Jun et al. 2014). From an empirical perspective, our study relies on business history methods and concerns (Jones 2014b and 2019; Álvaro et al. 2020).

We have paid special attention to the specific dimensions that, according to Meyer *et al.* (2011), define the local context and may shape how FDI arises, develops and impacts on the outcome: the institutional framework and the existing human capital and business capabilities that are organisationally embedded in local companies. Through our analysis, we have shown that the nature of the alliances and the way they developed over time were strongly influenced by the local context, its institutional framework and the conditions of the local players. Hence, interactions between the German and Spanish companies constituted a dynamic process which was embedded within the host context (Figueiredo 2011). In addition, the conditions of the local context and players, rather than being static, also created a pathway to dependence for local actors which shaped further steps they undertook in their domestic, and also international development.

Regarding the role played by the institutional context, our analysis suggests that the Spanish legal framework determined the nature of cross-border cooperation between RIU and TUI, on the one hand, and Iberostar and Neckermann, on the other. During the 1950s, the combination of high entry barriers in an undeveloped country and the lack of financial means enhanced the establishment of alliances based on trust, mutual collaboration, win-win conditions and a long-term vision. In the case of RIU, the German TUI soon became a critical partner for expanding the hotel business as it provided the requisite financial means that neither private banks nor public institutions offered to Spanish hotel chains. The growing openness and liberalisation of the Spanish economy during the 1960s fuelled economic growth and attracted FDI. In this framework, Iberostar and Neckermann began their partnership focused on inbound tourism, an activity that, unlike hotels, demanded fewer financial resources. The new legislation of 1963, which allowed FDI to enter the Spanish hotel business, along with the strong expansion of the tourism industry during the 1960s, strengthened the relationship between the German and Spanish partners. New agreements arrived in the 1970s, after Franco's death, and under an international context of recession that had significantly reduced international tourism flows. However, Spain was still leading the world tourism ranking and managed to keep its competitiveness. Moreover, tourism had become a key activity to compensate for the growing external trade imbalance of the Spanish economy due to the oil crisis and the high dependency on oil imports.

At a general level, our research follows the wider principles articulated by institutionalist literature, which propose that firms evolve with their environment and are shaped by it (Cantwell et al 2010). This explains why it is so important to take into account interactions that extend beyond cross-border alliances, and that can only be fully understood from an institutional perspective approach (Rodrik *et al.* 2004). Institutions, defined as variables that govern everyday social and economic life of individuals (Scott, 2008) can help to explain why

cooperation among actors happens, and why cross-border alliances adopt a different nature depending on this dynamic environment (Van den Broek and Smulders 2015).

Regarding the second dimension of the local context as defined by Meyer et al. (2011), resource endowment, the cases of RIU-TUI and Iberostar-Neckermann highlight the key role that resources embedded in local actors play in shaping the relationships between local and foreign partners. Our findings suggest that alliances were driven by the initiative, proactivity and aspiration of the two Spanish players. Both aimed to expand their tourism businesses at home but needed financial support and foreign customers. Hence, the development of alliances critically depended on the proactivity and entrepreneurial spirit of the local actors. In both cases, RIU and Iberostar, that proactivity was in fact recognised and acknowledged by the German tour operators from the very beginning. Even more, it was a determining factor for the Spanish players in order to be chosen as partners. In this sense, we join previous research (Puig and Álvaro Moya 2018) to highlight the availability of locally educated or experienced professionals eager to absorb knowledge and expand their businesses.

Our paper contributes to theory by showing the impact of the host context on cross-border cooperation between companies from different institutional background. The combination of the two mentioned dimensions of context, institutional framework of Spain and the resources embedded in local partners, shaped the nature of alliances, with two different models emerging: a 'marriage model', for TUI and RIU, versus a 'symbiotic model' between Neckermann and Iberostar. In the case of RIU, a deeper engagement, mutual dependency, with TUI existed as their alliance was based on an equity joint venture whereby ownership of the hotels was shared. As already noted, this nature is the result of the combination of institutional barriers and financial needs and it shows the importance of trust to sustain a long-term relation (San Román et al. forthcoming). Although it is not at the core of this paper, we have also pointed out the family nature of our companies to overcome the difficulties associated with the

endurance of cross-border alliances, particularly between a developed and a developing country (Jones 2014a).

In contrast, Iberostar and Neckermann worked on the basis of a collaborative, non-equity, agreement that resulted in a weaker link, one which ultimately dissolved. This is also the result of the combination of an improving institutional framework and the existence of a local partner with a more consolidated, diversified business, less dependent on external funding.

How did the interaction between German and Spanish partners impact on the development of the domestic companies? Our findings also suggest that, in the cases of RIU and Iberostar, FDI proved to be strategic not only due to the capital it provided but also because it propelled brand consolidation, market knowledge and reputation which reduced uncertainty to expand the business at home and abroad. Although the starting point for the alliances between RIU and TUI and Iberostar and Neckermann depended on the Spaniards' proactivity and initiative, the development of the alliances provided the Spanish companies with these critical assets that helped them consolidate their business at home, and then internationalise it. The internationalisation experiences of Iberostar and RIU, on their own, constitute evidence of the capabilities developed through FDI (Álvaro et al. 2020) and the long-lasting collaboration with the German partners. This shows that, even though capabilities were organically embedded in local actors before foreign partners arrived, the alliances based on trust, commitment and long-term vision resulted, for the Spaniards, in a learning process through which existing capabilities were enhanced by the interaction with the foreign player.

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