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**AN ANALYSIS OF THE PERCEIVED EFFECTS
OF EUROPEAN ECONOMIC MONETARY UNION
UPON THE HOTEL INDUSTRY IN THE NORTH OF PORTUGAL**

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ABSTRACT

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The analysis of the effects of European Economic Monetary Union (EMU) on the North of Portugal

As a subject for a doctorate research, integration through a single currency, Economic and Monetary Union (EMU) holds out the promise of welfare gains for the participating countries and their respective citizens. Among the potential benefits of monetary union, EMU offers improved or efficient business competition through a stability-oriented macroeconomic policy framework, including greater transparency, reduced exchange rate uncertainty, greater mobility in the private capital and labour markets, among others. Whether the long-run advantages will be realized depends on the extent to which EMU is

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TURISMO DE
PORTUGAL



ABSTRACT

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An analysis of the effects of European Economic Monetary Union on hotels in the North of Portugal

As a catalyst for a closer economic integration through a single currency, Economic and Monetary Union (EMU) held out the promise of welfare gains for the participating countries and their respective industries. Among the potential benefits of monetary union, EMU was expected to enhance business competition through a stability-oriented macroeconomic policy framework, including greater transparency, reduced exchange rate uncertainty, greater credibility to the policy regime and lower transactions costs, among others. Whether the hotel stakeholders perceived, or did not perceive, significant changes brought about by EMU for Portugal, and the hotel business environment in the north of Portugal in particular, was the central aim of this study.

To meet this aim the following was done:

First, based on a literature review focussing on the economics of integration, business management and competitiveness theories the underpinning framework of the primary research were identified and developed. In particular, this research focused on the perceptions of the hotel stakeholders towards the implications of EMU using and adapting three of Porter's models: the Diamond, Five Forces, and Value Chain models. By combining Porter's models together in an all-encompassing framework, it was possible to confirm that there are advantages in merging more than one business environment level into an integrated study procedure.

Second, three sets of surveys were conducted based on the underlying analytical frameworks and knowledge of EMU and tourism/hotel industry: one survey for each of the three target groups. Together, these three surveys provided a multi-stakeholder perspective - the national, the industry and the businesses perspective - using people involved directly at each level of the business environment (the Portuguese national authorities, the hotel industry associations and the hotel businesses in the North of Portugal).

Finally, the data analysis was structured into two parts based on the type of questionnaire used: structured and semi-structured. The semi-structured questionnaires were analysed using two types of content analysis, summation and explanation, using QSR NUD*IST 6 software programme. The structured questionnaires were analysed using basic descriptive methods, such as frequencies and cross tabulations. The quantitative data was analysed using the *Statistical Package for Social Sciences* (SPSS).

One of the main conclusions the study reached through the conceptual framework used was that, EMU not only changed the business environment at a national level, but also changed the competitive and operational environment of the hotels. However, the effects expected in literature were greater than the effects observed by the hotel stakeholders and, in particular, by the business respondents.

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LIST OF ABBREVIATIONS

ADETURN	Tourism in the North of Portugal
ADHP	Association of the Hotel General Managers in Portugal
AEP	Portuguese Business Association
AICEP	Business Development Agency
API	Portuguese Investment Agency
CGE	Computable General Equilibrium
CTP	Confederation of the Portuguese Tourism
CU	Customs Union
DGT	Directorate General for Tourism
EC	European Commission
ECSC	European Coal and Steel Community
EEC	European Economic Community
ECB	European Central Bank
EMU	Economic and monetary Union
EU	European Union
EMS	European Monetary System
FTA	Free Trade Association
GDP	Gross Domestic product
ICEP	Trade and Tourism of Portugal
IMD	Institute for Management Development
INE	National Statistical Board
NATO	Computable General Equilibrium
NUD*IST	Non-numerical Unstructured Data Indexing, Searching and Theorising
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
SGP	Stability Growth Pact
SMTEs	Small to Medium Tourism Enterprises
TEU	Treaty of European Union
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNISHNOR	Union of the Hospitality and Restoration Northern Associations
VAT	Value Added Tax
WTO	World Trade Organisation
WTTC	World Travel and Tourism Council

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1. INTRODUCTION AND OVERVIEW OF THE THESIS

1.1. INTRODUCTION

With the view to contribute to tourism research and development, this thesis investigates the implications of Economic and Monetary Union (EMU) on the tourism business environment, focusing on the hotel industry in the North of Portugal.

The implementation of EMU has been viewed as a culmination of the long process of economic and political integration, as among an extensive list of authors, Barbosa et al (1999), Whyman (2002) and El-Agraa (2004) have documented. From the economic perspective EMU, was expected to provide benefits that will potentially enhance business competition through the creation of a stability-oriented macroeconomic policy framework, including low inflation, low transactions costs and interest rates, elimination of exchange rate uncertainty, simplicity of transactions, and so on. From a political perspective, EMU was expected to give more credibility to the policy regime surrounding European enterprises by increasing sovereignty (namely in monetary matters) of some European institutions, as such the European Central Bank (EC, 2004a). Nonetheless, potential benefits only accrue, if businesses take advantage of the new opportunities available to them and if the individual economies sufficiently converge with one another and flexibly adapt to meet the changed circumstances (Barbosa et al., 1999 and Whyman, 2002).

In considering these issues, several authors (e.g. Shackleford, 1998; Piggott and Cook, 1999; Barbosa et al., 1999, Whyman, 2002; Rickards, 2003; DeGrauwe, 2005; Baimbridge and Whyman, 2005 and Johnson and Turner, 2006) have argued that EMU has a vital importance for participating countries and its industries by influencing not only the operational

environment of the firms, but also the national and industry environment in which business operate and compete.

From the above, it is not surprising that literature on tourism has quoted EMU as the greatest European force influencing the environment in which tourism businesses operate and compete, as documented by Deloitte and Touche Consulting (1998); Shackelford (1998); WTO (1998); Bieger and Laesser (1999); Costa (1999); Socher (1999); Smeral and Weber (2000), Salomon (2003); and Rátz and Hinek (2005). The main arguments presented by these authors, and well summarised by Rátz and Hinek (2005), are that:

- (i) the tourism sector is highly sensitive to external factors such as economic trends or political changes;
- (ii) the operational environment of tourism businesses is highly influenced by exchange rate stability;
- (iii) the mobility of people, goods and capital may be influenced by the single European currency;
- (iv) increasing exposition of prices and the single European monetary policy have led to increased competition in the tourism sector.

However, little research has focussed upon the likely impact of EMU on the tourism business environment. In fact, a review of the literature published since 1990 and up to beginnings of 2007 showed that limited attention has been given to this subject. In addition, the literature available on the tourism context was published before 2002 (for example, APAVT, 1997; Deloitte and Touche Consulting, 1998; Torres, 1998, Costa, 1999 and *Ministério da Economia*, 1999) and is in great part, based on expectations and assumptions or on the practical issues relating to the changeover period of 1999-2002, with the aim of informing entrepreneurs of the main operational changes of EMU. As will be documented in chapters 2 and 3, the study published by Rátz and Hinek (2005) is one of a few exceptions. These two authors carried out, in 2005, research with the aim of identifying the main impacts of the single European currency on the demand and supply sides of Hungarian tourism, using the Hungarian tourists'

perceptions (Rátz and Hinek, 2005). The study developed by Mazanec (2002) to evaluate the influence of the Euro on tourist' perceptions should also be mentioned.

On the other hand, when applied to the Portuguese context, the major findings and conclusions of a survey of the literature (presented in chapters Two and Three) equally confirmed that the theme was little investigated, despite the importance that the tourism sector has in the Portuguese economy (being directly and indirectly responsible for around 250,000 jobs and contributing 8% of the Gross Domestic Product (Tavares, 2003). Moreover, the few studies available on this topic (e.g. APAVT, 1997; Deloitte and Touche Consulting, 1998; Cunha, 1999 and *Ministério da Economia*, 1999) were essentially developed with the main purpose of informing entrepreneurs in the sector of the main operational and practical changes brought about by the introduction of the Euro in 2002 as a physical currency.

Hence, at the time this research began, a need for further research and empirical assessment of the implications of EMU for the Portuguese tourism sector was evident, allowing the identification of two main issues deserving further research, which this study attempts to investigate:

- *How the influence of EMU on the Portuguese business environment at national, industry and operational levels is perceived?*

And, since the potential benefits of EMU depend on how the participating countries and their business react to the new environment,

- *How the stakeholders of the hotel industry consider they will respond to the new opportunities and challenges, which EMU will create in the business environment?*

Furthermore, despite the fact that since the beginning of this study, the body of research on the implications of EMU has grown significantly (e.g. DeGrauwe, 2005 and Baimbridge and Whyman, 2005), only a few studies focusing on the implications of EMU in the tourism sector were identified during the time this research was being undertaken, as will be demonstrated in the literature review. Moreover, despite the importance of the tourism for Portuguese economic activity, and the main challenges brought about by EMU, few, if any, researchers have investigated the impacts of EMU after 2001 in the Portuguese tourism context.

Based on these issues, it is argued that this study continues to be relevant not just because fills a gap in the literature, but also because it provides pioneering empirical research in a central sector for Portuguese economic activity that can be further explored in future research.

It should be acknowledged, that the relevance of the investigation was considered essential by the Portuguese National Authorities, which through the Portuguese Tourism Board/Ministry of Economy gave financial support to this research since the beginning and has the intention to publish the thesis in order to contribute to the development of the Portuguese tourism sector.

In order to better understand the context in which this study was developed, an overview of the Portuguese tourism sector and the North of Portugal followed by a brief overview of the Portuguese hotel sector are now presented. The Chapter then identifies the overall aim and objectives of the research and presents a brief review of the methodological approach of the research, followed by a summary of the structure of the thesis.

1.2. THE CONTEXT OF THE STUDY IN TERMS OF LOCATION AND THE PORTUGUESE HOTEL SECTOR

1.2.1 An overview of the Portuguese tourism sector and the North of Portugal

The importance of the tourism sector in Portugal is unquestionable. According the Portuguese Economy Ministry tourism, in 2002, accounted for 8 per cent of the GDP and employed, directly and indirectly, 250.000 workers in Portugal (Tavares, 2003). The country, with a population of less than 10 million people, receives every year an average of around 12 million tourists and 20 million visitors (staying for less than 24 hours) (ICEP, 2006). According to ICEP (2006), Portugal enjoys a natural competitive advantage in the global market place, ranking in 19th position as a global tourist destination and 21st in terms of global earnings from tourism, in 2002 (ICEP, 2006). In addition, according to figures presented by the WTTC, Portugal should enter the world's top ten tourist destinations in the year 2020, as 40 million annual visitors come to the country (WTO, 2003).

Nonetheless, through the years, the Portuguese tourism industry has faced challenges, which it is important to recognise:

First, tourism in Portugal has been highly dependent on tourists from only a few European countries. In 2003, as revealed by DGT (2005a), five countries were responsible for almost 80 per cent of the total tourist arrivals to Portugal - Spain with 46 per cent, the United Kingdom with 16 per cent, Germany with 7 per cent, France with 7 per cent and Netherlands with 4 per cent and only 2 per cent from the Americas. In addition, according the same source the Portuguese domestic market is still underdeveloped (33%, in 2004), despite some development in recent years (DGT, 2005a).

Second, excluding the islands of Madeira and Azores, the ‘continental’ Portuguese tourism industry has essentially been confined to the Algarve region, which generates more than 60 percent of the nation’s total revenue from the tourism sector and represents almost 50% of the nights spent by tourists in Portugal (WTTC, 2003). This means there is a high dependency on the Algarve Region, namely in the summer time. In fact, its reliable and pleasant climate and relatively warm seas seems to have made the Algarve the main Portuguese tourism destination (DGT, 2004).

Third, until not long ago (middle of 1990s) Portugal, as a tourist market, was highly associated with ‘sun and beach’ tourism, which seems to have contributed to the fact that for several years there existed many underdeveloped tourism areas and products (e.g. cultural, rural products) and many regions had received little attention from investors and national policies in terms of tourism (DGT, 2003). Currently, tourism products and resources such as golf, business, cultural and rural tourism are expanding rapidly, offering chances of other regions being equally attractive in a tourism context.

Fourth, in recent years, due to increased standards of living in Portugal, in great part as a result of the EU financial support to strengthen the Portuguese economy, prices in Portugal have gone up, edging ever closer to the European average. This means that Portugal can no longer compete only on the basis of affordability, which was one of the most important reasons for the popularity of Portugal as tourism destination (Yasin et al., 2003).

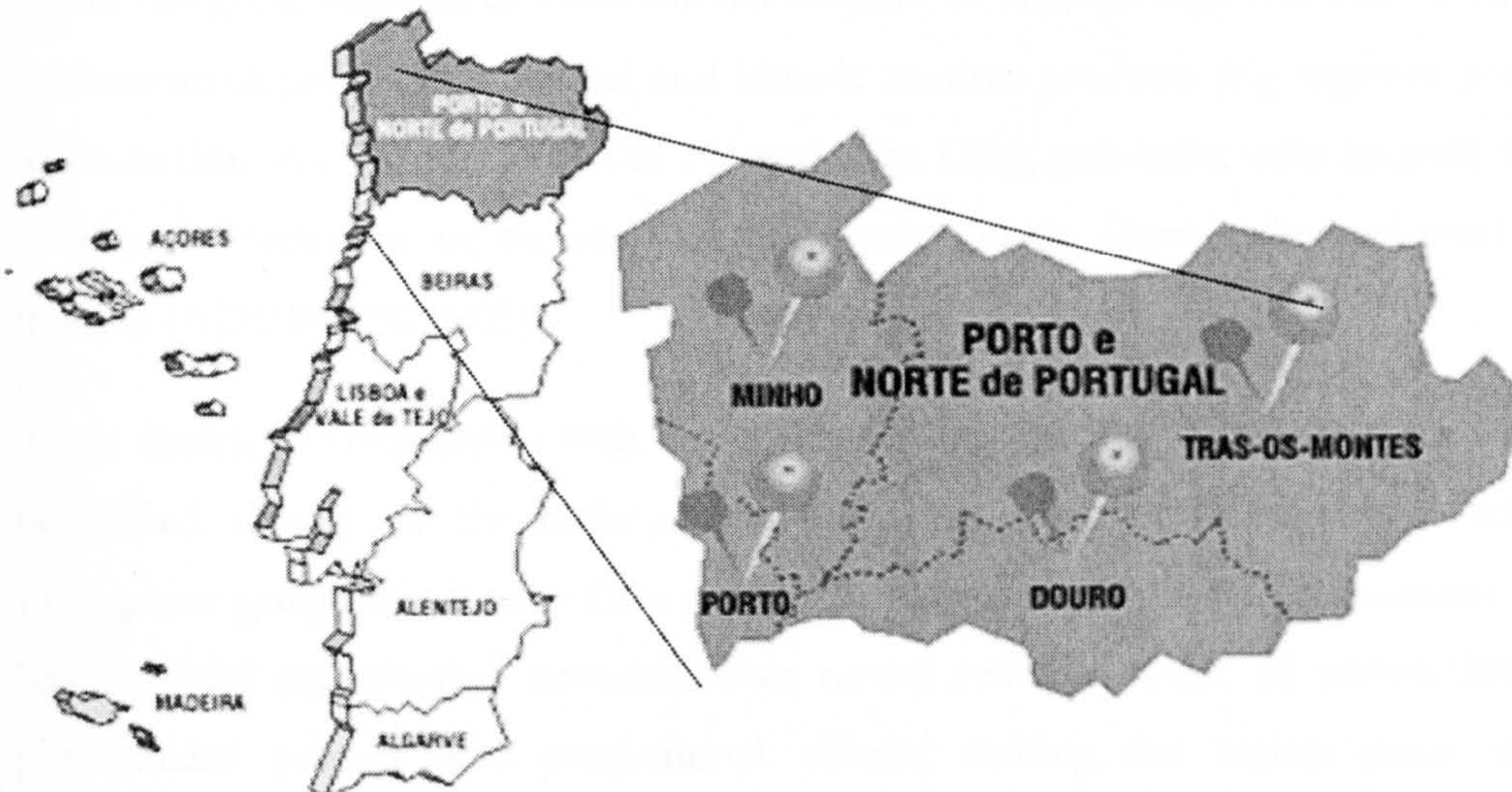
Last, but not the least, since Portugal joined the EU in 1986, the Portuguese tourism sector has been highly influenced by several policies and measures adopted at the EU level, which have required additional efforts to cope with but for which not all the involved parts of the tourism sector were fully ready. An increasing geographical space in Europe without physical, technical or tax barriers (beginning with the six countries and expanding to the current 27 members of the EU) and the adoption of EMU and its implications on the national economy are good examples of new challenges brought about by the EU that the tourism sector is facing.

1.2.2. The North of Portugal

In accordance with the Portuguese official system of statistical regions and sub regions, known as N.U.T.S. (Nomenclature of Territorial Units for Statistics), the North of Portugal, illustrated in the Figure 1.1, is one of the seven regions of Portugal: North; Centre (Beiras); Lisbon; Alentejo; Algarve; Azores and Madeira. It embraces 3.687.212 inhabitants (2001), and 21.278 km², being the second region in Portugal based on population (following the region of Lisbon) (INE, 2004).

In contrast to the large rolling plains in the South, a great part of northern Portugal is mountainous and is characterised by many small and medium sized farms and vineyards. There are however vast differences within the region (INE, 2005). For example, the Greater Oporto area (illustrated in the figure 1.1 as Porto) located on the coast has a distinct physical environment and is characterised by much industry and commerce.

Figure 1. 1. North of Portugal



Source: www.portugal.org/images/home/porto_norte_map.gif

The city of Oporto, classified by UNESCO as a World Heritage site since 1996, is the main city in northern Portugal. It has the only international airport in the North of Portugal, a harbour, an underground system and a large network of highways and motorways and has always played an important role in international trade (EC, 2000a).

In terms of the tourism context, when compared with the South of Portugal, the North of Portugal has always presented limited figures in terms of tourism development. This is in great part due to Portugal, as a tourist market, having been highly associated as a 'sun and beach' tourism destination. In fact, while in 2004 the South of Portugal represented 42 percent of the nights spent by tourists in the seven regions of Portugal, according to data from INE (2005), the North represented 9 percent. The reliable and pleasant climate and relatively warm seas in the South seem to have made this region for several decades the main tourism destination and the most attractive for investors (DGT, 2004).

However, under a global market context, in which alternative tourism destinations to ‘sun and beach’ are becoming increasingly appealing to rising segments, as noticed by Poon (1998), the North has great potential as a tourism destination. In fact, the region is able to offer alternative tourism products, such as cultural and historic tourism products (e.g. signs of prehistoric men in the ancient cave paintings in Vila Nova de Foz Côa); golf-links; wine tourism routes (*Douro, Verde* and *Oporto*, wine are the most known), cruises in the *Douro* Valley and rural and business tourism (ADETURN, 2005).

These issues, in conjunction with the challenges that the Portuguese tourism sector is facing (identified above) are the main reasons why the north of Portugal was selected as the Portuguese geographical area of the study. They also seem to be relevant reasons why this area has received considerable attention over recent years in terms of private investment and government policies and promotional efforts, making the region more attractive and developed. In fact, there are relevant examples of private investment which, with the aim of conquering sophisticated markets, plan to build five star hotels and resorts in the region (e.g. the Intercontinental group plans to open a 5 starts hotel in Oporto for 2008, investing 31 million of Euros – *Publituris*, 2003; and the plan of a national group – *Douro Azul* to open a five star resort in Douro Valley, involving an investment of around 26 million Euros) (*Publituris*, 2006). Moreover, according to data provided by the Portuguese Investment Agency (API, 2006), the agency has received many inquiries from foreign and national potential investors regarding the region's existing properties that could be reconverted into accommodation, restaurant, services and tourism entertainment facilities (API, 2006).

In addition, government projects in the North of Portugal, already under way, cover an extensive range of infrastructure, which may have an important impact in the region. These projects, identified by API (2005), include: (i) air transportation, in particular the expansion and remodelling work at Oporto airport; (ii) rail infrastructure to link Oporto to the heart of the Douro; (iii) river infrastructure to increase and improve the mooring conditions; road access to reduce access time to the region; (iv) health services and equipment: in particular in Vila Real and Lamego; (v) human resources training: particularly significant is the creation of the Northern College of Higher Education in Hotel Management (*Escola Superior de Hotelaria do*

Norte) and the expansion of the Lamego School for Hotel Management and Tourism (*Escola de Hotelaria e Turismo de Lamego*) (API, 2005).

Hence, it is not surprising that an increasing number of tourists in the region may be expected (ADETURN, 2004), for which the fact that the region is now able to benefit from direct international flights offered by discount airlines since 2004 also contributes (e.g. Air Berlin and Ryanair).

1.2.3. The Portuguese hotel sector

The hotel sector plays an important part in the Portuguese tourism industry. In, 2003, from the 192.480 supply of beds in the main forms of accommodation, 109.529 were in hotels, representing 57 percent of the total supply of beds in Portugal (INE, 2005). According the same source, hotel beds grew from 77.199 in 1993 to 109.529 in 2003 and the number of the hotels in Portugal (546 - in 2003) represented 32 percent of all forms of accommodation (e.g. *Estalagens; pensões, self-catering apartments; pousadas and motéis*). In addition, the number of hotel projects being undertaken in Portugal has been increasing (DGT, 2005b).

In several Portuguese destinations, hotels are supplemented by smaller accommodation establishments such as *Estalagens, pensões, self-catering apartments, pousadas, motéis* revealing a fragmentation of the Portuguese accommodation sector (DGT, 2005b). However, according to data provided by DGT (2005b), in terms of the tourist overnight stays, hotels are the dominant form of accommodation used by leisure and business tourists, particularly those travelling internationally, with the domestic, United Kingdom and German tourists being the most significant market (27, 22 and 12 %, respectively) (DGT, 2005b).

In terms of the geographic distribution of Portuguese hotels, the region of *Lisboa* and *Vale do Tejo* account for the largest number of hotels (126 in 2003 according to DGT, 2005b), followed by the Northern region of Portugal (112). As already mentioned, the *Algarve* provides the largest number of beds by region, but represents only 20 percent in terms of number of

hotels in the country, reflecting the fact that hotels in the Algarve tend to be much larger to cater for the massive influx of tourists over the summer (DGT, 2003).

With regard to the hotel structure, based on employment criterion, and bearing in mind that the EU defines as small or medium sized enterprises all enterprises that have less than 250 employees (EC, 2005a), it is safe to assume that the vast majority of enterprises (perhaps above 98%) of all Portuguese accommodation establishments are Small Medium Tourism Enterprises (SMTEs). For example, the data collected within this study revealed that all hotels in the North of Portugal are SMTEs, since no hotel had more than 250 employees. In addition, based on the type of ownership, an examination of the list of the hotels provided by DGT (2003b) demonstrated that there were less than 30 hotels' chains operating in Portugal, suggesting that hotels remain dominated by independent units. However, there is some evidence that multinational companies are beginning to take an interest in the Portuguese market, as exemplified by the interest of the Intercontinental Group in the North of Portugal (API, 2006).

1.3. AIM AND OBJECTIVES OF THE RESEARCH

Based on the challenges faced by the Portuguese tourism sector, and specifically the hotel sector, resulting from the introduction of EMU and the limitations presented by previous research, the overall aim of this research is:

To analyse and critically evaluate the perceived impacts of EMU upon the competitiveness and decision-making relating to the hotel industry in the North of Portugal, based on the views of the tourism stakeholders, representing the national authorities, industry associations and hotel business.

To meet this aim the following general objectives were set:

- *To introduce and review the theoretical underpinnings of regional economic integration with particular reference to the evolution of the European Union and the introduction of the European Monetary System;*

- *To develop a conceptual framework for researching the implications of EMU at the three main levels of the business environment (national, industry and operational level) and, consequently, on business competitiveness;*
- *To analyse and compare the perceptions on the implications of EMU using the tourism stakeholders: business people; people from the industry associations; people from the national authorities;*
- *To understand how EMU affects the decision-making or strategies of tourism stakeholders;*

To achieve these objectives four research questions were developed, which essentially have been identified as the limitations of previous studies and cover the central aspects of the study. They are as follows.

Question 1: How regional economic integration, with particular reference to the evolution of the European Union and the introduction of European Monetary System, is understood in the literature?

Question 2: What are the *expected* and *perceived* effects of European Economic integration and Monetary Union upon the national, industry and operational environments of the hotels operating in the North of Portugal?

Question 3: Do the hoteliers perceive the effects of EMU in the same way as the national authorities and industry associations?

Question 4: How has EMU affected the decision-making or strategies of the tourism stakeholders?

1.4. RESEARCH METHODOLOGY

The research was based on Porter's models (Diamond, Five Forces and Value Chain) as will be explained in subsequent chapters. These models were identified as being suitable to structure the primary research questionnaires, which focused on EMU as a key force on business

environment and with effects on competitiveness and decision-making. They could also be relied on to give answers to the research questions.

The primary research took place in Portugal between June 2002 and May 2003. This involved three components in order to collect data from three distinct groups, as will be demonstrated in Chapter Four:

- In the *first stage*, the owners/senior managers of 104 hotels out of a total of 112 hotels in the North of Portugal were personally surveyed using a structured questionnaire that emerged from the literature and the aims of the research. The intention was to involve responsible people who, in seeking for their hotel to be profitable, play an important role in the SMTEs operational environment.
- In the *second stage*, 5 face-to-face semi-structured interviews were conducted with people in key positions (director/president) in tourism industry associations to establish the views of the industry associations who, through their support, may contribute to the success of the tourism industry and are highly involved with the industry environment.
- In the *third stage*, 10 face-to-face semi-structured interviews were conducted with people in key positions in the national authorities (Ministers/Secretary of State and directors) dealing directly or indirectly with the national environment of tourism enterprises.

Together, these three surveys helped to identify and compare the perceived implications of EMU on competitiveness and decision-making, by providing a multi-stakeholder perspective - the national, the industry and the businesses perspective - using people involved directly at each level of the business environment.

With regard to the data analysis, this was structured into two parts based on the type of questionnaire used: structured and semi-structured. The semi-structured questionnaires were analysed using two types of content analysis, summation and explanation, using QSR NUD*IST 6 software programme (Non-numerical Unstructured Data Indexing, Searching and Theorising). The structured questionnaires were analysed using basic descriptive methods, such

as frequencies and cross tabulations. The quantitative data was analysed using the *Statistical Package for Social Sciences* (SPSS).

1.5. STRUCTURE OF THE DISSERTATION

The thesis is structured into nine chapters the first of which provides an introduction to the study. The objective of the following two chapters is to provide a critical review of the concepts and theories of regional economic integration and the business environment and to relate them to the context of the study and the research aims. Together, **Chapters 2 and 3** provide the framework of theoretical debate concerning regional economic integration and the impact of EMU on the business environment and the competitiveness and decision-making of hotels in the North of Portugal. In the **Chapter 4** the methodology used for the research is described, covering the multiple stages of the research process. The aim is to clarify the methodology used for answering the research questions. The findings resulting from the primary data collection (questionnaires gathered with 104 hotel business respondents and the semi-structures interviews with 15 representatives of the national authorities and the industry associations) are compared and analysed in Chapters, 5, 6 and 7. **Chapter 5** deals with the perceptions of the three study groups of the impact of EMU on the national environment focussing on the Portuguese national competitiveness, using Porter's Diamond Model. **Chapter 6** provides an analysis of the views of the respondents on the effects of EMU on the Portuguese hotel industry using Porter's Five Forces model. **Chapter 7** evaluates the impact of EMU at the operational level of the hotels in the North of Portugal. This includes an evaluation of the changes in the hotels' activities using Porter's Value Chain model as a measure of reference against which the impacts of EMU on business activities can be evaluated. **Chapter 8** evaluates the theoretical, practical and methodological approaches used in the research in order to clarify and explain the importance of the study and to point out the weaknesses as well the strengths found in the research process. A discussion of the results is also provided. At the end of this study, **Chapter 9** offers concluding remarks and suggests relevant areas that can be explored in future research.

2. A REVIEW OF EUROPEAN ECONOMIC INTEGRATION

2.1. INTRODUCTION

Regional economic integration agreements have been one of the most discussed issues of worldwide economic development over the last few decades, being the European Union (EU), the best known and the most ambitious effort at regional economic integration in the world at present. As a result, the theme has received increasing attention by academics and several texts have been devoted to the economics of regional integration, particularly since the 1950s and became an avalanche in the 1990s.

Much has been written and discussed about European integration since the early post World War II period. From an analysis of the texts on the economics of integration, some clear issues and trends in the literature emerge over time. For instance, in the 1950s and 1960s, the discussion of economic integration was focused on the explanations and concepts of economic integration and the potential effects of customs union agreements were a central theme running through most of the analysis (e.g. Viner, 1950; Meade, 1955; Lipsey and Lancaster, 1957; Balassa, 1961 and Haberler, 1964). In the 1970s and 1980s, the existing theories of economic integration were applied to different levels of integration and different areas of economic activity (such as agriculture, regional, social, among other) (e.g. Shibata, 1971; Corden, 1972; Grubel and Lloyd, 1975; Tovias, 1977; Robson, 1989 and Wonnacott and Lutz, 1989). From the end of the 1980s onwards, monetary union became a continuous theme of the discussion on European economic integration (e.g. Horvath and Luboš, 2002; Mongelli, 2002 and DeGrauwe, 2005).

Together, these concepts, studies, and developments form the substance of this Chapter on the economics of integration. The aim is to present and evaluate the theoretical background to

the economics of regional integration and relate this to the context of the study and the research aims. This discussion also seeks to provide an understanding of the relevance and contribution of the present study to the understanding of the process of economic integration.

For these reasons this chapter initially outlines the thrust of the literature on economic integration, providing a conceptual clarification of key terms used and a review of theoretical foundations. This is followed by a brief review of the different directions that this subject has followed, specifying its contribution to the present study. The chapter then concentrates on an analysis of European integration to contextualise the way the EU has gradually developed. It outlines the historical and political background of the European Union and its development in relation to economic integration, focusing on Economic and Monetary Union. The early years after the introduction of EMU are then discussed. This is followed by an analysis of the implications of EMU under political, economic, social and technological factors. The following section outlines the issues of European economic integration for the tourism sector. A conclusion is provided at the end of the chapter.

2.2. A REVIEW OF THE UNDERSTANDING OF REGIONAL ECONOMIC INTEGRATION AS A DEVELOPMENT ISSUE: THE FUNDAMENTAL CONCEPTS

2.2.1. Defining the economic integration

Under the labels of ‘regional economic integration’, ‘regionalism’ or simply ‘economic integration’, a number of authors have defined economic integration in terms of the progressive removal of economic frontiers between member states (Balassa, 1961; Robson, 1989; Piggott and Cook, 1999; Molle, 2001; Pelkmans, 2001; Tsoukalis, 2003; Wallace and Wallace, 2003; El-Agraa, 2004 and Jovanovic, 2005).

As the work of Lipsey and Lancaster (1957), Meade (1955) and Viner (1950) have documented, one of the pioneering clear definitions of economic integration, as a development concept, was presented by Balassa’s work at the beginning of the sixties. Balassa suggested different degrees of economic integration and his work has inspired the majority of studies on this subject. For

Balassa (1961) economic integration is a voluntary process of increasing inter-dependence of economies separated into areas, or more expanded regions, which manifests itself in different ways, with the main ways being:

- *Free Trade Areas* (FTA): characterised by the abolition of custom rights and quantitative restrictions between the participating countries, with each country maintaining its own tariff policy in relation to third countries;
- *Customs Union* (CU): in addition to the suppression of discrimination in relation to merchandise movements inside the union it implies a common external tariff;
- *Common Market* (CM): a more advanced form of integration since the abolition of restrictions does not limit itself to commerce but also to the free circulation of people, capital and services;
- Full monetary union, later called *Economic and Monetary Union* (EMU): involves a common market and the unification of monetary policy with the establishment of a supranational authority - Central Bank - whose decisions in monetary matters, including monetary policy, are obligatory for the participating states.

Hodgson and Herander (1993) and Winters (1988) mentioned a different first stage of integration, *preferential trading agreements*, where the members reduce restrictions on trade between themselves, while maintaining a higher level of restrictions on goods imported from states outside the agreement. Authors such as El-Agraa (2004) argued that the demands for economic integration lead inevitably to growing political integration. As a result, these authors added a fifth form of regional integration: complete *political integration*, arguing occurs when countries agree to common policies in foreign and defence terms. On the same line of thought, Molle (2001) argued that economic integration is not an objective in itself, but serves as a stimulus for higher objectives, arguing that the process of political integration becomes inseparable from the economic integration process. In the same way, in 2002, the *Economist* described European Monetary Union as the 'biggest step yet towards European political union' (The *Economist*, 5 January 2002).

2.2.2. General impacts of economic integration

The diverse forms of integration, presented above, have different repercussions (Medeiros, 1996; El-Agraa, 2004). For example, in a *free trade area* the inter-relations are exercised especially in the rationalisation/specialisation and penetration of exports of the member countries.

In a *common market* the free circulation of merchandise, capital, people and services leads to the creation of common policies on behalf of the member countries. On the one hand, the creation of a true single market could suppress a range of constraints that today prevent enterprises from being as efficient as they could be and from employing their resources to the full. On the other hand, it could establish a more competitive environment that will incite them to exploit new opportunities (Cardoso et al, 2006).

In an *economic and monetary union*, the convergence of the economic, financial and monetary policies is required. Certain national policies of economic interest are also required to be substituted by norms common to the member states. Such policies include industrial, regional, transport, social, commercial and competition policies (Campos, 1995).

In a *political union*, depending on the type of political union, the participating countries transfer total (e.g. federation) or part (e.g. confederation) of their sovereignty to a central authority, which becomes responsible to a central parliament with the sovereignty of a nation's government (Deutsch et al., 1957).

The different levels of economic integration and its general aims are summarised in the following table (2.1).

Table 2. 1. Different level of regional integration and its general characteristics

Different level of regional integration	General characteristics					
	Reduction of mutual trade barriers	Removal of tariff and non-tariff barriers to trade	Common external tariff	Free movements goods, labour, capital and people	United monetary and fiscal policy determine by a central authority (and fixed exchanges)	Central parliament with the sovereignty of a nation's government
Preferential Trading Agreement	■					
Free Trade Area	■	■				
Customs Union	■	■	■			
Common Market	■	■	■	■		
Economic and Monetary Union	■	■	■	■	■	■
Political Union	■	■	■	■	■	■

Source: Adapted from IMF (1998)

In summary, these different degrees of integration involve some sacrifice by the individual countries of a proportion of their autonomy in economic policy-making and all of them require the removal of discrimination among their members (Molle, 2001). Thus, it can be suggested that there are both benefits and costs associated with regional economic integration. While members desire to attain the economic benefits of integration, they may also be reluctant to make the necessary sacrifice in terms of their economic autonomy.

Economists have attempted to identify the reasons for countries to create economic agreements. From the extensive literature, the possible sources of economic gain are identified as the principal motivation for undertaking economic integration (Free Trade Area, Customs Union). According to El-Agraa (2004) these perceived benefits could be:

- Enhancing more efficient production structures through better exploitation of economies of scale and a greater level of economic growth through specialisation based on comparative advantage;

- An improved international bargaining position that is made possible by the larger size, and also increasing trade relationships;
- Enforced changes in economic efficiency brought about by enhanced competition.

El-Agraa (2004) added that if the level of economic integration is to go beyond the free trade area or customs union level, then further sources of gain also become probable. They are:

“factor mobility across the borders of member nations (...); the co-ordination of monetary and fiscal policies may result in cost reductions (...) and the unification of efforts to achieve better employment levels, lower inflation rates, balanced trade, higher rates of economic growth and better income distribution becoming unified targets”. (El-Agraa (2004), pp.18).

Moreover, there seems to be a consensus that peace and security are other important factors for countries to group together (e.g. Schiff and Winters, 1997).

On the other hand, authors as such Molle (2001) have suggested that the obstacles/costs that have led the countries to hesitate in creating economic integration are that there is decreased freedom of action open to the member-states’ policy-makers and the desire to ‘protect’ a country’s own trade and industry. Protection is frequently associated with the increase of competition resulting from market opening, especially in regions lacking competitiveness. In addition, Molle (2001) suggested that factors such as geography, culture and history might also play a key role in limiting the options of integration.

2.3. THEORETICAL AND EMPIRICAL STUDIES OF ECONOMIC INTEGRATION

2.3.1. From customs union theories to the different directions in which economic integration studies have moved

The concept of economic integration was suggested more than 50 years ago by authors such Viner (1950), Lipsey (1957) and subsequently Balassa (1961), all of whom developed pioneering theories on this subject. With Viner (1950) the concept of economic integration became a separate subject in economic theory, representing the beginning of the theory of economic integration. He distinguished economic integration as part of economic science and

presented a *static partial equilibrium theory* concerning the subject of economic integration. Viner (1950) also provided the basic theoretical underpinning to evaluate the effects of economic integration, namely the costs and benefits of a customs union (CU). He argued that the economic welfare effects of a CU arrangement may depend on a series of variables and that a free trade area and a customs union may increase or decrease a countries' welfare. According to Viner's model, even if free trade is most efficient, it does not mean that a move in that direction necessarily raises economic welfare. Whether a *preferential trade arrangement* raises a country's welfare and raises economic efficiency depends on two opposing issues: *trade diversion* or *trade creation*. *Trade creation* is where consumption shifts from a high-cost producer (domestic production) to a low-cost producer (a more efficient producer from another CU member state), representing positive economic effects for the country in question. The opposite of this is *trade diversion*. This corresponds to the welfare change due to the replacement of imports from outside countries (lower-cost) by an import from a CU partner (higher-cost), which represents a decrease economic welfare. Furthermore, he argued that a CU increases trade among members' states, but may reduce trade with countries outside the union (Suravonic, 1998 and Sloman, 2000).

The greater part of the Viner's assumptions are still used, and adapted, by several authors (e.g. Suranovic, 1998 and DeRosa, 1998) to judge the proposed effects of economic integration, even when these are applied to other levels of integration, and the general conclusions of Viner's model have endured in most international economics books. Viner's study, focusing on the static effects of economic integration, has inspired a significant number of studies of regional integration arrangements. As argued by DeRosa (1998):

"Viner's analysis was extremely rich in insights to some important circumstances still surrounding the CU issue today, including economies of scale, differentiated products, imperfectly competition and changes in international terms of trade".

Meade (1955); Harberger (1954) and Lipsey (1957) have extended the interpretation of the Vinerian Model to dynamic effects, and have made important contributions through theoretical and empirical studies of economic integration.

Harberger (1954) and Lipsey (1957) argued that the reaction of consumers' demand, when domestic prices decrease as a result of CU formations, could be explored by Viner's theory, which focused on resource allocation changes and on production efficiency. Thus, they

introduced the *consumption* effect into the theory. According to Lipsey (1957) the reaction of consumer demand when domestic prices decrease as result of customs union arrangements should be considered, because consumer demand increases due the decrease of prices. Consequently, the customs union leads to a welfare gain as long as: *trade creation* plus consumer effects are higher than *trade diversion* effects.

Meade (1955) presented an important contribution on this theme, by criticising the Vinerian viewpoint of constant costs of production in trading members and underlining the importance of ensuring equilibrium in international payment balances (as a consequence of the prices and the international terms of trade between members countries). The author's analytical framework considered trade by many countries in many commodities and extended the effects of customs union arrangements on the economic welfare of the world economy. He set out the view that these kind of benefits could show that the effects of a CU (*trade creation* and *trade diversion*) could happen simultaneously, which is in contradiction with Viner's conclusion, who asserted that in any given situation both could not happen. Meades's work also contributed to the development of the so-called *Theory of Second Best*, which was formalised by Lipsey and Lancaster (1957). This theory provided the theoretical underpinning to explain many of the reasons why trade policy can be shown to be welfare enhancing for an economy. The theory focused on what happens when the optimum conditions are not satisfied in an economic model. In contradiction to the Vinerian view, this theory implied that reducing tariffs under a regional arrangement might not mean an increase in welfare.

The main criticisms of Viner's work are set out by Bain (1956) who enumerated the following: First, the model was very strict since it excludes such factors as monopoly power, transport costs, information deficiency, economies of scale, unemployment and the distribution of income, the balance of payments and exchanges rates, adjustments and non-tariff barriers. Second, it was a static model. Third, it assumes that the removal of tariffs will have a significant effect on trade and it takes no account of intra-industry trade and technological influences on trade.

As has already been noted, in the 1950s and 1960s the majority of studies on economic integration were concentrated on the analysis of the effects of a customs union, as witnessed by the studies of authors such as Balassa (1961), Haberler (1964), Lipsey and Lancaster (1957),

Meade (1955) and Viner (1950). Most of these models also provided a theoretical basis for studies on the effects of international trade. Nonetheless, additional developments to economic integration analysis were identified by Tovias (1998):

- Theoretical analyses of how the economics of scale and imperfect competition affect the basic model (Corden, 1972; Grubel and Lloyd, 1975). These authors evaluated the implications of economic scale, created by CU, in markets of different sizes; Baldwin and Venables (1995) extended these subjects in an article published in *Handbook of International Economics*.
- Extension of CU theory to other forms of integration (see, Shibata, 1971; Tovias, 1977; Robson, 1989 and Wonnacot and Lutz, 1989). They argued that the conclusions and analyses of customs unions could be extended to other levels of integration.
- Extension of the theory in the presence of non-tariff barriers (NTB's) put forward by authors such as Pelkmans and Winters (1988), among others.

The theory of optimum currency could also be mentioned in this context. This theory was proposed by Mundell (1961) and McKinnon (1963), although some insights had previously been presented by Friedman (1953) and Meade (1957). There are also important elaborations by, among others, Kenen (1969) and Krugman (1991). The theory of optimum currency area emerged out of the debate over the relative gains and costs of flexible versus fixed exchange rates for given countries and has been at the core of the discussion of several studies of the European experience and applied to studies of the enlargement of the EU in 2004 (see for example, Pelkmans, 2001; Mongelli, 2002; Horvath, 2003; Tavlas, 2004 and DeGrauwe, 2005).

In addition to these contributions, the significant increase in the efforts of countries to achieve regional integration (according to figures presented in 2003 by the WTO (2003), 149 out of 189 regional trade agreements had been officially notified by WTO since 1995) and the challenge and deepening of some regional agreements motivated several authors, especially since the mid 1980s, to focus their analyses on these topics, using different theoretical approaches. The objective has been to assist in the understanding of the new challenges of a worldwide economy. Moreover, the concepts of economic integration spread very quickly to

several sectors of economy, such as regional, agricultural, social and so on and to different approaches. Five examples illustrate this:

(i) Authors such as Schiff (1996) and Panagariya (2003) have focused attention on the analysis of the economic size of countries joining a regional integration arrangement and, namely, on the welfare impacts of economic integration arrangements for small countries. Schiff (1996), emphasised that, among other factors, under increasing cost conditions a small country, unable to affect the terms of trade of would-be partner countries in a regional integration agreement, may gain from joining a “large” trading bloc. The welfare gain arises because the small country will replace domestic production, or higher cost imports from third countries, with lower cost imports from its new partners.

(ii) Authors as such Winters and Chang (1996), among many others, investigated the effects of regional trading preferences on members and on the rest of the world, examining their effects on the prices at which trade occurs.

(iii) Authors such as Bhagwati (1991), DeMelo and Panagariya (1993), Haggard (1995) and Fawcett and Hurrell (1995) wrote about the dichotomy of ‘regionalism’ *versus* ‘multilateralism’, trying to explain the compatibility or not between ‘multilateralism’ (global system of free trade) and ‘regionalism’ (regional agreements like the EU, North American Free Trade Association - NAFTA - or Association of Southeast Asian Nations - ASEAN). These authors added that regional agreements could be obstacles to world free trade as its aims are opposite to the aims of the World Trade Organisation (WTO). Along the same line of thought as Viner (1950), they argued that regional agreements increase trade among participating countries but reduce trade with the outside countries. As result, they argued that there are tendencies to witness to the emergence of ‘building trade blocks’ motivated by the desire to exclude from their trade relations all the countries that do not belong to the regional agreement. For example, Bhagwati (1991) held that any Free Trade Agreement (FTA) must be ‘playing a double game’, in that while there is free trade between member countries, by definition it means discrimination against non-member countries. According to Lester (1992) the worldwide economy’s future will be represented by a tripolar system, under the leadership of the EU, Japan and United States. For others authors, such as such DeMelo and Panagariya (1993) and also Lawrence (1995, 1996), Haggard (1995) and Fawcett and Hurrell (1995) regional economic integration

agreement could be considered the first step towards the global liberalisation of trade. Lawrence argued that one of the reasons why countries enter into a FTA is to establish better relations with neighbouring countries and, consequently, with third countries. He believed that regional blocks were disposed to admit new members, as the EU example shows. The same author considered that there were ten countries that did not belong to any regional agreement (among them he included India) and this was not a reason for their isolation. Kantor (1993), Haggard (1995), Fawcett and Hurrell (1995) and Pelkmans (2001) also put forward the same line of thought. They argued that economic integration may be compatible with the main aims of WTO. The EU presented a similar point of view in 2004, during the WTO trade round - the Doha Development Agenda - as a good example of how EU trade policy may be coordinated in practice with the WTO rules (EC, 2004b). Nowadays, the debate on 'multilateralism' versus 'regionalism' remains a subject of discussion, as some authors have been demonstrating (e.g. El-Agraa, 1989, 2004; Mansfield and Reinhardt, 2003; Panagariya 2003; Sampson and Woolcock, 2003 and Baier and Bergstrand, 2004).

(iv) Authors such as Robson (1989); Wonnacott and Lutz (1989); Summers (1991); Krugman (1995); Bhagwati and Panagariya (1996); Baldwin and Wyplosz (2003); Rosamond (2003); Gillingham (2003); El-Agraa (2004); Hoeller et al. (2004) and DeGrauwe (2005); using economic integration theories and concepts, presented their views on the effects caused by economic integration process upon the participating countries. There are also plenty of case studies based on the implications of economic integration on a specific country. The study of Baer and Leite (2003) of the impact of European integration on Portugal's economy is a good example, among the many published around the world. In this study the authors concluded that there were benefits to Portugal as result of its participation in the European integration process.

(v) The impact of integration arrangements on the terms of trade was initially examined by Caves (1974), Kemp (1969), Mundell (1964), Vanek (1965). These authors concentrated their studies on the distribution of gains among member countries and between them and third countries. A study developed by Truman (1969) could also be mentioned in this context. Both sets of authors focused their analysis on EU integration, estimating that trade would increase between countries of the European Union. Subsequent studies confirmed their views (e.g.

Rose, 2002; Barr et al, 2003). The work developed by Barr et al (2003) and Midelfart et al (2003), looking at the changes in trade flows in Europe since monetary union, concluded that the implementation of European Monetary Union has increased the intra Euro area trade since 1999.

Generally speaking, the literature review also showed that many studies attempted to identify the direct and indirect effects most likely to affect particular groups of states, resulting from the deepening of regional integration agreements, such as the impact of a single market or the highest level of economic integration - Economic and Monetary Union. Moreover, a number of analytical studies on the effects of economic integration have employed in their analysis the models of Computable General Equilibrium (CGE), which specify the conditions that need to be satisfied for equilibrium to exist simultaneously in all markets and all countries. About the use of such models, El-Agraa (2004) reported that the construction of a CGE model was a complex and time-consuming exercise and due to the possibilities that a CGE model opens up, the model had not been fully developed. De Rosa (1998) reviewed some examples of studies that apply GCE models, among them the following refer to the EU:

- The analysis of the Europe 1992 plan by Smith and Venables (1988);
- The study made by Harrison, Rutherford and Tarr (1994) applying CGE models of imperfect competition with increasing returns to scale;
- The study developed by DeMelo and Robinson (1992) to examine the effects of regional integration among less developed countries.

Other studies on European integration, involving areas, such as social, political, regional among many others could be also mentioned. However, due to the aim of the research, they are not mentioned here. Table 2.2 summarises the general contributions of several authors to economic integration theory.

Table 2. 2. Summary of relevant contributions on theory of economic integration

Investigators	Study description	Aim contribution
Viner (1950)	Analysis of the effects of Customs Unions (static Partial Theory)	Introduced the trade creation and diversion concepts
Meade (1955)	Analysis on the economic welfare of the world economy	Abandoned the Viner view of constant costs of production in trading countries and recognised the necessity of ensuring equilibrium in international payments balances.
Mundell (1961)	Analysis of the optimum currency area theory. Focus on asymmetric shocks and the flexibility of labour market. Assuming stable prices and wages.	Observed that there will be differences between interregional adjustment and international adjustment even though exchanges rates are fixed
Lipsey and Lancaster (1957)	Analysis of theory of custom union	Introduced the consumer effects and the theory of second best
Kemp and Wan (1976)	Analysis on the economic welfare of the CU	Introduced the Kemp-Wan Theorem: a CU may not lead to an overall welfare improvement however if we allow the possibility of costless redistribution between partners then it is possible to prove that a CU need never harm any country
Corden (1972)	Introduce a formal theory of the importance of scale economies to trade and welfare under customs unions	Agued that scale economies could offer an additional gain to production and consumption
Pelkmans and Winters (1988)	Extension of CU theory	Application of the effects of non-barriers tariff
Robson (1989)	Extension of CU theory	The CU theory may be applied to other levels of integration
Krugman (1991)	Analysis of the effects of economic integration on trade and specialisation	Integration is likely to encourage specialisation, making the EU states more vulnerable to asymmetric shocks
Schiff (1996), Bhagwati and Panagariya(1996)	Analyse on the economic size of countries joining a regional integration arrangement of economic integration arrangements	Evidence the welfare impacts for small countries
Winters and Chang (1996)	Investigation of the effects of regional trading preferences on members and on the rest of the world.	Mentioned that the prices of products are substantially affected
Smith and Venables (1988)	Study of the effects of economic integration	Application of Computable General Equilibrium Model
Mongelli (2002) Horvath and Luboš (2002)	Analysis of the optimum currency area theory.	Application of the theory of optimum currency area to the European experience
DeGrauwe (2005)	Explains why the new member states want to join EMU, supported by the theoretical framework of optimum currency areas	Use of the theory of optimum currency area to explain the recent enlargement of the European Community

Source: Author

2.3.2. Contribution of the literature on the economics of regional integration to the study

The survey of the literature so far has provided a review of the key concepts and effects of economic integration and how they were applied in different studies. From this review, certain outcomes emerged as relevant to this research:

- A shared view amongst authors is that the effects of economic integration depend on the degree of integration and may differ from one country to another (or one sector to another);
- There is a consensus that there are both benefits and costs associated with regional economic integration; however, the benefits or costs have been widely debated;
- A large number of authors have used and applied the theory of economic integration to evaluate the trade effects caused by economic integration agreements. Some of them are theoretical in nature, favouring the use of economic models in the treatment of the information, while others are merely descriptive.

The present research shares the thought that the effects vary according to the level/form of integration and should be evaluated taking into account the context they are occurring. However, for the purpose of this research only one level of integration - EMU - is analysed. The study does not apply any economic model of the theory of economic integration nor does it restrict its area of investigation to economic integration theory. Instead, this research links economic integration theory and business theory, focusing on the impacts of EMU on the business environment of hotels in the North of Portugal.

Therefore, this study evaluates the perceived implications of EMU in the hotel business environment, applying models from business theory, further identified in Chapter Three and also in the Methodology Chapter (Chapter Four).

2.4. EUROPEAN ECONOMIC INTEGRATION

Having introduced and discussed the most relevant studies in the theory of economic integration, this section considers the European Union, analysing its history in respect to political and economic integration in order to contextualise the research area.

European integration, which has resulted in the European Union, represents the most ambitious effort yet by a group of sovereign nations to increase their economic and political interdependence. The EU has already attained a significant degree of integration and has been

involved in efforts to consolidate the process of Economic and Monetary Union (El-Agraa; 2004 and Cardoso et al., 2006). Therefore, European integration, and in particular EMU, provide the best example currently available to study the perceptions about what might happen in the tourism industry and how the hoteliers stakeholders may react to the fact that a group of nations pursue the goal of full economic integration, which is the topic of this research.

European integration should be understood against its historical background, general aims and institutional aspects. It is not the task of this section to detail the history of European integration - this would require numerous sections anyway - but to review the fundamental aspects for an understanding of the way European integration has gradually developed towards EMU.

There is vast literature concerning these subjects. The background and development of the EU is very well developed in the existing literature. Numerous authors have paid attention to the topic (Goodman, 1991; McKenzie and Venables, 1994; Swann, 1996; Nello and Smith, 1997; European Commission, 1999; Nugent, 1999; Rosamond, 2000; Molle, 2001; Baldwin and Wyplosz, 2003; Tsoukalis, 2003; Wallace and Wallace, 2003; Athina et al. 2005; Blair, 2005; DeGrauwe, 2005; Magnette, 2005; McDonald and Dearden, 2005; Baimbridge and Whyman, 2005 and Cardoso et al., 2006, are a few examples from a long list). The contributions of a number of these authors are discussed in more detail below. The others, although not specifically mentioned, have also contributed valuable background for the writing of the present chapter.

2.4.1. Historical background of the European Community: from its origins to the Nice Treaty

2.4.1.1. The determination of the integration model: 1945-1951

The movement towards regional economic integration in Europe began at the end of the Second World War in 1945. At this time the countries of Europe were faced with several difficult issues. Much of Europe was politically, physically, socially and economically in total ruins, and a large reconstruction process was necessary. Such circumstances meant that a

number of people had aspirations in respect of integration and took up the ‘old’ dream of a United Europe that was interrupted in 1939 by World War II (Wallace and Wallace, 2003).

The practical problem was how to turn the aspirations into reality. There were different views, organised into varied movements, about the future of Europe. Cardoso et al. (2006) distinguished between those who wished to create some kind of United States of Europe, where new institutions would be created with supranational powers, normally called federalists, and those who wished to develop a Europe based in intergovernmental co-operation, normally called inter-governmentalists. Both of the different movements – federalism and inter-governmentalism - felt the need for European unity although the mechanisms identified were different. This was the first debate about the make up of an integrated Europe and will be illustrated here by the most significant events that occurred at the end of the 1940s (e.g. Caporaso, 1996, Wincott, 1996). In this context, the first result was the creation of several organisations for co-operation.

At the political level, the Council of Europe in 1949 appeared as an intergovernmental organisation, which had clear objectives concerning cultural affairs and human rights (for details, see: Nugent, 1999; Cardoso et al, 2006 and Diez de Velasco, 2006).

At a military level a number of organisations were created in order to promote military co-operation among the member countries. NATO (North Atlantic Treaty Organisation) is the most well known of these (See Cardoso et al, 2002, 2006 and Wilkinson and Hughes, 2004; www.nato.int, for details).

At an economic level, the Organisation for European Economic Co-operation (OEEC) was founded in April 1948 (later organisation for Economic Co-operation and Development - OECD) with the main task to administer American Aid to the Axis countries, the Marshall plan, in order to help the reconstruction of the Western Europe. The Marshall Plan provided the sum of the 17 billion of US dollars in financial aid to establish internal financial stability, to maximise production, and to promote trade between the United States and Europe (www.oecd.org).

Up to now all of the organisations referred to were based on co-operation agreements. However, as shown in almost every publication on the EU history, at the beginning of the

1950s an important step towards European economic integration was taken by Robert Schuman. In a public declaration on the 9th of May 1950 Schumann, as France's Foreign Minister, proposed the creation of the European Coal and Steel Community. Schuman's objective, as much political as economic, was to withdraw the French and German heavy industries from the national authority, integrating the two basic industries for war making, under a supranational authority. The proposal received support from the European politicians and one year after in 1951 six countries, France, Germany, Italy and Luxembourg, Netherlands and Belgium – signed the Treaty of Paris establishing the first organisation based on the integration of the European Coal and Steel Community (ECSC) (see, for example, Baldwin and Venables, 1995; Cardoso et al 2002, 2006; Defarges; 2002; El-Agraa, 2004; McCormick, 2002; Wallace and Wallace, 2003).

2.4.1.2. Beginning of European economic integration: 1951-1957

In 1957, the same six countries of the European Coal and Steel Community signed two further treaties, one establishing the Treaty of Rome and the European Economic Community (EEC, named later EU), and the other creating the European Atomic Energy Community (EAEC). Consequently, the European economic integration process started in January 1, 1958, when the Treaty of Rome came into force. However, the origin of European Integration was really the creation of the European Coal and Steel Community (ECSC) (Baldwin and Venables, 1995; McCormick, 2002; Wallace and Wallace, 2003; El-Agraa, 2004; Cardoso et al 2006).

2.4.1.3. European Union. Its enlargement and consolidation: 1958 – Onwards

Since 1958, Europe has witnessed enlargement (of membership) and consolidation (of the scope of its economic and other powers) of economic processes. In fact, fifty years after the Treaty of Rome, the EU comprises twenty-seven member states - France, Germany, Italy and Luxembourg, Netherlands and Belgium (as founding members), Denmark, United Kingdom and Ireland (since 1972); Greece (1981); Portugal and Spain (1986); Finland, Austria and

Sweden (1995), Cyprus, Czech Republic, Estonia, Hungary, Latvia, Letonia, Lithuania, Malta, Poland, Slovakia and Slovenia (2004) and Bulgaria and Romania (2007) (EC, 2007a).

Since its beginning many steps towards economic integration have been taken. For example, the customs duties on industrial goods, mentioned in the Treaty of Rome, were established completely on July 1st, 1968. The common policies, created by the Treaty, most notably a common agricultural policy and a commercial policy, were introduced during the early years of European integration in the 1950s (Cardoso et al., 2006).

About three decades after the Treaty of Rome, in 1987, a new Treaty was established to deepen Community relationships between the member countries' (at that time the EU comprised six additional members: Denmark, Greece, Ireland, Portugal, Spain, and the United Kingdom). That Treaty, known as the Single European Act, set out that a common market should be completed by January 1993 (indeed, it came into effect on that precise date). The Single European Act also increased the Community's field of competence and brought about changes in relations between the institutions. It gave formal legal status to European Political Co-operation, whereby member states must endeavour jointly to formulate and implement a European Foreign Policy. The meeting of Heads of State and governments in the European Council was formally instituted under that Treaty (Cardoso et al., 2006).

In 1992, using a new term - European Union - a new step towards European economic integration was taken with the signing of the Maastricht Treaty, setting one of the greatest challenges in the process of European integration: the introduction of a single currency by 1999 and involving the creation of a European Central Bank. From that date onwards negotiations began for three additional treaties in order to advance European aims - Amsterdam, Nice and the European Constitution. The Amsterdam treaty came into effect on 1st of May 1999, with four broad objectives: the reinforcement of the international position of the European Union; the increase of employment in Europe; the improvement of the information concerning the EU and the reorganisation of European organisation structure. The Treaty of Nice came into effect on 2003 with the adaptation of the European institutions to the new members of the EU as the main aim. Meanwhile, the European Union has agreed the text of a new treaty (Lisbon Treaty), to replace the draft European constitution, which was jettisoned after France and the Netherlands voted against it in referendums in 2005. All these

steps have resulted in the EU being perceived overall as a successful example of regional integration. These developments are extended in the next section.

2.4.2. The development of European Union under condition of economic integration

Economic integration has been a central aim of the EU (at that time ECC) since the signing of the Treaty of Rome in 1957. This purpose includes different goals, some already mentioned, including the economic objectives of breaking down the physical, fiscal and technical barriers between member' countries, and consequently, fostering economic development and reducing economic disparities between regions, the political objectives of creating a common political identity within the EU, and the social objectives of improving life and work conditions and social cohesion.

It is the purpose in this section to focus upon European economic aims and to provide an economic perspective on three different approaches, identified here by the different EU Treaties: The Treaty of Rome, the Single European Act and the Maastricht Treaty. The different stages of economic integration suggested by authors such as Balassa (1961): FTA; CU; Common (single) Market and EMU remain a basic tool in this context.

2.4.2.1. The economic aims of Treaty of Rome

The economic aims of the European integration under the Treaty of Rome were well summarised by Pelkmans (2001):

- Harmonious development of economic activities;
- Continuous and balanced expansion;
- Increased stability;
- Accelerated rising of the standard of living.

To achieve these aims, under the Article 3 title I of the same Treaty, the EU (at that time ECC) aimed:

- To establish a custom union by “(...) *the elimination as between Member States, of customs duties and quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect (...)*” and,
- To realise a common market by “*an internal market characterised by the abolition, as between Member States, of obstacles to the free movement of goods, people, services and capital*”.

Therefore, the six founding members proposed the creation of a custom union and the integration, over a 12-year transition period (by 1968), of the members’ economic resources into a common market where services, goods, labour and capital could move freely. In addition, they introduced some areas of economic union by gradually unifying or harmonising the economic policies of the member states, such as agriculture, transportation, competition and foreign trade policies.

In practice, only a Customs Union had been achieved by 1968 and progress towards a Single Market showed little progress. In fact, by 1985, one of the Commission White Papers – Completing the Internal Market (EC, 1985) - indicated that a “long list of physical, technical and fiscal barriers” still remained. It also suggested that there were over 300 measures that were considered to be important for the creation of a Single Market.

2.4.2.2. The Single European Act: a step towards to Union

The delay of a common market implementation in Europe led the Milan European Council to launch a campaign for its completion. As a consequence, the Single European Act, which came into effect in 1987, had a similar aim to the Treaty of Rome - an area without frontiers with four freedoms: goods, people, services and capital - but by the end of 1992 (McDonald and Dearden, 2005). In fact, on the 1st January 1993, most of those measures were incorporated. Since then, considerable efforts have been made in consolidating the Single Market. However, according to the OECD (2003) substantial barriers in the service sectors still remained in 2003. Areas such as fiscal harmonisation, recognition of business licenses and diplomas in many services are examples of this (OECD, 2003). Nonetheless, generally speaking, the Single Market has been achieved in respect of its general aims. To do that, has required the abolishing

of the physical, technical and tax barriers referred to in the White Paper on “Completing the Internal Market” (EC, 1985).

The physical barriers, such as border controls, were one of the most visible obstacles to a free Europe. The Commission’s objectives within this context were:

- To simplify administrative checks and move them away from borders;
- To eliminate all internal frontiers by 1992, for people, capital, services and goods;
- To introduce mutually recognised health certificates for agriculture and trade, develop a common transport.

Indeed, throughout the EU millions of custom posts were removed, meaning the end of significant barriers to trade, labour and travel. As a result, Community citizens became able to travel freely through Europe with the use of a passport, or simply identity card, making it much simpler to travel within Europe. In addition, since the implementation of a common market in Europe, they can move around as they please, living and working where they choose. According to EU figures, over the first ten years since the borders came down within the EU, up to 15 million EU citizens have moved within the Union and about 5 million EU citizens live in another state (EC, 1995, 2002b). Moreover, the passage of goods across borders has been facilitated and European businesses have a much larger domestic market. As a result, as demonstrated by the EU data, trade between the member states has expanded. Equally, the EU exports to third countries also have increased (EC, 2002b).

With reference to financial services and the free movement of capital the aim of the EU has been to allow banks, building societies and insurance companies established in one member state to establish branches and sell services in all the others. Thus, foreign exchange controls on capital movements by individual companies have been abolished.

In relation to the removal of technical barriers the general European aim has been to harmonise the ‘health and safety requirements’ for all products and requirements, for example, to ensure that there is a mutual recognition of educational and professional qualifications gained in one of the member states. Especially, the Commission aims:

- To create a common market for services adopting common rules such as: deregulation of insurance, banking and other financial services, deregulation of all modes of transport, notably air travel,
- To adopt community-wide standards for, among others, health and safety.

Finally, regarding tax barriers, which represent one of the most difficult obstacles to a united market, the general aim of the EU is fiscal harmonisation among the European member countries.

2.4.2.3. The Maastricht Treaty: Economic and Monetary Union. Its institutionalisation

In 1992, under the Treaty of European Union, well known as the Maastricht Treaty, several EU responsibilities were expanded and the original economic aims of the EU were reinforced and enlarged. As Pelkmans (2001) argued that Treaty pointed out six reformulated and new economic aims:

- Harmonious and balanced development of economic activities;
- Sustainable and non-inflationary growth, respecting the environment;
- High degree of convergence of economic performance;
- High levels of employment and of social protection;
- The raising of the standard of living and the quality of life;
- Economic and social cohesion and solidarity among member states.

Article 2 of Maastricht Treaty stated:

‘The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies (...).’ (Treaty of EU, art.2)

This is done under three ‘pillars’, which characterised the Treaty:

Under the first ‘pillar’ significant measures reinforcing the EU were taken: the institutionalisation of Economic and Monetary union, the increase of the European

Parliament's power in EU decision making; the adoption of concepts such as "Citizenship of the Union", increasing the diplomatic or consular protection in non EU countries for the European Citizen, including rights to vote and stand for election; and finally, the term EC was changed to EU, in an attempt to reinforce the social approach of EU, institutionalising in this way the term 'European Union' (EC, Treaty of EU).

In addition, the creation of the other two new 'pillars' - Foreign and Security Policy and Justice, Home Affairs and Immigration - represented a new step in the process of creating an ever closer union among the member states as noted by Cardoso et al. (2006). The Foreign and Security Policy includes joint actions on defence policy, including disarmament and control of armaments in Europe, non-proliferation and aspects related to security. The Justice, Home Affairs and Immigration pillar identifies areas of common interest such as asylum policy, crossing of the Community's external borders, immigration policy, combating drug addiction, combating fraud, judicial co-operation in civil and criminal matters, customs co-operation and police co-operation.

Moreover, concerning the social aspects, the Treaty of Maastricht included a separate protocol enabling twelve of the EU member states to proceed with proposals on the Social Charter. The social part of the Treaty was subject to prolonged debate and due to the insistence of the United Kingdom was not included in the Treaty, but as a separate protocol of the Treaty.

In order to provide the necessary background context to this research the following section reviews the background of EMU, outlining the importance of the Treaty of European Union within this context.

2.4.2.3.1. Background on Economic and Monetary Union

Closer economic and monetary cooperation between member states has been an objective of the Community for many years. In fact, although the Rome Treaty did not suggest monetary union, it contained several articles relevant to economic and monetary cooperation. For examples articles 104 and 105 required Member States to "*pursue the economic policy needed to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency (...)*", "to

coordinate their economic policies". (Treaty of Rome, art.104, 105) Since then, the Community considered several proposals for Economic and Monetary Union.

In 1969 there were the first attempts to achieve this. At that time, the implementation of EMU was discussed in the Hague. A high level group, chaired by Pierre Werner (then prime minister of Luxemburg) was asked to report on the implementation of EMU in the European Community. This report presented a plan to achieve EMU in three stages within an overall period of 10 years. The aim of this Report was the free movement of capital, economic policy coordination, permanent locking of exchanges rates or the replacement of the currencies of the EU members by a single currency. However, at that time, the EU members were divided over some aspects of the report's main recommendations. In addition, the floating of the U.S Dollar and the break-up of the Bretton Woods system (which had provided currency stability with the US dollar as the dominant monetary standard since the 1940s) affected exchange rate stability in Europe in 1971, pushing aside the Werner Report (Bordo, 1993). This new situation led six EU members to make joint efforts to create a system for managing the fluctuations of European currencies with regularly changing fixed bands, known as the 'Snake in the Tunnel'. However, the oil crisis, energy recession, dollar weakness and further monetary crises in certain Member States contributed to the failure of this system within two years (Eichengreen, 2001).

In March 1979, again with the purpose of creating a zone of monetary stability in Europe, the European Monetary System (EMS) was adopted. It provided a grid of bilateral rates (which were permitted to fluctuate only within a narrow band) and a system of credit and loan reserves. The EMS also introduced an artificial monetary unit, the European Currency Unit - ECU - as a weighted average of all EMS currencies. Membership of the EMS was voluntary. The Benelux states, Denmark, France, Germany and Italy were members from the start. After 1990, the remaining European states became members.

The creation of the EMS plus the common market programme approved in 1986 ensured the economic climate needed for taking decisive steps towards EMU towards the end of the 1980s. In fact, in June 1988 the European Council Meeting at Hanover gave new impetus to thinking on monetary union. The main arguments in favour were the costs of doing businesses in different currencies, the risk of exchange rate losses and the barriers to trade that they represent, and the excessive influence of the Bundesbank on European Monetary Policy. In

consequence, an expert group headed by Jacques Delors was established to prepare a programme for EMU implementation. The proposal of this working group, known as the 'Delors Report' was presented in April 1988, and outlined a three-stage approach to full economic and monetary union (EC, 1989).

“Stage 1(1990/1992) - All obstacles to the private use of the European Currency Unit (ECU), created in 1978 (replaced by the Euro in January 1999) to serve as a basis for determining exchange rate parities and a reserve asset and means of settlement in the European Monetary System, would be removed and co-ordination of economic and monetary policies strengthened. All Member states whose currencies were floating (such as Portugal) would bring them into the European Monetary System (EMS) exchange rate mechanism.

Stage 2 (1993/1997) - A new federal type of monetary institution, the European System of Central Banks (ESCB), would be created and absorb the Community's existing co-ordinated national monetary policies to a common monetary policy for the Euro area. It would also conduct foreign exchange operations and hold and manager the official foreign reserves of the member states. (TEU, Article 116 (4) (3))

Stage 3 (1997/1999) - In the final stage, the Community currencies' exchange rate would be irrevocably fixed and the Euro would become a European currency only as book money in bank accounts, i.e., payments in Euros only would be able to be made by bank transfers, cheque, credit card and electronic fund transfer.

Under the Maastricht Treaty, the timetable proposed in the Delors Report was revised and new institutions were proposed. Stage 2 would come into effect by 1st January 1994 with the establishment of the European Monetary Institute (replaced in 1998 by European System of Central Banks which defines and implements monetary policy and the management of foreign exchange operation) to co-ordinate monetary policies, monitor EMS and facilitate the use and development of the European currency (Eichengreen, 2001).

The Treaty laid down strict criteria for participation in EMU. In this context, the member states of the EU should meet the following convergence criteria: (TEU, Article 121)

- Price stability, with rate of inflation no more than 1,5 per cent above the three best performing EU States;
- Exchange rates, with the currency in normal EMS fluctuation margins for at least two years;
- Government deficit not excessive, i.e., no more than three per cent of the GDP;
- Public debt of no more than 60 per cent of the GDP and long-term interest rate less than 2 points above the three best-performing EC States over previous years.

The same Treaty set a deadline for irrevocable EMU with a single currency and fully independent central bank of 1 January 1999, for qualifying member states. In fact, at that date, the last stage of the Delors Report started, introducing in an economic sense monetary union even without the Euro notes and coins that were introduced into circulation in 2002. The Euro was introduced initially as the common currency of 11 Member States of the European Union: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg Netherlands, Portugal and Spain. Since January 1st, 2001 Greece has become a member of EMU. Greece initially failed to qualify, and had been actively pursuing inclusion. Consequently, in June 2000, an official vote by EU leaders and the EU's financial ministers on Greek membership was taken in Portugal. Later on, Slovenia became the first, and so-far only, new member country of the European Union to adopt the Euro on 1 January 2007. The United Kingdom, Denmark, and Sweden voluntarily declined inclusion in 1999. However, Sweden did not fulfil the necessary condition for the adoption of the single currency, namely in respect of the exchange rate. The remaining countries are still not legally required to join the Euro zone (EC, 2007b).

Thus, the participating countries in the EMU project have locked their national currencies together and shared the new currency. Moreover, the Single European Central Bank, which fiercely guards its independence, has taken control of all monetary policies of the states participating in EMU, implementing a single European monetary policy. In fact, the adoption of EMU implies a definitive transfer of monetary responsibilities from national to Community level within the participating countries. From this date onwards, there is only one set of policies for European Monetary Union member states, with certain instruments of economic and financial policy no longer available for national application. This also implies that the participating countries have lost their ability to adjust exchange rates for responding to

economic shocks. Meanwhile, the states participating in the Amsterdam Meeting, in June 1997, signed a “Stability and Growth Pact” that was intended to ensure that they would continue to maintain budget discipline and comply with the deficit criteria after joining the EMU. As a result, every year each of the member states belonging to the EMU has to meet their economic engagements. However, Portugal (in 2001), France and Germany (in 2002 and 2003) have flouted the Pact’s deficit rule. The Ecofin council decision of November 2003, even noted the existence of excessive deficits’ in some Euro countries, but did not impose sanctions on these countries. As Begg and Schelkle (2004) stated this was widely interpreted as “the death-knell’ for the SGP. Since then, the number of proposals to review the Pact has increased significantly and, in November 2004, the Stability Growth Pact was suspended, being reformed in March 2005 and becoming more flexible. The main reasons for this suspension and revision related to the lack of credibility of the sanction mechanism and the fact that the Pact treated each country the same, despite very different ratios of government debt to GDP across the Euro area (De Haan and Jansen, 2004).

2.4.2.3.2. The effects of EMU: Different viewpoints

Since the first plans were announced for the establishment of a monetary union in Europe, its future has been a permanent source of forecasts and speculations. In particular, over the past few years the number of studies to evaluate the possible impact of EMU has been a constant in the literature. Cohen (1998), Molle (2001); Pelkmans (2001); Redwood, (2001) Dornbush, (2002); Mongelli (2002); El-Agraa (2004); Leblond (2004); Tavlas (2004) and Ratz and Hinek (2005) are some examples of the authors, who have recently discussed the main gains and losses resulting from monetary integration.

Many of the articles surrounding EMU are concerned with the macroeconomic effects of the monetary union or the single currency. Some economists argued that EMU has effects on practically every area of economic policy-making in Europe (e.g. Barbosa et al., 1999 and Issing, 2002). It influences the allocation of resources, the distribution of income, stability and growth as well as the formal and informal institutions of labour, product and financial markets within the Euro area. Several advantages have been commonly cited by these authors, for example that within EMU the prices of goods would become easily and directly comparable

from one country to another, the market would become larger, the elimination of exchange risk, reduced transaction costs and simplification could lead in some cases to a reduction in the prices and among others EMU would lead to more competitive market. Molle (2001), for instance, summarised the gains of an EMU under three headings: efficient common market; efficient monetary union and faster economic growth.

However, a number of concerns have also been identified. Sceptics were unconvinced as to whether it is possible to establish the Euro as a stable currency and to successfully formulate a monetary policy for a diverse currency area. In particular, some observers considered the continuing existence of autonomous national fiscal policies as incompatible with a supranational monetary policy.

In fact, there is a growing debate in the literature, composed essentially by two different views of the implications of EMU: the supporters and, on the other hand, the opponents or sceptics of EMU (see for example, DeGrauwe, 2005). The main views of both perspectives are presented below.

The literature shows that the supporters of EMU essentially refer to the benefits of EMU as being the commitment to sound macroeconomic policies, which helps to create a new culture of economic stability in Europe. Furthermore, they argued that thanks to EMU, the kind of damaging intra European exchange rate tension that often characterised previous episodes of adjustment to external shocks has been avoided. With the Euro in place, they argued, the citizens of Euro area countries can look forward to the benefits of increased price transparency, more intense competition in the market and greater financial integration in Europe.

According to Jonung (2002) the literature of the main critics of EMU could be grouped under four main interconnected headings: (1) the process for fiscal policy-making; (2) the process for monetary policy-making, (3) the Euro area as a non-optimal currency area, and (4) the legitimacy of EMU. In respect to the first group he called attention to the fact that the absence of a central co-ordination of fiscal policies within EMU, in combination with the Maastricht and SGP criteria for domestic debts and deficit, became one of the most regular sources of objection. In terms of *monetary policy-making*, he pointed out the several weaknesses of the

institutional framework mentioned in the literature, such as a lack of a central authority to supervise the financial systems of the Euro area, a division of monetary power between the ECB and the Council of Finance Ministers of the European Union. According to him this may undermine the credibility of the ECB. Regarding the Euro area as a non-optimal currency area Jonung (2002), citing authors such as Eichengreen, and using economic integration theories, argued that a sizeable body of empirical work reaches the conclusion that the efficiency gains from lower transactions costs and increased trade through the use of one single currency will not outweigh the costs of surrendering control over national monetary policies. Finally, in terms of *the political legitimacy of EMU*, the author grouped those authors who argue that EMU is lacking political legitimacy and acceptance, saying that by tradition Europeans look upon their countries as their fundamental political entity and the supra national and pan European character of the Euro still faces doubts among Europeans.

2.4.2.3.3. EMU: eight years on

For eight years, up until now, EMU has remained a constant source of debate. In 2000, Pedro Solbes, EU commissioner for Economic and Financial Affairs declared that *'the Euro is contributing to greater economic and financial integration in Europe and will provide the foundations for growth and stability over the medium term'* (Solbes, 2000). Authors such as Quadan (2001) have also mentioned that since Monetary Union on 1st of January 1999, economic activity in the Euro area has accelerated significantly, adding that over the first two years EMU made an important contribution towards growth rates. Among many of the supporters of EMU, there is the view that EMU has helped the Euro zone to protect the European economy from external shocks, such as the ongoing slowdown in world trade and has contributed to a stable macroeconomic environment in the Euro zone. In addition, according to the supporters of EMU, the Euro over recent years has established itself as an important currency in the early years of EMU (Quadan, 2001). In 2004, Robert Mundell, the Nobel-prize winning economist in 1999, said that the preservation of the Euro has become of vital interest for all the economies in the zone (Mundell, EUobserver, 5/2/2004). In the same year, Jean Claude Trichet, President of the Central Bank, said that the *'Euro became a firm and credible currency'* and the Euro area has witnessed a period of low rates of inflation and low levels of long-term interest rates, reinforcing the idea of the successful of EMU (Trichet, 2004). He added that *'the institutional*

framework for monetary policy in the Euro area has helped the ECB to keep inflation low and stable and he recognised that *'policymakers still have to undertake important efforts to fully realise the advantages of a stable common currency'*, namely in terms of structural reforms in capital, labour and product markets. Moreover, in the view of the President of Central Bank *'EMU has been highly successful in furthering macroeconomic stability in Europe'*. According to Trichet, there have been developments in terms of structural reforms since the introduction of EMU, but some barriers continue to exist. Therefore, he argued that structural reforms in capital should aim to allow for a more effective allocation of savings towards the investments opportunities, that structural reforms in goods markets should promote the entry of new players, that structural reforms in labour markets should aim to reduce non-wage labour costs and labour mismatch and to improve the flexibility of labour contracts and wage-setting to enhance employment growth in a lasting manner (Trichet, 2004). Even given the need for these reforms, the general overview of the president of the Central Bank was that EMU is a success.

Nonetheless, the literature also showed that EMU in these early years has been regularly and often vehemently criticised. In addition, the latest economic figures showed that some of the Euro economies, such as the Portuguese, are facing domestic unrest and tensions due to sharply rising unemployment and recession (EC, 2004a, 2006). The sceptics of the EMU scheme have seen these figures as an indicator that EMU is not working. According to Schwartz (2004), at the end of 2003 a *'monetary disunion, rather than union'* was the situation. A study carried out by PricewaterhouseCoopers cited in a Portuguese newspaper, *Vida Económica*, added that up to 2003 the potential positive effects on the Euro area were not visible yet (*Vida Económica*, March 2003). Moreover, with two of the Euro zone's leading economies, France and Germany breaking, for two consecutive years, the euro-zone stability pact rules on fiscal discipline, the stability pact, which underpins the EMU, has been severely criticised and several proposals have been put forward for reforming the SGP and indeed the Commission has itself advanced proposals (Buti et al., 2003; Calmfors and Corsetti, 2003, DeGrauwe, 2005).

For instance, Romano Prodi, former president of the European Commission, said that the SGP was a *'Stupid Pact'* and was too rigid (Parker, FT 2002; Castle, 2002). In 2001, as already mentioned Portugal was the first country to breach the stability rules. At that time Portugal ran a 4.1 percent deficit, which was brought down to 2.7 percent in 2002 and 2003, mainly by

selling off public properties or government cuts. This was also explored in the literature, especially, in the international press. Meanwhile, as mentioned the Pact was revised in March 2005, allowing prolonged periods of sluggish growth to qualify as an “exceptional circumstance” where deficits of more than 3 percent were allowed.

An article published in *The Daily Telegraph* on June 09, 2003, stated that since the early days of the Euro Portugal’s economy has stagnated, its rate of inflation has become worryingly high, its trade accounts have deteriorated and the available policy tools that they can use to tackle their problems decreased. The article suggested that when Portugal announced its intention to join EMU, and with the exchange risk removed, the Portuguese Banks borrowed heavily in Deutschmarks and Francs at lower rates than they could fund domestically. The article explained that these loans were then converted into the domestic currency and used to fund a lending boom within Portugal. As a consequence, there was a surge in borrowing by enterprises and consumer spending increased significantly and in an excessive way. According to this article, the credit boom in Portugal has ended and the economy has slowed and the country does not have money to repay all of its actual debts. This idea was reinforced by Golding (2002) who said that ‘*Portugal is under immense pressure by the European Commission to cut government spending wholesale*’, damaging consumer confidence and representing a slow economic growth. In addition, he wrote that ‘*in Portugal most of the commercial Banks are unable to lend at all*’. As a consequence small enterprises are going to bankrupt, which has a negative effect of the employment.

In May 2003, the Portuguese newspaper - *Jornal de Negócios* - cited figures from the Portuguese National Bank, mentioning that in 2002 the Portuguese consumers’ debts were 103 percent of their incomes (against 35% in 1995) (*Jornal de Negócios Online*, May 21, 2003). These ideas have been reinforced by a significant number of articles. (See for example, Hunt (2003) in *Telegraph*, *The Scotsman* 20/01/2003 and *The Sunday Times*, 12/01/2002). In 2004, an article published in a different Portuguese newspaper, *Diario de Noticias*, noted that in 2003 Portugal's GDP growth plummeted 1.3 percent, hitting Portugal with Europe's worst recession while austerity measures were being enforced to comply with the three per cent budget deficit limit laid out in the EU Growth and Stability Pact (Cabral and Rebelo, in *Diario de Noticias*, October 23, 2004).

Other arguments are that EMU has been less than successful, because the EU states that were unconvinced five years ago remain so and also that after the introduction of the Euro notes and coins prices in the Euro zone increased significantly. *The News*, Portugal's weekend newspaper, after carrying out its own survey amongst shop owners on the effect the introduction of the Euro has had on prices in Portugal, concluded that the retailers questioned said that they had been forced to increase the prices of many of their products, because suppliers were charging more. According to the same source, in the food sector, in some cases, prices had risen by between 14 and 16 percent and the British tourists were the people who complained most about the prices (*The News*, 8/6/2002). A representative of the Portuguese Consumer Association (*DECO*) cited by the *Expresso* on 5 October 2002, also recognised inflation in Portugal since the implementation of the Euro, but considered that the increase of the prices in Portugal was lower, when compared with countries such as Italy and France. The prices offered by hotels, cafes and restaurants are the highest of the products/services that increased.

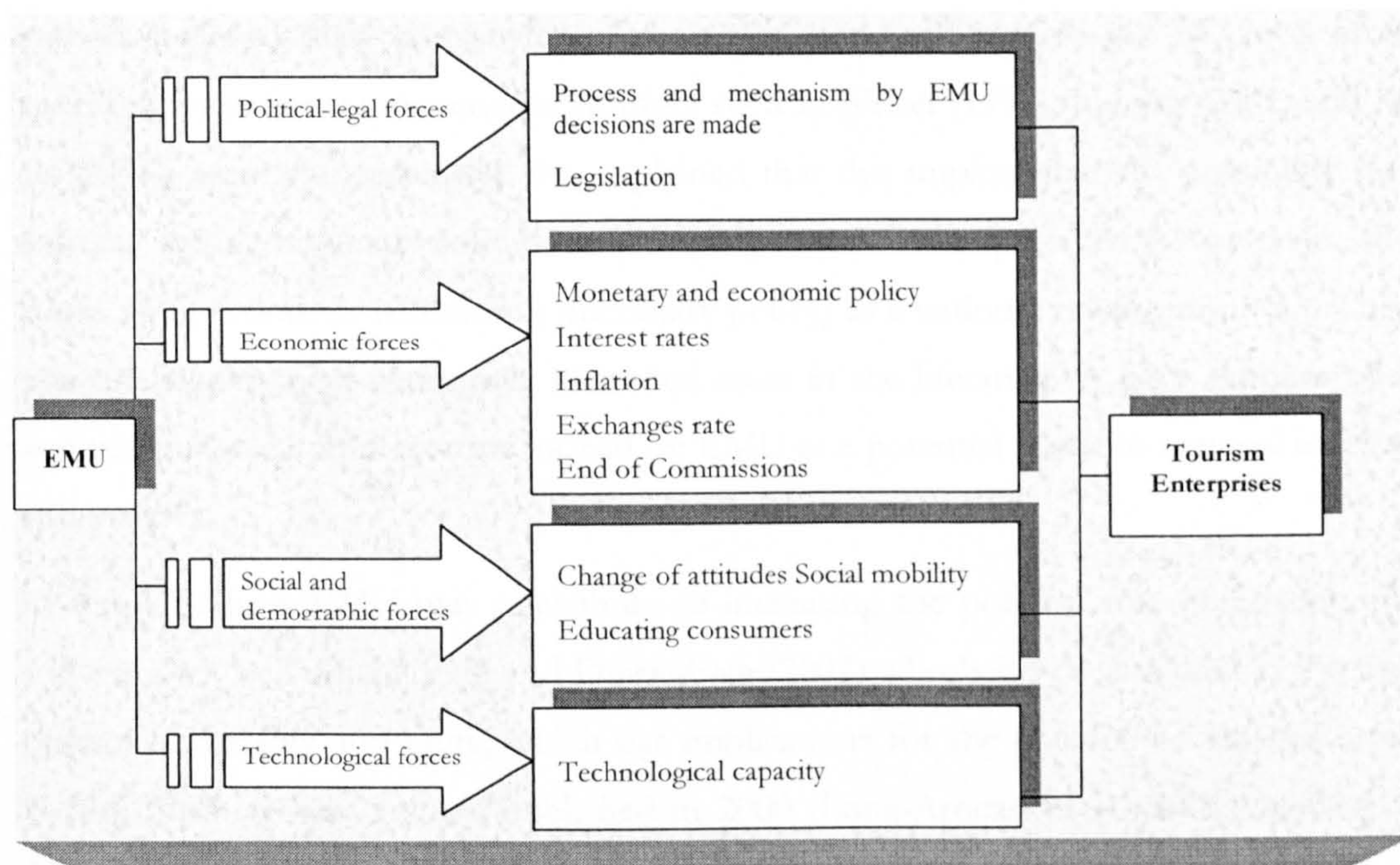
Finally, there are also those that, although they supported EMU, have later revealed some signs of scepticism and vice versa. A good example of this is the case of Jacques Delors, who was responsible for the first steps towards EMU but in an interview with the *Times* he admitted that Britain was justified in opting out of the single currency, citing the lack of fiscal coordination between countries in the Euro zone (*Times*, 17/01/04).

2.4.3. Review of the principal issues brought about by EMU for the Portuguese economy

As previously mentioned it is widely recognised in the literature that EMU has several consequences for the participating countries. In addition, the literature suggested that the dynamic forces (PEST forces) that emanate from the external environment were being influenced by EMU, representing several potential sources of change within enterprises, even if not all organisations are influenced equally by the external business environment. From a survey of the literature related to the impacts of EMU on enterprises, the following forces were identified. Each issue is further discussed and is clustered into the four headings of a

PEST analysis: political, economic, social and technological. They are visualised in next figure 2.1.

Figure 2. 1. Principal issues of external business environment influenced by EMU



Source: Author

2.4.3.1. Political and legal forces

The survey of the literature focusing on political and legal implications, brought about by EMU, leads to three main outcomes:

- Several authors comment on the supra-national and pan-European character of EMU, mentioning an increase of EU power and a reduction of national intervention following the introduction of EMU (e.g. Weber, 1998 and Raffling, 1998).
- There are some authors, who believe that EMU was the most relevant factor in developing a relevant political role for Europe (e.g.; Torres, 1998; Issing, 2001 and Duisenberg, 2002).

- There was a consensus and evidence that EMU implied additional national and EU legislation. (Weber, 1998)

Concerning the first finding, the main explanation found was related to the fact that the authors believed that the transfer of monetary responsibilities to the EU level limited the potential for national intervention. Authors such as Weber (1998), Jonung (2002) and Micco et al. (2003), among an extensive list, explained that this implied that the possibility no longer exists of setting monetary conditions according to national requirements. As a result, there was a loss of an economic instrument (monetary policy) as a national stabilization tool. This aspect was one of the most commonly identified costs in the literature. A large number of authors and professional commentators looked on EMU as a potential threat to national independence and policies.

In terms of how EMU may contribute to increasing the political role of Europe, there are authors such as Torres (1998) and Duisenberg (2002) who believed that the Euro represents a symbol of stability and unity, which has implications for the position of Europe around the World. Furthermore, a study published in 2000 (Luna-Arocas, et al., 2001) showed that the desire to be a European citizen was expressed by the Euro. This study concluded that the support that citizens gave to the single currency comes more from the European identity than from the economic expectations or knowledge from the immediate consequences (see also Meier-Pesti and Kircheler, 2003). On the other hand, several authors argue that EMU and the institutions surrounding EMU (ECB, the Euro and SGP) lack political legitimacy and acceptance, which may threaten the political and monetary unification of Europe (Jonung, 2002).

Regarding legal issues, Lepecq (1999) drew attention to the legislation that was adopted at the EU level and that is taking priority over national law. These cover issues such as, contractual issues (e.g. the principle of continuity of contracts) or conversion issues (e.g. participating national currencies were replaced by the Euro and became themselves non-decimal sub-units of the single currency).

A general review of official publications, such as Official Journal of the EU or '*Diário da República*' of the Portuguese Government showed that there is an extensive list of European regulations (e.g. Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the Euro and Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro) and Portuguese legislation related to the introduction of EMU and its implementation (e.g. *Decreto-Lei* n°132/2001, of 24 April 2001 on the obligation of dual affixation of prices after 1 October 2001, among Portuguese small, medium and large enterprises. For a compilation of this legislation, see Maduro, Pinto e Seabra, 2000).

2.4.3.2. Economic forces

At an economic level, a consensus is growing as to the implications of the Euro on the principal economic indicators, which in turn may represent an emerging macroeconomic regime. This is essentially supported by the fact that the conditions of the *convergence criteria* required by the Maastricht Treaty, under which the Euro was established, has limited inflation, public deficit, exchange rates and interest rates of all EMU member states, which was reinforced by the SGP signed in 1999 by participating countries. In this context, most authors agreed that the predominant economic issues resulting from the introduction of EMU were: (i) Irrevocable exchange rates; (ii) control of inflation performance to achieve price stability; (iii) level of interest rates and (iv) public deficit performance.

i) Irrevocable exchange rates

Given that the transition of the EU to a single European currency required irrevocable exchanges rates for member currencies since 1999, it was widely assumed in the literature that the Euro participating economies would become less exposed to markets forces (such as trade imbalance, economy policy, speculation, exogenous issues (e.g. economic crisis) and policy options). Moreover, several authors were expecting that the enterprises of the Euro zone would no longer have to incur the expense of hedging to protect against sudden ups and downs in a country's currency (e.g. Young, 1998; Harris, 2001; Kenen, 2003). This is particularly relevant, since about half of the trade of the Euro-area Member states is within the

area (Barr et al., 2003 and EC, 2006). Micco et al., (2003) and Rose (2004) have presented studies, which confirm an increase of intra-trade after the launch of the Euro (see also, Baldwin and Taglioni, 2004 and Baldwin, Skudelny and Taglioni, 2005). This view is not shared by all authors. For example Frankel (2006) considers that the association between monetary unification and trade deepening might arise because of other factors, such as colonial history, remaining political links or accidents of history.

In addition, it was recognised that within a context of fixed exchanged rates it would be possible to observe the end of exchange rate commissions within the Euro zone. In this connection, some authors, such as Harris (2001), added that profit margins would not be influenced anymore by unexpected exchange rate changes nor would businesses suddenly find themselves incurring extra costs from purchasing foreign currency to make payments. According to them, the fixed exchange rates would also mean that there would be no need to undertake forward contracts to hedge against possible exchange losses. Therefore, within a context of a fixed, exchange rate it is widely assumed that potential additional cost/risks would finish, which in turn would reduce transaction costs, representing a likely profit to businesses (Weiner and Chitty, 1999). As a result of these effects, several authors also expected an increase of the Foreign Direct Investment (FDI) within the Euro area. A study published by the EU in 2005 confirmed that recent evidence on FDI flows suggests that the single currency has raised the attractiveness of the Euro area as a destination for foreign investment. Nonetheless, the study added that it is difficult to isolate a pure EMU effect from other more global effects (EC, 2006).

On the other hand, several authors offered a different view of the consequences of fixed exchange rates. For example, Brooks and Weatherston (2000) mentioned that a fixed exchange rate under a single monetary policy also meant for member countries the loss of the ability to set their own competitive exchange rate, which in turn has repercussions on businesses competitiveness. Opponents of EMU have argued that it would lack appropriate adjustments tools to deal with demand shocks. Furthermore, in this vein, there are some authors, who predicted that the exchange rate mechanism would fail and the single currency will collapse within the next few years. An example of these authors is Walters (Daily Mail, 27/05/2002), who pointed to different growth and inflation between member states, high level of

unemployment and the budgetary problems as the main potential reasons for a possible collapse of the single currency.

ii) Control of inflation performance

From an economic standpoint, inflation may be defined as a persistent increase in prices over time and the fall in the purchasing value of money. Brooks and Weatherston (2000) said that the causes of inflation could be due to a number of factors. These factors included: excess demand in the product market, increased costs of labour, that are not linked to increased labour productivity; increased costs of raw materials, and a deterioration in exchange rates, which tends to cause import prices to rise.

Worthington and Britton (2003), and economists in general, emphasised that the implications of rising costs for businesses may be felt in several ways, such as loss of sales, reductions in investment and work forces or encouraging employees to seek higher wages in order to maintain or increase their living standards.

The literature on the implications of EMU suggests that monetary policy in the EU had, as one of its main objectives, the control of inflation to achieve price stability (Art. 105 of the Treaty of EU). In fact, the move towards EMU had implications for changes in inflation performance. Johnson and Turner (2006), for example, suggested that the expected ability of EMU to deliver and sustain price stability would create a more stable business environment in Europe. This is particularly important, bearing in mind that, as reported by Fischer (1993), high inflation is negatively associated with economic growth, through a reduction of the increase of productivity and investment. Emerson et al.(1998) and Gomme (1991) presented similar conclusions.

On the other hand, several authors (e.g. O'Boyle, 1997 and Rosenfeld and Wilson, 1999) argued that the existence of a single currency within the Euro zone could affect price stability. Prior to the launch of the Euro and even later, several authors expected that following the introduction of the Euro as the single currency it would become possible to easily compare prices in the Euro area, increasing businesses competition, investment and trade. For instance, O'Boyle (1997) explained that there would be a downward pressure on the price of identical

products sold, towards the cheapest level on offer, in different countries. This argument was also supported by Rosenfeld and Wilson (1999), who suggested that within a single currency context it would be possible to observe a rapid harmonisation in prices and an almost equally rapid shift in production to the lowest-cost production centres. They argued that transparency would be even faster and deeper than in other industries. The European Association of Travel Agencies and the British Tour Operator *First Choice* also shared this view, when pointing out price stability as one of the most important impacts of the Euro. Both organisations corroborated the fact that the adoption of the Euro implied a rigorous price policy based on monetary stability (Financial Times, 1998).

In the view of Gasiorek et al. (2004), the impact of higher price transparency would mainly be perceived by consumers, because large enterprises already had good information on price levels in the different markets. Their study, using a CGE model, concluded that EMU should lead to increased output and lower mark-ups in the majority of the manufacturing sectors. This confirmed some previous expectations that greater competition and price transparency should lead to lower prices and more efficient markets. On these conclusions, the French finance minister in 2001, cited by the FT (05/09/2001), said that for the tourism sector the aspect of price transparency was a key issue. Salomon (2003) underlined that increased transparency within the Euro area strengthens competition.

The literature also contains other authors who suggested that the Euro represented a force towards a likely increase of prices to face transition costs. The editorial of the *Financial Times* published on September 5 2001 stated that two-thirds of the public was expecting that companies would exploit the introduction of the Euro notes and coins to raise prices and accused some companies of using the Euro as a pretext for raising prices. Nonetheless, the majority of studies on the implications of EMU believed that increasing competitiveness and price transparency would mean a decrease of prices in the medium and long term (e.g. Mussweiler and Strack, 2004).

A study published by the European Commission (2005) claimed that the changeover to the Euro was not one of the main factors driving inflation in 2002. The Commission argued that, based on data from EUROSTAT, the changeover to the Euro contributed only between 0.1 and 0.5 percent and the increase of the prices in that year was due a combination of different factors, such as bad weather, rises in energy prices and so on. The same study stated that, by

assessing price performance in EMU countries within the first five years, it is possible to conclude that in general the Euro area has benefited from a period of low inflation over the past several years (below 2% since the launch of EMU), even if, in many member states, the public perception has been one of much higher price increases.

iv) Interest rates

There were several expectations that the low level of interest rates in EMU would enable cheaper investment to take place in the Euro zone. Bieger and Laesser (1999), in their study about the implications of the Euro for Swiss tourism, pointed out the fact that the cost of capital would become lower as a consequence of the risk premium on loans being lowered.

Socher (1999) explained the interest rates would decrease within a single currency market as a result of an increase of competition between banks in the Euro area, adding that since the liberalisation of capital movements in 1992 there had already been almost perfect competition. Artus and Kaabi (1997) cited in a study by WTO (WTO, 1998a) estimated that the introduction of the Euro, as a result of factors such as increasing competitive pressures and the Maastricht requirements, would imply a convergence of interest rates in the short term towards levelling out at around 3-4 percent. Hämäläinen (1999), in a speech given on July 2 in which she analysed the first six months of European Economic and Monetary Union, concluded that in an environment with credible expectations of low inflation, interest rates remain low and stable, investments would be higher.

Meanwhile, the empirical evidence has shown that since the ECB started cutting interest rates, and from summer 2003 to August 2006, the key official interest rate was kept at 2.0 percent. Since then, onwards the ECB has raised its key interest rate to 3.75 percent (EC, 2007b).

iv) Public deficit performance

Economists have suggested that the occurrence of deficits is prejudicial to economic growth. The main theoretical argument for this is that a sequence of deficits will mean an accumulation

of public deficit and an increase of long-term interest rates. This, in turn, would imply a decrease in investment and, consequently, less capital accumulation (Barbosa et al., 1999). Conversely, a reduction in public deficit has been associated with the economic growth of economies, corresponding to an upturn in the business cycle. In relation to this, as already mentioned, EMU has created several rules in order to control government expenditure and to permit member countries more flexibility in their budgetary policies, increasing their ability to face economic shocks. In reality, one of the Maastricht *convergence criteria*, supplemented by the SGP, requires single currency members not to allow their budget deficit to exceed more than 3 per cent of GDP. Therefore, at the start of EMU, visible reductions in the public deficits of the Euro participating countries were widely expected. Nonetheless, there was a concern among some authors that the deficit requirements would not be appropriate for all Member states (e.g. Gros, 2005) and, as discussed in the previous section, several criticisms were made of the SGP rules.

In looking at the recent history of the EMU it is evident that there are some countries in the Euro zone, such as Portugal, that currently have a public deficit much higher than was expected. For example, in Portugal, for 2005, the deficit was very high, peaking above 6 per cent of GDP (Banco de Portugal, 2006).

Further effects of the introduction of the Euro at the macroeconomic level are worth outlining in accordance with the following key external factors: The value of the Euro and Fiscal convergence.

Value of the Euro

It is widely assumed that the value of a currency, as a key external force, may have effects upon businesses in any one of three ways: investment, competitiveness and operational issues. When the currency is strong, enterprises tend to make purchases from foreign sources, and enter into strategic alliances with firms in other countries. Conversely, when the currency is relatively weak, less financial incentive exists for companies to purchase from foreign sources.

In this context several authors have debated the role that the Euro plays in the international economy. In general, there was a consensus about the international role of the Euro. However, the opinions were mixed in terms of the potential effects. Some commentators argued that as a result of EMU, member countries with a single currency would witness the emergence of the Euro as a relevant international currency and a reserve unit, due the unified capital market and the reputation for stability of the Euro (e.g. Johnson and Turner, 2000; Begg and Schelkle, 2004). These views confirmed the main conditions pointed out by Beckers (cited by Bieger and Laesser, 1999, pp.3-4) that for the currency to play an international role:

“the Euro would be a strong currency if it stands as a representative for an important economic region, it refers to an area with considerable economic autonomy, it is accepted as an international invoicing currency, and it is accepted as an international investment and reserve currency”.

Keller (1998) expected that a strong currency zone would no longer enable countries in the EU to compete by price, which in turn would imply new challenges for enterprises, namely the need for innovative products of high quality and reasonable prices.

Nonetheless, the potential strength of the Euro has led to some concerns about the possible effect on the Euro area economic recovery (EC, 2005a). For some authors a strong currency could represent a lack of competitiveness and additional difficulties to export.

Meanwhile, a review of the evolution of the exchange rate of the Euro against other currencies demonstrates that after its launch the Euro underwent a strong depreciation against the Dollar. This confirmed the expectations of Barbosa et al. (1999) who expected that events external to the Euro zone could influence the value of the Euro (e.g. the terrorist’s attack on America in September 11, 2001 has affected the Euro evolution as a result of its implications in world economy).

From the viewpoint of Barber and Guerrera (FT, 01/03/2002) the weaknesses of the European single currency in the early years of the Euro affected consumer confidence within the Euro area. Nonetheless, nowadays the Euro is internationally recognised and used as a parallel currency in many countries, mainly in central Europe. According to the IMF figures, the Euro area account for about 16 per cent of global output and almost one fifth of the international trade (EC, 2005b).

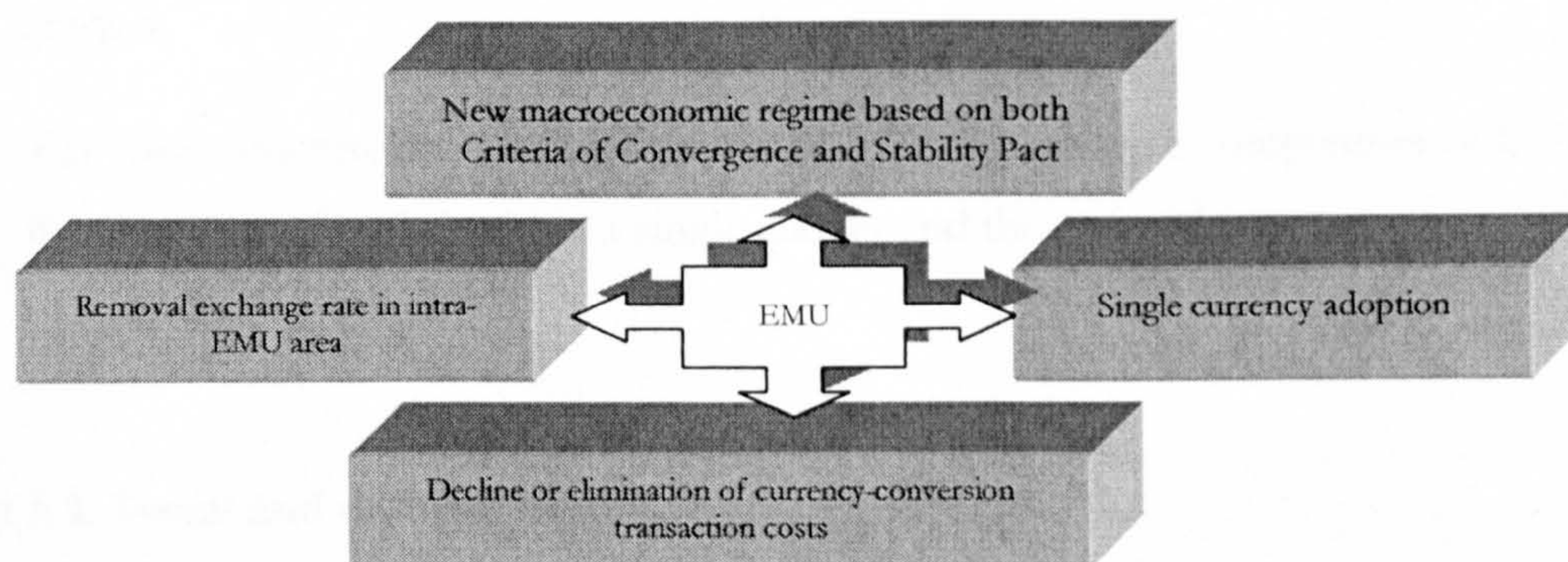
Fiscal convergence

Some commentators, such as Rosenfeld and Wilson (1999) took the view that the Euro would affect indirect taxation, mainly VAT. They believed that it would be possible to witness a convergence in VAT as consequence of price transparency. This viewpoint was shared by other authors such as Torres (1998), who had expected that monetary integration would highlight the diversity of fiscal regimes in the different countries of Europe and increasing competitiveness, which would lead to convergence of these approaches.

Nevertheless, a review of the literature, demonstrated that there was no consensus about the direct effects of the Euro on fiscal policies while the empirical evidence suggested that fiscal convergence has been disappointing over the six years of EMU. The example of Portugal shows that VAT convergence has not happened yet. Contrary to some expectations, VAT in Portugal has increased over the last few years (17% to 19% in 2002) and recently (19% to 21% in 2005). The main reason given by the Portuguese government was for Portugal to fulfil its commitments to the SGP by reducing the Public deficit.

As a conclusion to the above mentioned effects, figure 2.2 summarises the most significant economic effects of the adoption of EMU, reviewed in the literature.

Figure 2.2. Summary of major expected macroeconomic effects due the adoption of EMU



Apart from these studies, there were some authors, who predicted minimal economic impacts. The study of Socher (1999) dedicated to the effects of the Euro on the tourism sector was an example of this. Socher (1999) suggested a different perspective of the net economic impacts of the Euro. He predicted that they would be much smaller than most studies were expecting. On the basis of his forecast, Socher pointed to a new development, saying that, even without the Euro, it could be expected economic benefits for external business environment. The author, using the five arguments most commonly advanced within literature as representing the biggest impacts of the Euro, explained that:

- There would have been savings in transaction costs even without the Euro-cash, because there are no exchange risks any more and the differences between ask and bid rates are abolished. Moreover, he argued that there were visible trends towards lower transaction costs of international payments and to the development of the use of cash-cards, which by itself do not imply exchange costs in the foreign currency;
- Tourism prices would only be marginally equalized, because the regional differences of the cost factors, land and labour costs would remain, only capital costs and some input prices will become more equal;
- The savings of hedging costs were quite low, because in tourism there was not much hedging against risks, with the exception of large tour operators;
- When the consequences of exchange rate changes on tourism were calculated, one should take the real and not the nominal rates, which usually were not mentioned in the most of studies,
- The lower interest rate essentially resulted from the stronger competition of the banks, the liberalisation of capital within a single market and the national policies.

2.4.3.3. Social and cultural factors

In terms of social and cultural factors, the three main implications that are pointed out in the literature are as follows.

First, increasing flows of people with leisure and professional purposes within the Euro area were expected. In fact, in the view of some researchers, the use of a single currency meant an increasing flux of people within the Euro zone. Shackleford (1998) and Lepecq (1999) argued that it was easier to move around frontiers either in travel or work when there was no need to change currencies at each border.

Second, prior to the launch of EMU, the literature suggested that it would be possible to observe a change in different people's attitudes towards the implementation of EMU and this should be considered by enterprises. *The Economist*, in April 1998, stated that Europe's people were against the Euro. They feared a loss of sovereignty and a referendum regarding EMU in the countries participating would show that there is a marked lack of popular enthusiasm for the Euro in Europe. Therefore, the Euro could cause social tensions. Nevertheless, this was not the most common perspective presented in literature. Several authors argued that even if it was possible to observe some people's fear, this did not mean that they were against it, but perhaps apprehensive about the introduction of the Euro. Richards, in a speech given at the Conference hosted by EC/DG XXIII on the impact of the Euro on the tourism sector, forecasted that some tourist would be worried about the Euro, adding that this would happen only during the changeover period (Richards, 1998).

A study conducted by the European Commission after the launch of the Euro, in the Euro zone, revealed that in the spring and autumn of 2000, the Euro enjoyed the lowest public support (62%), while the highest result (75%) was reached after the introduction of the single currency (EC, 2005a). The same study added that in November 2003, on average, 89 percent of Euro-area respondents believed that prices had been converted to the injury of consumers. According to these respondents, the service sector (cafés, restaurants and hairdressers) were the most affected.

Third, relating to the cultural effects of EMU, Peter Shackleford (1998), Director for Europe for the WTO said Europe would also use the Euro as a tool to sell all of Europe as one cultural destination. While, Bieger and Laesser (1999) added that only differences in languages would, in the long run, remain as key national distinction marks. Therefore, Europe would more and more be looked at as one product and this would have implications for the marketing of businesses.

2.4.3.4. Technological Factors

About the technological factors the literature revealed a consensus among the authors. The existing literature argued that the Euro implied new technology, covering for example new software and hardware, which in turn, had implications in the operational business environment. Nonetheless, for some authors, the changes required by the single currency on IT were more than changing programmes or computers, it also represented an opportunity to upgrade IT infrastructures and to do business through Europe (Pike and Barlow, 1998).

To sum up, from the above it seems clear that several authors recognised the effects of EMU upon macroeconomic, political, social and technological forces even if, occasionally, they had different perceptions of the outcomes of EMU. This confirmed that the context in which enterprises operate is changing. Therefore, given that national environment and national competitiveness are two inter-linked concepts suggests that the competitiveness of Portugal is also likely to have been affected in this way.

2.5. ISSUES OF EUROPEAN ECONOMIC INTEGRATION FOR TOURISM SECTOR

Due to the multidimensional characteristics of tourism, the sector is highly influenced by the new demands derived from the widening, deepening and enlargement of European integration. The policies adopted by the regional areas and the implementation of the more advanced degrees of integration, with its resulting consequences, are decisive factors in the development of the tourism sector in member countries. According to official figures provided by the European Commission, there is a particular economic importance of tourism for future growth and employment in the European Union. It is estimated that tourism directly employs about 8 million people in the European Union (representing roughly 5% of total employment and of GDP, and 30% of total external trade in services). Together with employment and

GDP indicated in other sectors, such as transport or distributive trade, these figures rise up 20 million jobs and to roughly 12% of GDP (EC, 2005b).

An “action plan in favour of tourism” was created by EU in 1990s and the goals for this area were originally defined in 1986 and have been reinforced since then such as by the Maastricht Treaty (EC, European Union Treaty). Pompl and Lavery (1993) synthesised those objectives:

- Facilitating tourism in the European Union;
- Improving the geographical and seasonal distribution of tourism;
- Better use of financial aid;
- Better information and protection for tourists;
- Improvement of working conditions; and improved knowledge of the tourism sector
- Increased co-operation among member countries.

The Cecchini Report (Cecchini, 1988) estimated that by the end of 1992 the Common Market would affect at a macroeconomic level the development of the tourism industry in Europe. This, he argued would be due to a number of factors. For example, Europe’s income is higher than comparable incomes in other regions of the world, and the geography of Europe, means that distances between countries are relatively small. Europeans are highly mobile with a higher than average level of car ownership, whilst transport infrastructures are of a good quality. Moreover, he also estimated that the tourism sector would benefit from the Common Market, since it would be providing approximately 200 billion ECU (European Currency Unit) in cost savings to firms in general, and in the medium term the creation of over 2 million additional jobs as real economic growth would be boosted by between 3 and 7 percent. These figures were based on the premise that much of the improved economic performance would come about through the removal of barriers, which directly restrict intra-community trade. Cecchini considered that this improvement, resulting from the effects of the creation of an internal market, would make significant cost savings through the exploitation the increased economies of scale, which also would benefit tourism sector.

At the same time, several direct measures affecting tourism have been developed. The measures, which affect the tourist as a person living and travelling within a geographical space without physical, technical or fiscal barriers, are the best example. As confirmed by Pompl and Lavery (1993), the European tourist is now protected by specific consumer legislation on health and safety and on a range of economic and legal aspects.

In addition, other European Union measures affecting tourism can be reviewed to assess their impact on tourism. These include all measures linked to the economic and social environment, which aim to provide common structures for economic and social activities, such as tourism, to develop within the Union (see Youell (1998) for more details). Regarding the internal factors, it is possible to distinguish measures such as the completion of the common market in 1993, economic and social cohesion, regional and social policies, trans-European networks, transport, research and development, competition and enterprise policy, information and telecommunication technologies, employment and the field of education, and finally training and youth (EC, 1999). Measures in the field of culture and environment could also be considered. In respect to external factors, specific measures and actions aiming to promote cross-border co-operation were adopted (Pompl and Lavery, 1993).

In addition, the most recent advance in European integration - the development of European Monetary Union and its currency - has been considered by the EU itself and several authors as one of the most important contributions to the development of the tourism sector in Europe, by providing competitive advantages and a stable macroeconomic environment. Torres (1998), Ratz and Puczkó (1999) Ratz and Hinek (2005), among several other authors, referred to some of the factors brought about by European Monetary Union, such as the end of currency conversion costs and exchange risks, the simplification of the financial transactions, an increased transparency and increased competition, that most probably would stimulate the mobility of people, goods and capital within EMU, serving as an incentive to tourism development. About the role of the Euro for tourism, the EU (EC, 2005c) mentioned that:

“Since the tourism sector is largely characterised by cross-boarder activities, it benefits greatly from the single currency. As for the tourism of EU citizens, three out of four remain within the EU. The expenditure of EU tourists travelling in the EU amounted to EUR 115 billion in the year 2000 (excluding domestic tourism expenditure). A large number of Europeans are therefore likely to have important experience with the Euro during their holidays. The single currency greatly reduces costs arising from exchange commission in inter-European tourism and travelling from non-EU countries is easier now with only one currency needed to visit countries in the Euro area.”

Nonetheless, apart from different views or studies carried out before the implementation of EMU or during the changeover period, there is a lack of literature on the effects of EMU upon the business environment, as next chapter will confirm.

2.6. CONCLUSION

The European integration process, which has now organised itself as the European Union, started on January 1, 1958, when the Treaty of Rome came into force. Its general aims were to promote European unity, to improve living and working conditions for citizens and to preserve peace and freedom. Its economic objectives were to foster economic development and to reduce economic disparities between regions (EC, ECC Treaty). For that, the original six members agreed to the creation of a custom union and proposed to integrate, over a 12 year transition period, the members' economic resources into a common market in which services, goods, labour and capital could move freely. Since then, many steps towards economic integration have been taken. In fact, the customs duties on industrial goods were established completely on July 1, 1968 and common policies, most notably a common agriculture policy and a commercial policy were introduced during the early years of the European Union, at this time named the European Economic Community. Three decades after the Treaty of Rome, a new Treaty to deepen the Community was signed between the member countries'. This Treaty, known as the Single European Act, decided that common market should be completed by January 1993. Indeed, it came into effect on that date. In 1992, a new step towards economic integration was made by the Maastricht Treaty that provided for the introduction of a Single Currency by 1999, and involved the creation of a European Central Bank. Since then, Europe has witnessed a deepening and consolidating economic integration process and currently from the twenty-seven members of EU, thirteen already use the single currency and a single monetary policy defined by the Central Bank (fifteen after 2008, since Cyprus and Malta will also adopt the Euro).

All of these steps have resulted in the EU being perceived as a significant example of regional integration and this, together with the emergence of regional agreements worldwide, have encouraged many academics and professionals to evaluate the implications of economic

integration on the member states. The basic models of customs unions have been extended and various analyses have appeared since the early discussion of economic integration theory. Jacob Viner's classic work has been added to, criticised and accepted, by some. Most recently, many questions have been raised about the consequences of EMU for the members States in the EU. About this topic there are in the literature wide differences of opinions, suggesting arguments for and against the EMU project. However, it is widely recognised that economic integration has effects on the diverse sectors of the participating countries. Due to the multidimensional characteristics of tourism, this sector is influenced by the new demands derived from the widening, deepening and enlargement of European integration. Most of the policies and measures adopted by the EU have impacts on the tourism sector. There are the effects on the tourist as a person, living and travelling within a geographical space without physical, technical or fiscal barriers. But there are also the effects of all the measures linked to regional and social policies, trans European networks, transport, research and development, competition policy, employment, education, training, culture, environment and so on.

Nonetheless, there is a wide consensus that the introduction and consolidation of Economic and Monetary Union is the strongest European force influencing the environment in which firms operate and compete, creating both opportunities and threats for those enterprises, even if there is no consensus in the literature on how the furthering of integration by monetary union will affect the economic environment. However, there is a lack of literature concerning the effects of EMU on tourism enterprises literature.

3. CONCEPTS RELATING TO BUSINESS ENVIRONMENT AND THE INFLUENCE OF EMU

“Of all events, both within internal and external to the European business environment, occurring over the coming years, none is likely to have as great an impact as the move towards Economic and Monetary Union (EMU).” (Johnson and Turner, 2000, p. 291)

3.1. INTRODUCTION

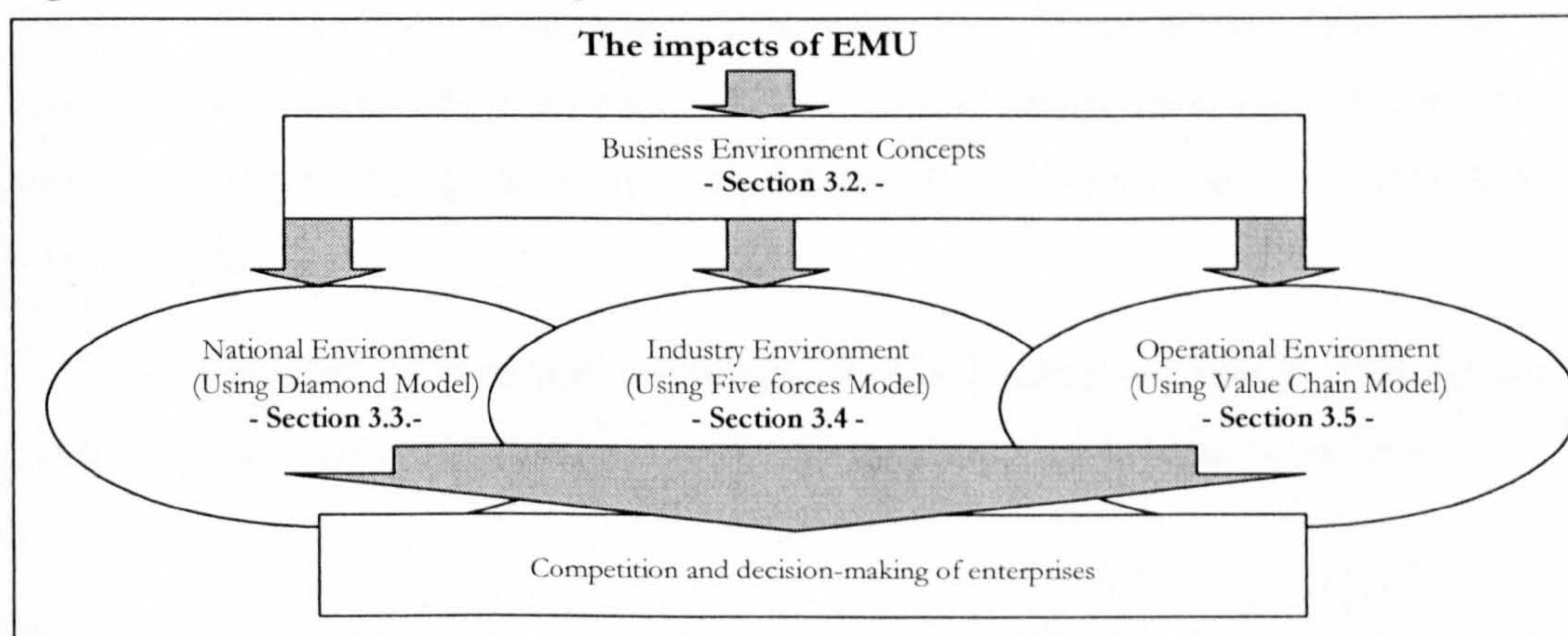
A general conclusion drawn from a large number of studies in the economics and business literature is that EMU has the potential to have a profound effect on the general business environment, creating both opportunities and threats for firms (Shackleford, 1998; Bieger and Laesser, 1999; Lepecq, 1999; Piggott and Cook, 1999; Barbosa et al., 1999; Johnson and Turner, 2000, 2006; Whyman, 2002; Rickards, 2003; DeGrauwe, 2005; Ratz and Hinek, 2005 and Baimbridge and Whyman, 2005, among an extensive list of researchers and academic or professional commentators). Therefore, the purpose of this chapter is twofold.

First, it aims to critically review the existing literature on the effects and outcomes caused by the introduction of EMU on competitiveness and decision-making of enterprises, particularly those effects, which are expected to relate to the impact of EMU on Portuguese tourism enterprises (and hotels in particular). It should be noted that from the major findings and conclusions of preceding studies, it was evident that the implications of EMU and the Euro in the tourism context, although having been recognised widely, were not subject to many studies and the majority of the literature available is limited to expectations and was published before the launch of the Euro as well as during the changeover period of 1999-2002 evidencing a lack of studies examining some of the earlier assumptions concerning the implications of the Euro for tourism enterprises. Hence, in this review some of the literature used within sectors other than tourism, which may have parallels in the tourism field, is used. In addition, some non-academic literature as such articles published in newspapers are referred to, in spite of there being a risk that they may have a political bias.

Second, the chapter seeks to provide a comprehensive framework to understand the impact of EMU on the overall business environment as a source of competitive advantage. Previous theoretical and empirical findings are explored on the basis of the concepts and theories of the business environment, stressing the interaction between an enterprise and its environment. In this way, the impacts of EMU are reviewed at the different environmental levels that are leading enterprises to change, namely the national, industry and operational environments. The main idea is that EMU, as a driver, is continuously creating a new competitive environment at these different levels.

For this purpose, this chapter, following this introduction, is organised into four further sections, which together provide a comprehensive framework of theoretical debate concerning the impact of EMU on enterprises. Section 3.2 provides an overview of the fundamental concepts and theories of the business environment. Then, in order to provide a view of the factors brought about by EMU that contribute to the competitiveness of the enterprises, these concepts are related to the national (external), industry (competitive) and operational environmental analysis – section 3.3, 3.4 and 3.5 – respectively. The theoretical frameworks used, here, are the three models developed by Porter (1979, 1998, 1999.): Diamond (national environment), Five Forces (industry/competitive environment) and Value Chain (operational business environment). The major reasons for the use of these models are advanced in the methodology chapter. The following figure 3.1. illustrates the general framework of analysis adopted in the present Chapter.

Figure 3. 1. General overview of the part II of literature review



3.2. A REVIEW OF THE FUNDAMENTAL CONCEPTS OF BUSINESS ENVIRONMENT

The specific aim of this section is to introduce the key terms used in respect of the business environment in order to establish the theoretical foundations of the relevant concepts.

3.2.1. Defining the business environment

In the literature several approaches are adopted to analyse the fundamental business concept of the environment. Indeed, a growing contingent of researchers (Stubbart, 1985; Wilson, 1992; Olsen et al., 1998; Brooks and Weatherston, 2000; Fahey and Randall, 2001; Worthington and Britton, 2003) has developed a range of conceptual analyses of the business environment. Moreover, as argued by Olsen et al. (1998) the concept of the business environment has been closely linked to another important concept - *strategic management*, which itself is represented by a substantial body of research, adding considerably to the number of references to the business environment (e.g. Rosenfeld and Wilson, 1999; Wright et al., 1998; Grant, 2002 and Dobson, Starkey and Richards, 2004). It should be noted that the major part of this literature review is not applied directly to the tourism business environment, but it can serve as an important aid to the understanding and analysis of the tourism business environment. There are relatively few research reports expressly considering the tourism business environment, authors such as Horner and Swarbrooke (1996), Olsen et al. (1998), Poon (1998), Tribe (1999), and Moutinho (2000) are the notable exceptions.

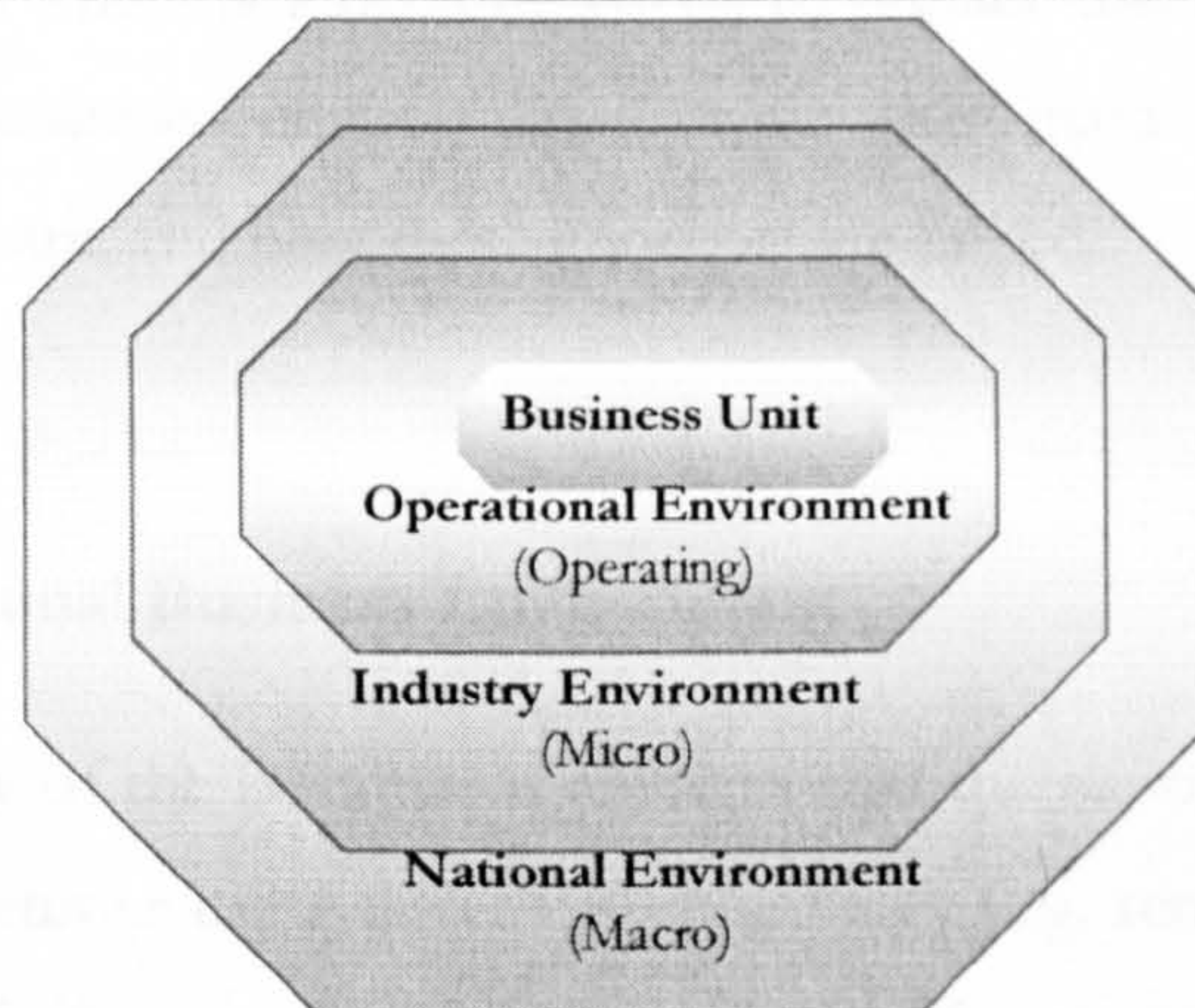
Generally speaking, there is a consensus within the literature regarding the concept of the business environment. According to Brooks and Weatherston (2000) the business environment consists of an array of dynamic “forces” acting upon organisations. Pearce and Robinson (2005), among others authors, state that these “forces” operate within three distinct ‘environments’:

- (i) The ‘national’ or ‘external’ environment, which comprises macro environment forces such as political, economic, social, legal, ecological and technological concerns;

- (ii) The **‘industry’ environment**, also called the competitive environment, which relates to industry and the market in which businesses operate, and in which the competitive forces of an industry assume particularly importance;
- (iii) The **‘operational’ environment**, also referred to as the operating or internal environment, which encompasses the organisation’s resources and competences (Brooks and Weatherston, 2000).

These different approaches to the business environment are visualised in Figure 3.2.

Figure 3.2. Approaches of business environment



Other authors, such as Finlay (2000) and Worthington and Britton (2003), have clustered the business environment into just two broad levels: the *‘remote’ or ‘general’ environment* and the *operating environment*, they include *‘competitive approach’* within the *‘general’ or ‘remote’* environment. Nonetheless, the concepts that they have adopted are very similar to the ones discussed above. For analytical purposes in this research the three distinct levels referred to above as national, industry and operational environment were accepted, since they allow a better analytical distinction of each level. The next section focuses, upon the national business environment approach, which according to the majority of authors is the broadest and most complex *‘environment’* affecting business activity.

3.3. CONCEPTS RELATING TO THE NATIONAL BUSINESS ENVIRONMENT AND THE INFLUENCE OF EMU ON COMPETITIVENESS

“The competitive forces unleashed in the European Economy by the establishment of the Euro will have profound implications for the competitiveness of the participating countries and for their enterprises”.
(National Competitiveness Council, 1999)

The purpose of this section is to review how the literature on EMU and/or business analysed and explained the impacts of EMU on the business environment and consequently on national competitiveness. There is a need however, to preface this section by clarifying the concept of the national business environment, what the main perceived attributes of national competitiveness are, and how these concepts are linked.

3.3.1. The National Business Environment

From the survey of the literature it emerges that the national business environment, although referred to sometimes using different terminology (e.g. remote or external environment) has a very similar definition among diverse authors. The term is used to define the environment composed of the elements that are beyond the firm’s control, but which have a major effect on businesses. For example, Campbell et al. (1999) defined the national business environment as the broad environment outside of an organisation’s industry and markets. Olsen et al. (1998) described the national business environment as the domain in which the customers, competitors, suppliers and regulators of a firm exist in a context of rapid change and increasing complexity.

Under both definitions the concept, as already mentioned, includes a set of interrelated and interdependent forces that are thought to influence business activity. These forces comprise the political, legal, ecological, economic, cultural, social, and demographic and technological factors, which frequently are represented in most of the known studies of the macro business environment by the acronyms ‘PEST’ (sometimes called STEP) - Political, Economic, Social,

and Technological - or 'LE PEST' (to include Legal and Ecological) (Tribe, 1997; Fahey and Randall, 2001; Lynch, 2003; and Worthington and Britton, 2003). Together PEST forces play a relevant role in the competitiveness of a country or a market. Therefore, in identifying, analysing and interpreting these forces, PEST analysis has become a very frequently employed framework for summarising the national environment in which a business operates: an environment that is becoming complex, dynamic and increasingly global. As confirmed by a number of authors on business and strategic topics who have used this analysis extensively in their studies, PEST analysis helps in the understanding of the powerful forces of change within the national business environment, and also provides a framework to identify and analyse the opportunities and threats that lie within it, knowing that the greater the forces and opportunities in a country or region the more the incentive for economies and firms to be competitive. Nonetheless, the assessment of these forces cannot in itself explain national competitiveness. Such an analysis also needs to take into consideration 'micro environmental factors'. A clarification of this idea arises from the literature on national competitiveness theories and models.

3.3.2. The theoretical framework of national competitiveness

Before turning to an examination of the theoretical models of competitiveness analysis, a note should be made that from the survey of the literature it is evident and recognised by the majority of authors that there is no widely accepted definition of national competitiveness (Porter, 1990; Dunning, 1993a; Krugman, 1994; and Cho and Moon, 2000, among an extensive list).

According to Krugman (1994, 1996), thinking about the concept of national competitiveness is 'meaningless'. In a series of papers, this author argued that defining national competitiveness, is a fruitless exercise, and is dangerous since the term has diverse interpretations. Krugman suggests that speaking of competitiveness at the national level presents three key contradictions. *First*, it is misleading and wrong to make a comparison between a nation and a firm, arguing that what is true of a firm is not true of a country because from his point of view, national economies are not in direct competition with one another and nations do not go

bankrupt in the way firms do. *Second*, whereas firms compete for a market share, and one firm's success will be at the expense of another's ('zero-sum game'), a country or region creates opportunities for others and trade between nations is not a 'zero-sum game'. Lastly, Krugman (1994) asserted that while competitiveness does not have a definition, it is a 'poetic way' of saying productivity, arguing that productivity is a unique measure of the performance of a national economy.

Krugman's assumptions corroborate part of some theories and concepts already developed, such as that Porter supplied in 1990, when he postulated that the only meaningful concept of competitiveness at the national level is national productivity (Porter, 1990). In addition, despite some debate and criticisms (e.g. Thurow, 1993; Cohen, 1994; Prestowitz et al., 1994 and Lall, 2001) in general, Krugman's viewpoint was recognised and accepted in the competitiveness literature (e.g. Starr and Ullman, 1988; Tyson, 1988). These authors argued that productivity lies at the core of competitiveness at the national and firm level, refuting the idea that competitiveness is an attribute of countries, as referred to in traditional economic classical and neoclassical theories (e.g. the theories of Ricardo and Heckscher-Ohlin, mentioned in the following section 3.3.2.1.) which focused their views on the *comparative advantage of countries* based on the advantage possessed by a country engaged in international trade if it can produce a given good at a lower resource input cost than other countries. On the other hand, Porter (1990), Krugman (1994) and other authors focused their views on the *competitive advantage* based on the possession by a firm of various attributes such as productivity and innovation that give it a competitive edge over competitors.

One of the most straightforward definitions, supplied by the President of the Commission on Industrial Competitiveness, illustrates these views:

"A nation's competitiveness is the degree to which it can, under free trade and fair market conditions, produce goods and services that meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its citizens. Competitiveness at the national level is based on superior productivity performance, which in turn can generate high levels of real wages. Competitiveness is associated with rising living standards, expanding employment opportunities, and the ability of a nation to maintain its international obligations (...)."

(Report of the President's Commission on Industrial Competitiveness, 1985, p.1)

A similar definition of competitiveness was provided by the OECD:

"the degree to which, under open market conditions, a country can produce goods and services that meet the test of foreign competition while simultaneously maintaining and expanding domestic real income."

(OECD Programme on technology and the Economy, 1992, p.237)

From the above, it is possible to underline two key issues of the concept of national competitiveness:

1. From a macro connotation, the ultimate goal of competitiveness at the national level is to maintain and increase the real income of its citizens, usually reflected in the standard of living of the country; the more opportunities at the national level, the more improvements in the quality of life.
2. From a micro perspective, competitiveness is based on superior productivity. The firm-specific behaviours determine competitiveness.

3.3.2.1. Existing studies on determinants of national competitiveness

The range of literature within which the concept of competitiveness appears, explicitly or implicitly, is enormous, extending across the fields of economics, politics, socio-culture, history, strategy and management. Each approach has suggested different indicators to explain or measure competitiveness. A useful synthesis of the focus of each of the different perspectives is provided and by Waheeduzzaman and Ryans (1996).

For the purpose of this study, the economic strategic management approaches are analysed. These include a wide diversity of methodologies used by those seeking to study and explain national competitiveness, ranging from the mercantilism approach of the 16th century and the macro perspective used by the classical approach of the 18th and 19th centuries (e.g. Adam Smith and David Ricardo), to a micro perspective approach used over the 19th, 20th and 21st centuries, ending up with an approach merging macroeconomic and microeconomic determinants (Smith, 1776 ; Ricardo, 1817; Marx and Engels, 1848 cited in Sloman 2000; Marshall, 1923; Samuelson, 1948; Porter, 1990 ; Lewis et al., 1993, Krugman, 1994, Cho and Moon, 2000; and annual World Competitiveness Reports produced by Institute for Management Development (IMD), among others).

Traditionally, economists analysed ‘competitiveness’ in the context of international trade. Under a macro perspective, they tried to explain why some countries grow faster and so become wealthier than others. That is, in modern words, why some countries acquire the capabilities for sustained growth that makes them more competitive.

Classical studies, which owe their origin to the *theory of absolute advantage* supplied by Adam Smith (1776), contradicted the viewpoints of the mercantilists, who believed in exports, while advocating strict government control of all economic activity with the objective of bringing gold and silver into the coffers of the state. In contrast, Smith demonstrated that gains could be made from trade by moving from a condition of autarky to one of free trade when countries have an absolute advantage in the production of different goods. According to his thoughts a country's genuine wealth would be maximised by allowing individual decisions based on the forces of the marketplace unhindered by government regulations and from a specialization of the countries. Smith argued that if one country could produce goods using less input (labour) in production then it would have an absolute advantage and should export the good. Or alternatively countries should import goods that others can produce using fewer inputs. Thus, competitiveness would be a function of differences in productivity.

Subsequently, David Ricardo (1817), founder of the *theory of comparative advantage*, showed that a country still benefits from international trade even if it does not have an absolute advantage in any good. He argued that countries differ in their production technologies such that each country enjoys a comparative advantage in the production of at least one good, the exploitation of which would maximise world output. Thus, competitiveness would be a function of production technology. The viewpoints of these authors were well summarised by Moon and Lee (2004).

Moving beyond Smith and Ricardo's theories, other well-known economists, most of them connected with different economic schools of thought, contributed to a better understanding of competitiveness. For example, in the vein of neoclassical theories, Heckscher and Ohlin, Marshall and Samuelson, cited in several books on economics such that by (Sloman, 2000), who suggested that different factor endowments, and especially differences in capital/labour ratios and technology, make countries differ in terms of competitiveness. In the 1980s, another

important contribution was made by *endogenous growth theory*, which formalised the importance of human capital and the accumulation of knowledge for the success of both economies and enterprises and consequently on national competitiveness (Aghion and Howitt, 1997).

Many others authors from different economic schools have also contributed to identifying the determinants of competitiveness at the national level. As shown by Cho and Moon (2000) in a summary of the main ideas presented by these authors, the variables that relate to the competitiveness at the national level include real exchange rate, measured by relative price and/or cost indices expressed in some common currency (Boltho,1996); domestic demand and economies of scale (Linder,1961); prices; socio-economic environment (Marx and Engels, 1848), economies of scale (Marshall, 1923); domestic distribution of income (Samuelson, 1948), see Table 3.1, below.

The concept of national competitiveness became particularly popular after the first publication of the World Competitiveness Report in 1980, produced by the IMD. Since then, every year, this report has rated and ranked countries against each other (*competitiveness index*), according to selected criteria and measures of national competitiveness. Similar *competitiveness indices* are provided by other organisations, such as the World Economic Forum (WEF) and the World Bank (WEF, 2006). Nonetheless, these studies differ in their way of measuring competitive performance, reinforcing the idea that there is no consensus on how competitiveness can be measured. For example, while IMD focuses on structural factors affecting long-term economic performance and argues that a country's competitiveness cannot be reduced only to GDP and productivity, since firms must cope with the political, cultural, finance and educational dimensions of countries, the WEF does use national economic growth to measure competitiveness (Lall, 2001). Among the factors that affect the competitiveness of a nation are endowments in natural resources, land area, labour, capital and technology, knowledge and human capital. In fact, each author or school made convincing arguments in support of their contentions, providing a diversity of determinants on competitiveness (see Table 3.1 below).

Under a business and management approach, it is common to find authors arguing that the competitiveness of a nation depends on the specific characteristics of firms within the nation and that international trade and economic international relations result from the activity of

enterprises (e.g. Porter, 1990; Daems and Thomas, 1994 and Krugman, 1994). This contradicts the economic point of view, in which authors place emphasis on price and the country-specific economic characteristics of competitiveness (see the following table 3.1).

Table 3.1. Empirical and theoretical studies on the determinants of competitiveness at the national level

Purpose	Main approach	Key Issues	Some key protagonists
To explain why some countries grow faster and so become wealthier than others	Macro	Labour, capital, natural resources and land are the most potent determinants	Smith (1776), Ricardo (1817), Heckscher and Ohlin, 1933, <i>cited in</i> Sloman (2000)
To provide an economic theory by criticising the capitalism system	Macro	'Socio-economics' factors are determinant factors	Marx and Engels 1848, <i>cited in</i> Sloman (2000)
To explain why some countries grow faster and so become wealthier than others	Micro	Home demand and economies of scales are the determinants	Linder (1961)
To explain why some countries grow faster and so become wealthier than others	Micro	Price, technology and delivery are fundamental	Fagerber (1988)
To explain the main determinants of the national competitiveness	Macro	Technological innovation, education and increased know-how are being crucial to national competitiveness.	Solow (1988)
To explain the main determinants of the national competitiveness	Micro /Macro	There are four determinants and two additional variables on competitiveness of a nation: factor conditions; home demand, related and supporting industries and firms rivalry. They are provided by the capacity of enterprises to innovate and upgrade.	Porter (1990)
To explain the main determinants of the national competitiveness	Macro	Competitiveness is linked simply the real exchange rate	Boltho (1996)
To justify the 'meaningless' of the concept of competitiveness at the national level	---	The nations themselves do not compete, their enterprises do.	Krugman (1996)
To explain the main determinants of competitiveness	Macro	Innovation is the single most important engine of long-term competitiveness	Cambridge Econometrics (2003)
To rank countries by competitiveness	Macro	Competitiveness is a function of eight main determinants: Domestic Growth strength, internationalization, government, finance, infrastructure, management, science and technology and people.	World Competitiveness Report (Annual publication)

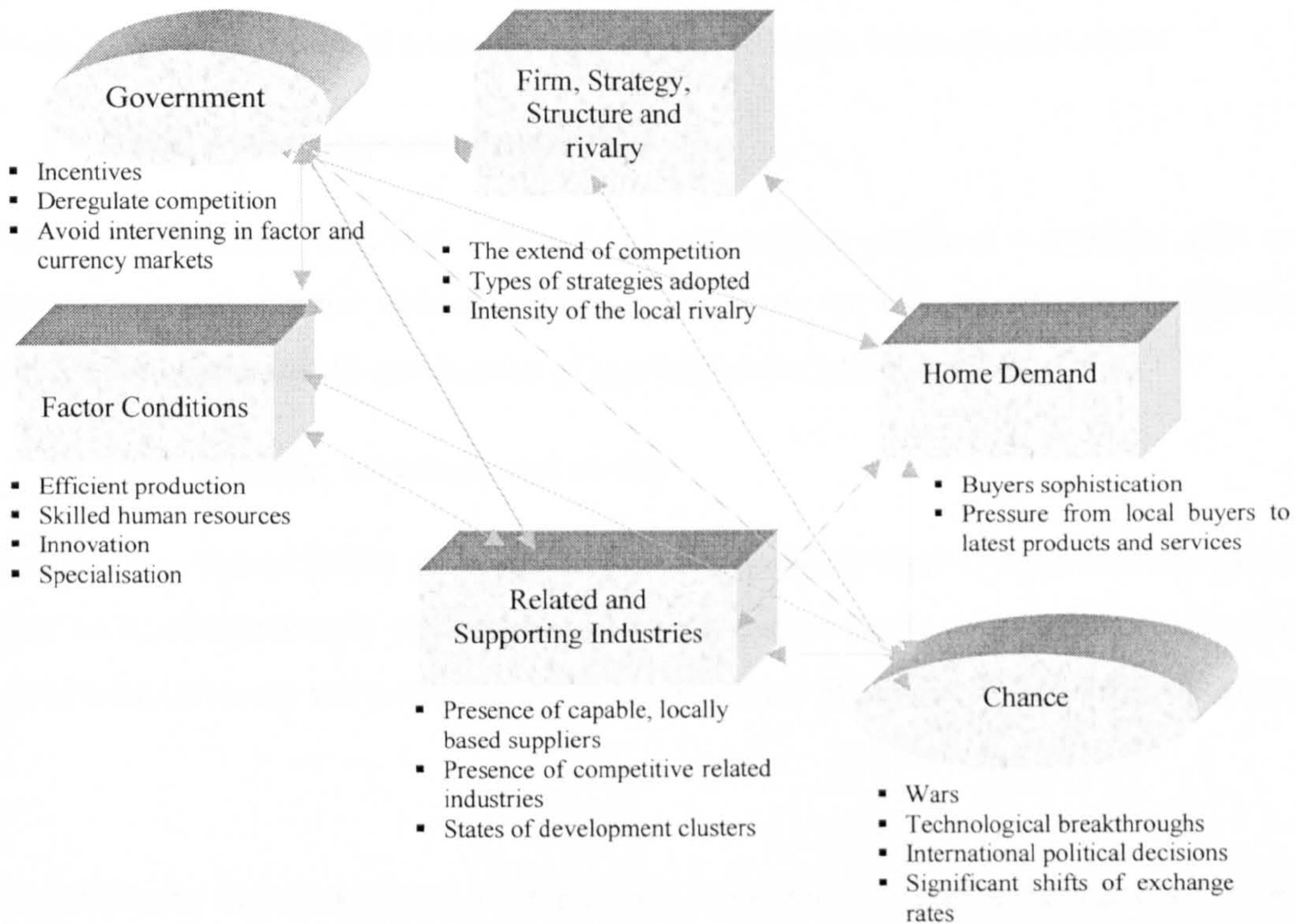
Source: Author

In terms of business and management-based research, as shown in Table 3.1., various studies have tried to draw conclusions and identify those factors that enterprises and countries have to focus on in order to increase the national competitiveness of their enterprises against their international competitors. Porter (1990) provided one of the most comprehensive descriptions of this concept in his book the *Competitive Advantage of the Nations*.

3.3.2.2. The contribution of Michael Porter to national competitiveness (Diamond model)

By investigating nations with widely varying features and conditions, Porter (1990) sought to separate the fundamental forces that underpin the competitive advantage of a nation. Therefore, he proposed a theoretical dynamic framework for the identification of nationwide factors. He included factor conditions, as most traditional theories did, but contradicted the prevailing thinking that labour costs, interest rates, exchange rates and economies of scale would be the most important determinants of competitiveness, arguing that a nation's competitiveness depended on the quality of the national environment in which firms compete and the capacity of the enterprise to innovate and upgrade. Hence, competitive advantage for Porter (1990) is the means by which firms achieve success. Thus the performance by firms can promote or impede the creation of national and competitive advantage. Porter (1990) suggested four broad and mutually reinforcing factors which create an environment that defines the context for a firm's growth, innovation and productivity. These factors, which Porter collectively called the "Diamond", are presented in figure 3.3 and are identified as: factor conditions, home demand, related and supporting industries, firm strategies, structure and rivalry, government and chance (Porter, 1990).

Figure 3. 3. Porter's Diamond Paradigm (sources of national competitive advantage)



Source: Adapted of Porter, M. (1990). *The competitive Advantage of Nations*, London: MacMillan Press, p.127

A. Factor conditions

In contrast to the classical theory viewpoints, in Porter's theory the factor conditions are created by a nation and are not inherent. According to him, it is not of outstanding significance which factors of production a nation already inherits and is relatively well endowed with, but which factors of production it can create. Moreover, the factors created are given through factor endowments, such as production efficiency, skilled human resources, innovation and specialisation (see Figure 3.3 above).

B. Demand conditions

Porter postulated that a nation's firms gain competitive advantage when domestic customers are sophisticated and demanding. This contradicts the idea put forward by Thurow (1985) that

for the domestic economy to succeed in terms of productivity it must first compete in the global economy. Furthermore, the general idea that the globalisation of competition would diminish the importance of home demand seems incorrect within Porter's view.

C. Related and supporting industries

Porter (1990) stated that with international competitive suppliers companies gain access to speedy and cost-effective delivery of inputs. Moreover, on the other hand, successful national enterprises encourage the production of special products and services.

D. Firm strategy, structure and rivalry

According to Porter (1990) the more intense the domestic rivalry, the greater the potential for firms to be internationally competitive. It forces companies to move beyond basic advantages of the home country and pushes companies to increase efficiency, to innovate, to upgrade.

In addition to these four areas, Porter (1990) suggested two additional variables, which could influence the national system:

- **Chance**, which consists of events that are outside the control of firms, for example wars, inventions, dramatic shift in foreign market demand and so on.
- **Government**, which according to Porter plays an important role in the business environment, both directly and indirectly.

In summing up, each of these determinants and outside forces creates the context in which a nation's firms are born and compete. The effect of one determinant often depends on the state of the others. Nations are most likely to succeed in industries or industry segments where the national diamond is most favourable. It depends only on the enterprises themselves whether they are able profit from their environment and profit from competitive advantage.

It should be noted that Porter's model has been the object of much critical analysis (O'Donnel, 1998; Lall, 2001 and Moon and Lee, 2004). Critics, such as Downes (1997) and Grant (1991),

among many others, pointed out that the economic conditions have changed significantly since Porter's publication of the Diamond (Recklies, 2001, counter-argued this view). Furthermore, according to some authors, Porter's model is incomplete, in that it underestimates the significance of the globalisation of production and markets for the competitive advantage of the nations (Dunning, 1993b). According to others authors, such as D'Cruz and Rugman (1993) Moon et al. (1998), and Rugman and Verbeke (1993, 1998), Porter's Diamond is somewhat ambiguous in explaining the utilisation of multinational activity among nations to enhance their competitiveness. This was explored by D'Cruz and Rugman's (1993) research on competitiveness applied to the Canadian experience and also by Moon, Rugman and Verbeke (1995). To overcome such criticism, these authors, giving the example of Canada's competitiveness, provided an extension to the single Diamond model, the generalised Double Diamond model, in order to include a multinational activity as an endogenous variable rather than an exogenous variable (Moon, Rugman and Verbeke, 1995, 1998). In a 'double Diamond' model the competitiveness of smaller nations would be determined by the dynamic interplay of the home country diamond and the international diamond. In addition, in the view of some of these authors, Porter can be criticised and some of the main ones are summarised below:

1. Porter does not offer any empirical or statistical evidence to support his theories, as his work is based on case-studies;
2. He focuses strongly on developed countries; and lastly
3. He may underestimate the influence of global rivalry on current world markets.

Nonetheless, and in spite of some critics, from a survey of the literature, it is evident that the Diamond model has been widely recognised and extended, by several authors, for its contribution to international trade, competition and business strategy analysis, and, as a consequence the economic development of the nation (Day and Wensley, 1988; Grant, 1991; Rugman, 1992; D'Cruz and Rugman, 1993; Dunning, 1993a, 1993b; Foss, 1996; O'Shaughnessy, 1996; Van Bosch and De Man, 1997; Goett, 1999 and Hodgetts, 1999, among a very extensive literature).

In terms of the tourism context, the Diamond model has been used by some authors as a theoretical framework to explain the competitiveness of a specific country or region. The study by Inman et al. (1998) regarding competitiveness and sustainable development in the Central American Region is an example of this. By using this model, the authors confronted each determinant of the model with the tourism of that region (see also Lyck, 2002).

When analysing the determinants of tourism competitiveness, a survey of the literature demonstrates that there are different approaches and determinants for measuring the competitiveness of a tourism destination (see for example, Crouch and Ritchie, 1999; Go and Govers, 2000; Dwyer et al, 2002 and Dwyer and Kim, 2003). Some studies emphasised that the resource based attributes of a destination, namely, climate, location, natural resources, tourism awareness among local citizens and culture, represent an advantage (Eccles, 1995, Hassan, 2000 and Crouch and Ritchie, 1999). Other studies such as Dwyer et al (2002) mention price competitiveness and exchange rates as key determinants of the competitiveness of tourism destinations. Following the same line of thought, Hassan (2000) presented four major determinants of market competitiveness as: (i) comparative advantage of both macro and micro factors that are critical to market competitiveness; (ii) the destination's ability to respond to changing nature of market demand; (iii) industry structure and (iv) the destination's commitment to the environment. Moreover, attributes such as: accessibility, land use requirements, environmental and carrying capacity constraints, infrastructures and labour availability, length of the working week and the flexibility of working time are also commonly mentioned (Go and Govers, 2000; Ritchie and Crouch, 2000; Dwyer et al, 2002; Durbarry and Sinclair, 2003).

Further analyses of measuring tourism competitiveness includes the study by Gooroochurn and Sugiyarto (2004) which, using the *Competitiveness Monitor*, produced by a collaborative work between WTTC and the Christel DeHann Tourism and Travel Research Institute, concluded that while tourism competitiveness of countries is multi-dimensional and difficult to define, eight main determinants can be identified for its measurement. They are price, technology, environment, social development, human resources, openness, infrastructure and human tourism indicator.

From the above, it is evident that there are a number of plausible determinants and models that can be used in analysing national competitiveness. Therefore, when carrying out a study the objectives should be clearly identified, as this is crucial to the quality of results (Calantone and Mazanec, 1991).

This study uses the Porter's Diamond model as the main analytical framework in reviewing how EMU impacts on the national business environment. The main reasons for this decision are presented at the Methodology chapter (Chapter 4, subsection 4.2).

However, according to Porter (1980, 1990, 1998), the competitiveness of a country depends ultimately on improving the 'microeconomic capability of the economy', which in turn is tested against the four determinants of the Porter's competitiveness model.

Therefore, the focus at this point is to review the concepts of Porter's Diamond model, in order to evaluate how the effects of EMU on factors included in Portuguese Tourism Diamond were perceived in the literature. This review, together with the previous PEST analysis presented in Chapter 2 (sub-section 2.4.3), will help to identify the main opportunities and threats brought about by EMU for the national environment of the tourism sector and, consequently, for the competitiveness of Portugal.

3.3.3. Portuguese Tourism Diamond and EMU

Using the methodology spearheaded by the work of Porter (1980, 1985, 1990, 1998) this subsection offers a concise explanation of the Portuguese Tourism Diamond and likely implications of EMU. This produces a foundation for the formulation of actions in the discussion chapter.

3.3.3.1. Factor conditions

The basic resources available for the growth of the tourism sector are related to natural resources, skills, capital and infrastructures.

Portugal has a wide range of natural resources in terms of landscape, gastronomy and perhaps most importantly a pleasant climate. This, together with 800 kilometres of coast, has contributed to the development of tourism in Portugal. The Algarve is Portugal's main destination, and its product is largely responsible for Portugal's tourism image 'Sun and Beach'.

In addition to these natural resources the three other important factors are: (DGT, 2004; Freire, 1999):

- (i) Human resources - there is a large availability of human resources in Portugal, but a great part of these people do not have the necessary skills.
- (ii) Infrastructure - in certain regions of Portugal there are inadequate infrastructures, despite improvements over recent years.
- (iii) Capital resources - there is an increasing interest of private capital in the tourism sector (e.g. SONAE, *Ferreira* and *Espirito Santo* group)

It is evident that natural resources cannot be influenced by the introduction of EMU. However, authors such as Wellink (2007) argued that the influence of EMU on other factor conditions are both indirect effects on infrastructure, knowledge and cultural resources and a direct effects on capital resources and human resources.

Academic commentators in favour of EMU expected improvements in the quality of these factors as a result of the effect of EMU upon the macroeconomic environment (e.g. Barbosa et al, 1999). In addition, authors such as Kenen (2003) stated that the amount of capital available to finance the industry could increase and its cost decrease after the completion of EMU. Finally, in the literature on the Euro, there are views that the human resources available could change because of the introduction of the Euro. Authors such as Pike and Barlow (1998) expected that the conversion of the wages of large numbers of workers to Euro's would be wage inflationary because of rounding differences alone. They called attention to the fact that management must be prepared for pressure to inflate wages when employees can easily compare wages in different countries.

3.3.3.2. Demand conditions

The tourists who visit Portugal mainly originate from five countries: Spain, United Kingdom, German, France and Netherlands DTG (2004). Spanish tourists represent almost half of the total tourists in Portugal and they stay just for a few days, with high levels of visitors spend. Most of these tourists are sensitive to price and in general are looking for sun and beach. In spite of the fact that since 1997 tourist arrivals have increased, Portuguese tourism demand is still characterised by a great concentration of tourists from these five countries (DGT, 2004).

According to the literature on the implications of EMU (e.g. Ratz and Hinek, 2005), the probability of domestic market pressure causing local firms to innovate would increase, as a consequence of the boost of competitors. This confirms the view of Porter in which he postulated that demanding buyers under a competitive environment force firms to meet high standards in terms of product quality, features, and service. According to Mussweiler and Strack (2004) rivalry would make home demand larger and more sophisticated.

3.3.3.3. Related and Supporting Industries

It is evident that the tourism sector is closely linked to a large variety of economic activities: construction and maintenance of basic infrastructures (e.g. road, airports, sewage systems and cultural facilities); the food and beverage industry, transport and commercial and other services. Freire (1999) gave the example of the increase of the cultural offer in the 1990s that has contributed to tourism development. However, in Portugal, there still appears to be weak co-operation and co-ordination between related sectors, despite some recent improvements (DGT, 2004). This suggests that other destinations, where tourism-related services have achieved a higher degree of co-operation, may pose a threat to Portugal.

In terms of the likely general effects of EMU on industries that relate to and support tourism, some researchers (e.g. Torres, 1998; Costa, 1999) were expecting constant pressure on suppliers (supporting industries) under conditions of increasing competition. In their view, the Euro could enhance the development of the competitive position of suppliers that innovate faster and achieve more sophisticated competitive advantage compared to their rivals. In

addition, the Euro may present an opportunity to find new suppliers in other EU countries, particularly when direct price comparison becomes easier and there is no longer a foreign exchange cost involved. In this way, potential competitive advantage in some supplier industries, as had been argued by Porter (1998), would also confer potential advantage on a nation's firms in many other industries, mainly because they produce inputs that are widely used to innovate or to internationalise. However, it should be noted that this depends of the ability of the enterprises to seize the opportunity.

3.3.3.4. Firm's Strategy, Structure and Rivalry

In terms of the firm's strategies, the tourism sector is still characterised by small units, acting in essence individually. The sector is very fragmented and there is a lack of tourism development strategies (DGT, 2004).

However, in the first years of the 21st century the tourism sector became a priority for public sector strategies in Portugal as part of its aim to reposition itself from a traditional 'sun and beach' destination to a destination characterised by diversity and quality (*Ministério da Economia*, 2005).

The National Tourism Strategic Plan for 2006-2015, presented by the Portuguese Government, aims to: reduce the high dependence upon a few markets; increase per capita tourist expenditure, improve seasonality, increase the skills of employees, increase the number of tourist arrivals, the length of stay and the number of return visits. (D.R. Lei n.º 52/2005, August, 31)

According to the literature on EMU, the goals, strategies and ways of organising and managing enterprises would be clearly affected by the introduction of the Euro. Researchers were expecting increased rivalry as consequence of the adoption of the Euro (e.g. Costa, 1999). As result, they believed that enterprises would push each other to lower costs, improve quality and service and create new products and services. Moreover, managers would attempt constantly to adapt and to benefit from their national environment and the Euro.

3.3.3.5. Government

A survey in the literature on the Euro (e.g. Goetz and Hix, 2001, Knill and Dirk, 2002 and Issing, 2006) showed that the channels through which EU influences national policies are many and varied. The EU laws, jurisprudence of European Court of Justice or economic integration (in particular, the adoption of the single monetary policy and SGP) are good examples which can affect in a different manner the national arena. Moreover, the link between EMU and national policies is obvious as demonstrated the following quotation of Trichet (2005):

“By entering the monetary union, individual countries renounce the possibilities of an independent monetary policy and variations in the nominal exchange rates within the area. This affects the ability of individual members to respond to economic shocks that are specific to individual countries or regions or that result in diverging developments.”

As result, several authors, such as Trichet (2005), argued that EMU, together with the Stability and Growth Pact, contributes to ensuring an appropriate policy mix within the Euro area and helps monitor macroeconomic and structural developments in the members' states. This in turn, according the same author could influence competitiveness in the Euro area.

Under this context, there were expectations that the Portuguese national policies will be affected by the European rules and policies, since Portugal is a member of the EU since 1986 and founder member of EMU.

3.3.3.6. Chance

Chance events are not influenced by the Euro. However, they can visibly affect the performance of the Euro and its general impacts and can allow shifts in competitive advantage in an industry. The influence of September 11 on the currency exchange was an example of this.

3.3.4. Key opportunities and threats to the national environment for SMTEs due the adoption of EMU

Up to now, several impacts of the introduction of EMU on the national business environment have been reviewed. The focus at this point is to review and summarise the opportunities and threats, identified in the literature, for firms as a consequence of the national business environment changing. The majority of them could be applied, with more or less intensity, to any businesses sector in general and every enterprise. Nevertheless, the purpose here is to review and underline the opportunities and threats to SMTEs.

3.3.4.1. Opportunities

A study of the impact of the Euro done by Lepecq (1999) demonstrated potential opportunities for the tourism sector. This view of these opportunities was shared by several studies of the Euro's influence (Shackleford, 1998; Cunha, 2003; Salomon 2003; Ratz and Hinek, 2005; WTO and official EU reports). Their main conclusions are summarised below.

Lepecq (1999) pointed out that the Euro boosts the tourism industry, arguing that the elimination of foreign exchange risk, cheaper cross-border transaction costs and the transparency of prices within the Euro zone all contribute to diminishing the cost of travelling and to the improvement of economic performance. According to his study, because tourists would no longer be burdened with exchange commissions and/or spreads between buying and selling rates, they would reinvest in the form of longer or more expensive travel. Moreover, tourists would not have to handle several currencies, which may facilitate their mobility within the Euro zone and, subsequently, an increasing demand for services. In addition, this author emphasised that a large Euro area would attract visitors from countries outside, who visit different countries during the same trip. Additionally, tourists would easily be able to compare price between countries representing an opportunity for competitive enterprises to achieve success. Enterprises could also benefit from price transparency by the identification of the most competitive suppliers of required inputs.

In addition other researchers, such as Rose (2000) and Micco et al. (2003), considered that EMU and the consequent, macroeconomic impact, would stimulate intra-European trade and cross border investment, which would increase business travel. These findings were also mentioned by a study conducted by the WTO concerning the Euro and tourism which also mentioned that, because the Euro allowed bank loans to be made at more attractive interest rates, there are new financing opportunities for enterprises (WTO, 1998a). Chatterjee (DG XXIII, 1998) also drew attention to the fact that the international recognition of Euro will attract additional external investments, which will benefit enterprises performance.

As result of these changes, the literature (e.g. WTO, 1998a; DG XXIII, 1998) stresses an expectation of additional sales of tourism services and products, increasing investment and competitive advantages. Some professional viewpoints published in the Portuguese literature (e.g. Costa, 1999; Torres, 1998 and Barbosa et al, 1999) showed that in general the majority of authors had recognised the potential opportunities of the Euro.

Costa (1999) and Torres (1998) have stated that as a consequence of the impacts of the Euro, which they explain as improvements in the macroeconomic environment and the consequent development of tourist activity, enterprises would have new opportunities to conquer additional markets, to easily invest and to increase their links with the exterior. They also argued that within the changing environment there is the opportunity for enterprises to re-organise their activities, permitting the delineation of new strategies and investments, improving the quality and optimising resources. In addition, these authors pointed out the potential merger and acquisition of enterprises as an opportunity for businesses.

A study conducted by Deloitte and Touche Consulting (1998) showed, however, that part of these opportunities, such as the increase of mergers and acquisitions or the internationalisation of enterprises, should not be exclusively associated with the adoption of the Euro, but also with the greater than ever liberalisation of markets and competitiveness. This study also added that most SMTEs were not prepared for this. According to the expectations of some Portuguese managers in the hospitality industry before the Euro, cited by Deloitte and Touche Consulting, the price transparency resulting from the Euro would permit enterprises to increase their margins, because in their opinion the prices of services practised in Portugal

were lower than other European countries. To take this opportunity they had argued that the enterprises should improve the relation between price and quality, which according to them was another opportunity for enterprises.

A review of the international literature revealed viewpoints of other professionals within the tourism sector: In Austria, Raffling (1998), Director of the Austrian Professional Hotel Association and representative of the International Hotel and Restaurant Association/Paris, argued that tourism enterprises would clearly benefit from the end of exchange rate variability and uncertainty. In Ireland, an article entitled Republic of Ireland – An important role for Tourism in EMU (Reuters Business Briefing, 1998) claimed that the Euro represented a great advantage for Ireland as a tourist destination, mainly because of decreased costs, simplification of international transactions, interest rates stability, etc. These advantages, he argued, represented opportunities for tourism development.

In Germany, Christian Ehlers, chief executive of the German Hotel and Restaurant Association, cited by Friedman (2001), saw the Euro as an enormous opportunity and powerful marketing tool, arguing cross-border price transparency after the introduction of the Euro help visitors discover new tourism destination, such as Germany. In Spain, according to the same source, Pedro Vegas, President of the Spanish Federation of Hotels, said that because consumers would not need to change their currency they will easily compare the prices, which encourages positively businesses. In France, Anne Robison, representing the International Hotel and Restaurant Association, based in Paris, stated that “there is no doubt that the arrival of the Euro will simplify a great deal of financial transactions for a company like Bass Hotel & Resorts, which operates in all of the 12 “Euro-land” countries” (International Hotel and Restaurant Association, 2001).

From the above, and literature in general, it was perceived that there was a consensus among a range of authors about the majority of opportunities of the Euro. This can be summarised in the following table (3.2).

Table 3. 2. Potential opportunities for tourism enterprises within external environment

Save on exchanges commissions and transaction costs, as consequence of price transparency and decreasing costs	Enlargement of domestic market as consequence of European economic integration process deeply
Increasing capacity of financing and investing resulting of benefits from economic environment business, namely, improved price stability, stable currency, lower inflation rate stability of exchange rate, and lower cost of capital/higher liquidity in capital markets.	Increasing demand of services, due effects of Euro upon consumers, who will no longer have to spend time in banks changing money nor pay the inevitable margins and commissions that foreign exchange entails and who can benefit of price transparency and simplicity
New potential markets, because Euro helps to promote the image of seamless European Tourist product and stimulates cross-frontier short breaks by residents of Euro area	Mergers and acquisitions as result of Macroeconomic environment

3.3.4.2. Threats

On the other hand, in a survey of the literature, some scepticism is evident concerning the effects of the Euro on SMTEs, which constitute over than 90 percent of the businesses in the tourism sector (EC, 2002b) According to authors, such as Torres (1998) and Cunha (2003), the enterprises need to be prepared for the changing environment. This requires a rapid reaction by the enterprises to achieve a successful changeover and embraces operational costs, including human and financial resources. Simultaneously, it requires high levels of information, action and the perception of managers that changes are needed. However, it is widely recognised that frequently SMTEs have some limitations in terms of human and financial resources and also that several times these enterprises operate with a short term perspective and do not have many plans and strategies.

Various senior figures in the tourism sector, participating at an international conference on the Euro organised by the EU (1999), said they expected different enterprises to have different attitudes towards the Euro during the changeover period, which would have consequences on the impact of the Euro. They pointed out that a significant number of SMEs could be faced with an additional constraint concerning the introduction of the Euro, as they anticipated that the managers would not know exactly how to react. As result, these enterprises would face additional threats (EC, 1999b). These views were also shared by a study published by the EC (2001, p.17), which concluded that the Euro *'is regarded as a minor concern [by SMEs] and generally arouses a feeling of indifference'*. According to the same study, almost one SME in three had not

realised that the 1st January 2002 would be the date of the changeover to Euro, revealing much indifference.

Moreover, research had estimated that the introduction of the single currency also meant that only businesses that were prepared could survive within an increasingly competitive environment, showing concern because in their view many SMEs had done surprisingly little to prepare for the Euro (e.g. HM Treasury, 1997; Jenkins, 2001; Whyman, 2002). As a result they concluded by warning businesses that inaction increases vulnerability, whilst preparedness maximises potential benefits (Whyman, 2002). Furthermore, as the price of services and of workforces has been more exposed within a context of a single currency, several authors stated that this could affect SMEs. For instance, the study by Deloitte and Touche Consulting (1998) suggested that, because Portugal was traditionally a country of low-priced workmanship, the Portuguese managers would witness constant pressures by the national unions (associations) in order to converge the salaries of their workforce to the European average. According to a person from the Tourism General-Directorate (*DGT*), cited by the study of WTO (1998a), Portugal would witness a higher cost-of-living as a result of joining the Euro and this would lead to increasing wage-costs in the country, affecting enterprises activities and decisions. It should be noticed, however, that there is no evidence in the early years of the Euro that this did happen in Portugal.

Moreover, according to Financial Times (FT, September 5 2001) the demise of the national currency presented companies with difficult pricing decisions and that rounding up could damage a company's reputation. At that time, this article expected that dual pricing would complicate all of this, namely over the first two months of 2002. Bieger and Laesser (1999) agreed that a number of pricing practices would become obsolete, namely those based on price-discrimination by national boundaries.

On the other hand, under an environment with fixed exchange rates process could not be stimulated by devaluation or valuation of the national currency in order to improve competitiveness, which could indirectly threaten the enterprises (Van Walleghen, 1998; Rátz and Pucskó, 1999). Additionally, if the Euro becomes too strong a currency, the enterprises of the Euro zone would not be able to use the value of the currency as a tool to compete with

countries, which have similar prices. Deloitte and Touche Consulting (1998) showed that the direct competitors for the Portuguese tourism products: ‘sun and beach’, namely Turkey, Morocco and Tunisia would retain the option of valuation and devaluation their currencies. It should be mentioned that for countries such as Portugal competitiveness in terms of price based on the value of the currency has been very important for enterprises. According to the Austrian General Director of Tourism (cited by WTO, 1998b) this would be, however, a good opportunity for countries like Austria, because it would represent the end of competitive devaluations by countries with weak currencies, which in the past had distorted the tourism sector at the expenses of countries with strong currencies. He added that countries such as Portugal would partly loose their competitiveness when adopting the Euro.

The single currency could well represent a loss of revenue streams, namely foreign exchange dealing profits and exchange commissions, putting pressure on profits. This was particularly important for the banks, but also for some tourism enterprises like small hotels, dependent on currency exchange as a contribution to their profitability. The loss of that source could just squeeze margins too tightly and force them to increase prices for some services as it is accepted that within the tourism sector there are many enterprises, predominantly SMEs, for which this is important (Van Walleghen, 1998). Finally, in the literature it is commonly mentioned that for the macroeconomic context under the Euro there was the risk of ‘outgoing’ countries namely from the north of Europe, concentrating their efforts on their viewpoints rather than on the needs of the receiving countries such as Portugal and Spain. Thus, enterprises based in those countries could be affected negatively (WTO, 1998b). The following table (3.3) summarises the main threats described above.

Table 3. 3. Threats of the Euro for SMTEs within the external environment

Increasing exposition of high prices, as consequence of price transparency	Imposition of the macro vision of the ‘outgoing’ countries to ‘ingoing’ countries
Transparency of workforce, and consequently increasing tension in order to salary harmonisation	Negative responding of consumers to Euro introduction or enterprises responses
“Euro-ready”, in September of 2001 according to a survey by EC Eurobarometer (2002) only 25% of small medium-size business claimed to be Euro ready.	Incapacity of using exchanges rates to improve competitiveness due the adoption of single monetary policy in the Euro zone
New challenges and requirements on competences and resources enterprises	Strong currency as inhibitor factor of overseas tourist fluxes

3.4. CONCEPTS RELATING TO THE INDUSTRY ENVIRONMENT

“The introduction of the Euro will doubtless leave its stamp on the development of tourism activity insofar as it is closely linked to economic activity in general”.
(World Tourism Organization, 1998)

A review of the literature showed that in addition to the macroeconomic impacts of EMU, there were several authors suggesting that EMU shapes the competitive position of enterprises, and tourism enterprises in particular (e.g. Shackelford, 1998; Torres, 1998 Socher, 1999; James, 2001 and Ratz and Hinek, 2005). Hence, complementing the ‘macroeconomic’ view of the preceding section, this section takes a ‘microeconomic’ view of the impact of EMU. The purpose is to review the perceptions of the ways EMU may affect the competitive dynamics of the hospitality industry in which hotel units operate.

To this end the section begins with a definition of the ‘industry environment’ concept and outlines an approach to the relationship between the industrial environment and a firm’s performance. Then, the key forces driving competition at the industry level are identified as well as are the most relevant models available for analysing the industry environment. The theoretical framework of Porter’s Five Forces competitive model is reviewed and applied to the research topic. In doing this, the section presents a new perspective of the implications of EMU on environment of the hotel industry, since it uses the various reviews of the implications of EMU on the competitive position of enterprises to illustrate how much EMU may shape the key competitive forces of the environment of the hotel industry.

3.4.1. The concept of industry environment applied to the hospitality industry

The industry ‘business’ environment, also called the *competitive environment* or the *microenvironment*, is defined by several authors, such as Evans et al (2003), Finlay (2000) and Johnson and Scholes (2001) among many others, as that which immediately surrounds a business and

influences the capability of an organisation to position itself to advantage over its competitors. These authors suggest that it includes the customers, suppliers and all the directly competing businesses that seek to satisfy very similar customers. Authors such as Besanko et al. (2000) have also argued that the industry environment refers to the market and the industry in which the enterprise operates. The *market* is the set of buyers and sellers whose interactions establish the price and quantity of the transacted good, whereas *industry* is the group of related economic activities classified according to the type of good or service supplied.

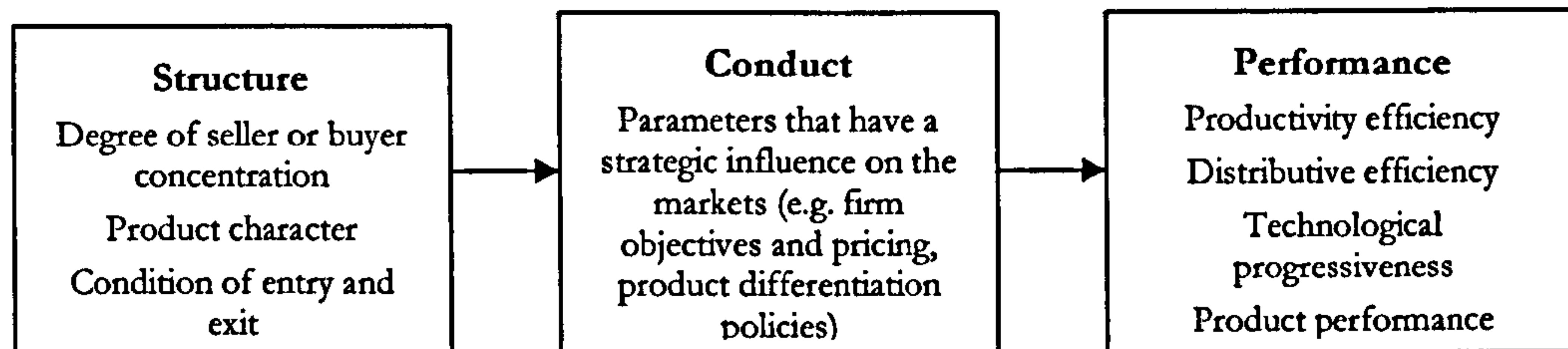
3.4.2. The relationship between the industry environment and a firm's performance

The relationship between the industry environment and a firm's performance is widely recognised within the literature on competitiveness and in the mainstream of management and strategy literature, where a set of theories and conceptual frameworks have been developed for understanding the relationship between a firm's environment, its behaviour and performance. A well-known model used to synthesise the relationship between industry environment and a firm's profitability is the *Structure - Conduct - Performance Model*.

Although the roots of this model can be traced to the 1930's, when a group of economists began developing an approach with which to describe conditions under which perfect competition in an industry would not be developed, it is only since the work of the economists from the *Organization of Industrial Economics*, Bain (1959) and Mason (1939), that this model began to be used as a way to describe the attributes of an industry that make it less than perfectly competitive, and thus help firms to find ways to achieve above normal economic performance. These authors developed the notion that the number of enterprises supplying the market could be used to demonstrate that the structure of the market had an important effect on the conduct of an enterprise and its performance. Moreover, instead of focusing on the internal role and functions of the firms to explain business performance, as suggested by traditional business policy scholarship, they suggested that the industry environment was so powerful and determining that it forces managers to act.

The essence of their paradigm is commonly represented in the following figure (3.4).

Figure 3 4. Market structure-conduct-performance model



In the above figure, it is suggested that a firm's performance in the marketplace is determined by the structure of the industry (e.g. number of competitors, heterogeneity of the product and cost of exit and entry) since it determines the behaviour or conduct of the firms (e.g. price taking, product differentiation policies).

There are a large number of authors and strategists using this approach to analyse the characteristic of the industry environment (e.g. Collins and Preston, 1969 and Scherer and Ross, 1990) This involves identifying the forces driving competition in order to take advantage of opportunities and overcome potential threats caused by the industry environment.

3.4.3. The forces driving competition at the industry level

From the above it is evident that the main elements of the industry environment are the suppliers, customers and competitors. They have been identified as determinants of the economic performance of an industry.

Traditionally, this question has been essentially addressed by economists according to the degree of competition that existed between the enterprises within the industry. By using the theories of market and competition, they linked the structure of the market to the behaviour and performance of its firms (see, Besanko et al (2000) for a further explanation of the theories of market structure and competition). The types of market (e.g. *perfect competition* (many small competitors), *oligopoly* (a few large competitors) and *monopoly* (one enterprise)) are argued to determine an enterprise's behaviour (e.g. prices, product differentiation, new brand, etc). This

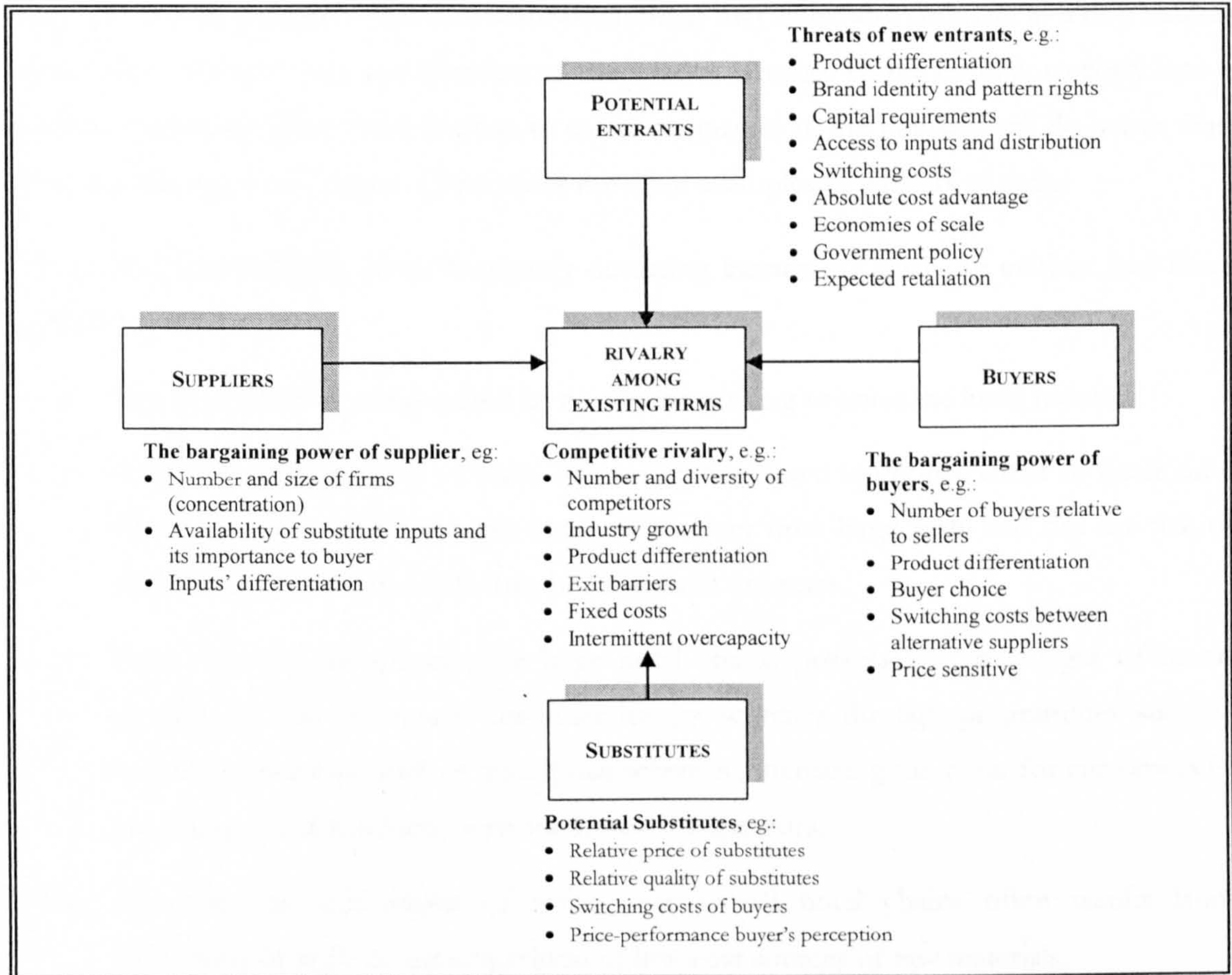
in turn has an important effect on the enterprise' performance (e.g. profits, efficiency and so on) and it will also affect other enterprises' performance, affecting in this way the whole industry performance. This is consistent with the S-C-P model mentioned above.

While the S-C-P approach has its supporters by far, the most common structural framework to analyse an industry environment owes its origins to Porter (1980). According to Porter's model of competitive analysis, the nature and intensity of competition within a market is broader than the concentration of sellers, the number of firms in a market, and profitability. Porter argued that competition within an industry depends upon the relative strength and interaction of five basic forces in an organisation's environment. The five forces are the risk of *new competitors* entering the industry, the threat of potential *substitutes*, the bargaining power of *buyers*, the bargaining power of *suppliers*, and degree of rivalry between the *existing competitors* (Porter, 1980).

Although, in some ways similar to the Bain/Mason S-C-P model, Porter recognised that these forces delimit prices and costs and establish the capacity of firms in an industry to earn, on average, rates of return on investments in excess of the cost of capital. He suggested, however, looking directly at industry structure when trying to explain a firm's performance, instead of studying 'structure' and 'conduct', as suggested by the S-C-P model, arguing 'that 'conduct' only reflected the environment.

The five competitive forces suggested by Porter are illustrated in Figure 3.5., which also indicates the basic principles of the model.

Figure 3 5. The Five forces Model of competition



Source: Based on Porter.1980. Competitive Strategy. Techniques for analysing industries and competitors. NY: First Free Press Edition, p.4

Each of the above forces, which Porter considered vary from industry to industry or even enterprise, is well described in many business and strategic books (e.g. Evans et al., 2003; Worthington and Britton, 2003). They are presented briefly below together with some examples from the hotel industry.

a) Potential Entrants

This force is determined by the ease with which firms may enter and compete in a new market or industry. This, in turn, is a function of the relative strength of the barriers to entry into a market. If there are substantial barriers to entry, companies in the industry will do better than if the barriers are weak. Figure 3.5 provides the main examples of barriers to entry.

Within the hotel industry some frequently occurring barriers to entry are evident and these include (Freire, 1999):

- The amount of capital required by a business wishing to enter the hotel industry.
- Existence of economies of scale. The enterprises have to choose either to enter on a small scale or accept high unit costs, or to enter on a large scale and run the risk of under-utilised capacity while they build up sales volumes.
- Brand identity. In general, the large hotel chains possess the advantages of brand recognition and encourage customer loyalty schemes through programmes such as ‘customer member card’ or ‘enterprise schemes’, increasing the costs for customers of switching to the products/services of new competitors.
- Absolute cost advantages of some international hotel chains often results from economies of scale or the acquisition of low-cost sources of raw materials.
- New hotels, which compete with well-established ones, may expect possible retaliation by established firms, such as price-cutting, increased advertising, or sales promotion.
- New competitors may find difficulties in accessing channels of distribution (such as international tour operators) and the necessary inputs already accessed by well-established hotels.
- Regulatory requirements and environmental and safety standards often put new entrants at a disadvantage to established firms, because compliance costs tend to weigh more heavily on newcomers. In Portugal for example, up to 2004, the legal requirements severely limited the entry of new hotels (the legal process was too long, in general more than three years). However, this barrier is to be removed, since the

Portuguese Government announced that it aims to reduce this period to a maximum of one year. (*Ministério da Economia*, 2005)

Conversely, there are some issues that are usually identified as opportunities for new entrants in the hotel industry:

- There are a large number of SMTEs, and, bearing that in mind, as Bastakis et al. (2004) noticed, SMTEs share not only certain and functional weaknesses that handicap their operation and standard of services offered, but sometimes also have a lack of strategic vision, and larger enterprises may benefit from this.
- In many cases, hotel customers are driven by price and exhibit little brand loyalty, meaning that new hotels have chances to conquer their clients (*DGT*, 2003).

b) The threat of potential substitutes

In terms of the threat of potential substitutes, it depends on the ease with which customers, existing suppliers and potential newcomers can identify substitute products or services. If customers have numerous alternatives to choose from, the industry's profitability decreases. This force is also determined by such factors as the buyers' propensity to substitute between the products/services on offer, which in turn is related to: the relative price of existing and substitute products, the relative price-performance perception held by consumers and the relative cost and perceived risk involved in switching between the existing and substitute products or services Porter (1980).

Hotels, for example, are facing consumers who have a great variety of choice of similar products as a consequence of a variety of factors, such as the globalisation of the economy, the emergence of new tourism destinations and the emergence of alternative accommodation choices. This is reinforced by a lack of product or service differentiation within the industry. Nevertheless, it should be mentioned that these factors could differ significantly according to the hotel's location.

c) The bargaining power of buyers

The bargaining power of buyers also has an impact on an industry. Porter (1980) suggested that buyer power influences the price that firms can charge, cost and investment, because powerful buyers demand costly service.

Within the hotel industry, as Evans et al. (2003) summarised the relative power of buyers is characterised in many cases by such factors as:

- As within the majority of the industries, the individual customers have limited bargaining power over the prices, while customers who buy on mass may have significant power. As Evans et al. (2003) exemplified, tour operators are able to exert far greater forces on hotels than can individual consumers.
- Lack of product differentiation in the hotel industry. Therefore, buyer power tends to increase, since they have a wide choice of suppliers offering similar products.
- There are no costs in switching to substitute products, which makes the buyer more powerful.
- Over recent years there has been a significant increase of buyer knowledge about prices and services in great part through the use of the Internet. Nonetheless, in some cases the individual buyer still lacks full information about the product or service. Furthermore, in some countries (such as Portugal) there are a considerable number of buyers who do not as yet use the Internet.

d) The bargaining power of suppliers

The bargaining power of suppliers determines the costs of inputs (resources) - human, financial, operational and physical – that enterprises need to carry out their activities. It describes the effects that suppliers have on the profitability of the enterprises. As Porter stated

if the force is weak, the enterprises may be able to negotiate a favourable business deal. Conversely, if the force is strong, the enterprise is in a weak position and may have to pay a higher price or provide a lower level of quality or service.

As stated in Figure 3.5, there are major factors that determine the strength or weakness of suppliers. In the case of the hotel industry, in general the bargaining power of suppliers can be regarded as relatively weak for the following reasons:

- For the majority of resources there are many enterprises supplying similar resources (e.g. companies of beverage and food, amenities, furniture and so on). Therefore, there are substitutes available for the majority of inputs.
- The market is dominated by a fragmented source of suppliers and small enterprises.
- The costs of switching from one supplier to another are low.
- Some products, such as food, are perishable and need to be sold quickly.

In regard to suppliers of labour, there is in general a lack of qualified people available to work in the hotel industry while there are large numbers of unskilled people available to work. As result, some enterprises do not pay high salaries to skilled workers rather they employ unskilled workers at a lower salary.

e) The degree of rivalry between the existing competitors

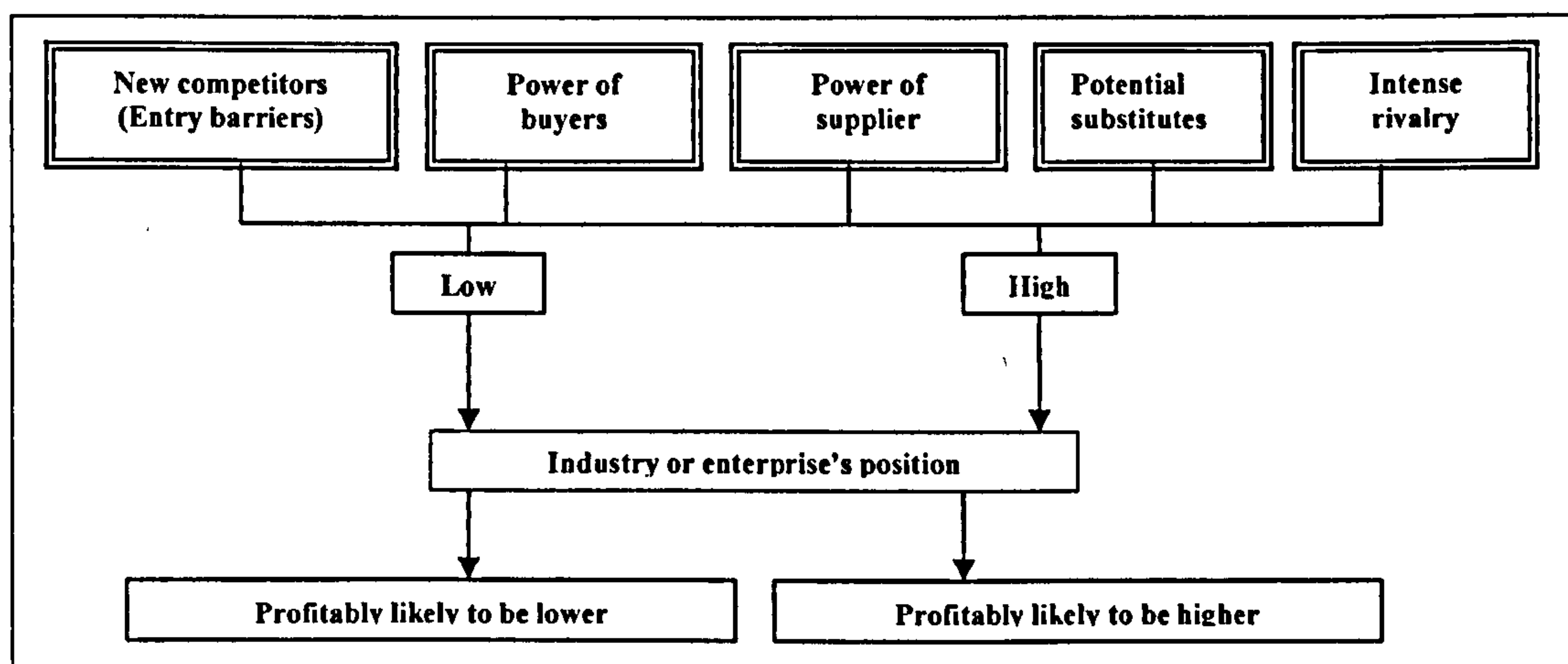
The fifth force identified by Porter (1980) is the degree of rivalry between the existing competitors. The more intense the rivalry, the more difficult it is to compete in an industry. As Porter (1980) stated, high competitive pressures result in pressure on prices, margins and on profitability for every single unit in the industry.

As recognised by several authors (e.g. Evans et al, 2003 and Tribe, 1999), rivalry has been intense for the enterprises of the tourism sector. Hotel units are no exception and have been facing a high degree of rivalry, as summarised below.

- A fragmented industry with a large number of organisations of a similar size (small and medium size) tends to be very competitive;
- In general product differentiation is weak;
- The product/service is perishable and there is a high level of fixed costs. As Evans et al. (2003) wrote, an economic slowdown, for example, severely affects occupancy rates and leads to heavy discounting of room rates,
- There is little brand loyalty of customers.

In summing up, Porter's model of five competitive forces includes supply and demand, complementary products and substitutes, the relationship between volume of production and cost of production and market structures. The model linked a number of structural characteristics of industry that indicate intense competition and states that competitiveness should not be evaluated just in terms of existing rivals in a given industry. Therefore, the relationship between an industry or enterprise's position and its potential effect on profits depends on the five forces. This relationship is summarised in the following figure 3.6.

Figure 3 6. Relationship between competitive forces and industry's or enterprise's position according to the Five Forces Model



As shown in the figure above 3. 6. Porter's framework has similarities with the S-C-P model. Both models from *Industrial Economics Organisation School* state that once the nature and strength of industry structure is understood, firms could adopt a specific behaviour, through their strategies, and influence their performance. Nonetheless, Porter's 5 forces model focused on the industry structure, by using five key competitive forces and suggesting that firms could influence each of the five forces.

Consequently the conceptual framework of 5 forces has been considered by numerous authors as a comprehensive framework to analyse the industry environment. Mathews (1999), for example, wrote that part of Porter's achievement lay in synthesising so much of the earlier strategic, economic and industrial organisation approaches. In the view of other authors, such as Lynch (2003), Porter's model provides a very useful starting point in the analysis of the environment.

Furthermore, the model has been used and applied by an extensive list of authors. In terms of tourism sector, a number of authors can be mentioned. For example, Dale (2000) applied and extended Porter's five forces to the context of the United Kingdom tour operating industry. Gratzner and Winiwarter (2003) used the 5 forces to evaluate opportunities and threats caused by the Internet on the SME hotel sector in Austria. Evans et al (2003) applied the 5 forces model to the context of the European airline industry. Tribe (1997) applied the 5 forces to the case study of the US airline industry. To study the competitive advantage of hotel firms, Kim and Oh (2004) offered an integrated approach, which incorporated the five forces model and two additional models: the resource-based approach and the relational approach. Their purpose was to strengthen the strategic management process in the lodging industry and help managers to understand how competitive advantage could be achieved in different ways.

It should be made clear nonetheless that, in spite of the widely-recognised contribution of Porter's five forces model, several limitations of his model have been pointed out in the literature. For instance, authors such as Besanko et al. (2000) suggested that:

- The model pays limited attention to specific factors that may also affect demand such as consumer income, tastes, and a firms strategies for boosting demand;

- It concentrates on a whole industry;
- The role of government as a regulator is underestimated and,
- The five forces model is qualitative, which may result in some limitations.

Hassan (2000) claimed that Porter has limited the focus of the analysis to the factors associated with rivalry among firms within a given industry or country which, in turn, limits the analysis to historic, predetermined performance indicators such as market share, market growth, and gross domestic product. Downes (1997) argued that Porter's assumptions are no longer viable and suggested three new forces that require a new strategic framework and a set of alternative tools: digitalisation, globalisation and deregulation. He believed that in this way a more dynamic, unstable and complex framework is provided.

Authors such as Lynch (2003) and Thurlby (1998) commented that the analytical framework of Porter is static, whereas the competitive environment in practice is constantly changing. Nonetheless, they recognised that Porter's model provides a very useful starting point in the analysis of the environment, because of the issues it focus on in a coherent and structured framework. However, Thurlby (1998), using the example of the electricity sector as a case study, suggested six alternative forces to the Porter model: regulation (e.g. political philosophy, competition and environmental policy); new entrants; customer expectations; improved digital information; synergistic alliances (e.g. core competence of collaborators) and organisation reinvention (e.g. capability to react, competitive culture). Authors such as Brandenburger and Nalebuff (1996) observed that there is no room in Porter's framework for firms seeking to form long-term alliances with their customers, their suppliers or their rivals, since Porter has a tendency to consider all other firms as threats to success. These authors introduced the concept of 'value net', which includes suppliers, distributors and competitors as a counterpart of the five forces. By exploring both the relationship of competition and cooperation, they believed that a firm's success also depends on how others react to the firm's moves, and how others think firms will react to theirs.

3.4.4. Review of the influence of EMU upon the hotel industry environment, by using Porter's five competitive forces

From a review of the literature on the implications of EMU, emerges the idea that EMU was one of the expected driving forces of the competitive position of the tourism industry. As many authors have claimed EMU is likely to lead to higher competitiveness and more market-driven prices within the Euro zone (Torres, 1998, WTO, 1998a, Piggott and Cook, 1999). Therefore, in order to review how EMU can influence competitive rivalry within the industry, this study discusses and applies Porter's competitive forces to the context of the tourism industry following the introduction of EMU. The main reasons for using this model are explained in the research methodology chapter (Chapter 4 subsection 4.2).

(i) The risk of *new competitors* entering the industry

In the context of the Euro, the majority of studies (e.g. Johnson and Turner, 2000; Whyman, 2002) forecast that there would be an increase of new competitors as result of the introduction of the Euro. Equally many authors (e.g. Torres, 1998; Trichet, 2005 and WTO, 1998a) expected that stronger competition within the context of a single currency and common market would attract non-European companies and encourage firms to grow outside their national borders. The WTO (1998a) and Costa (1999), for example, believed that since the Euro had an important effect in the accelerated process of globalisation, it would increase the phenomenon of internationalisation of the enterprises.

Meanwhile, other findings (e.g. Ratz and Hinek, 2005) suggested that the obstacles in the way of potential newcomers to a market tend to decrease as a consequence of the deepening and enlargement of the European integration process due to the macroeconomic environment brought about by Euro. For example, as already discussed, the macroeconomic effects of the Euro showed that the cost of capital has been lower since the introduction of the Euro. In terms of competition analysis, authors such as Walter (1999) suggested that this, together with the new financing opportunities brought about by the increase in the intensity of bank activity, also a consequence of greater competition, could result in new investment and, consequently,

new competitive positions. Additionally, factors such as changes in distribution channels and new sources of suppliers could attract new enterprises. Moreover, new opportunities for increased economies of scale by offering single products in the EMU zone could invite new competitors to operate. Piggott and Cook (1999) stated that if the Euro works as is envisaged, then European business would benefit from economies of scale. Thus, new competitors profiting from an enlarged home market would shortly arrive. Similarly, Gill and Ducan (2001) stated that several small to medium European enterprises would see the market as an opportunity to grow their business, which they had not considered before the launch of the Euro. This could lead to new entrants from Europe starting up business in a specific sector and becoming a serious threat to the continued success of some business.

According to Fitzgerald (1999), Chairman of Unilever PLC, firms in general would seek to rationalise their European operations still further. Increased competition and consolidation driven by the Euro may force SMEs to consider co-operation in order to achieve scale and expand markets or simply to attempt to survive in a worldwide highly competitive market. He said that observers would witness more and more European mergers, acquisitions and joint ventures, as competition drives consolidation, and national players seek a pan-European reach. Nonetheless, previous data from the WTO (1998a) showed that before the introduction of the Euro mergers and acquisitions were already a reality in the tourism sector. At this point, it should be noted that other forms of economic integration, such as the single market, have been important in this respect.

As a final note, a study by Deloitte and Touche Consulting (1998) suggested a further reason for a threat from *new competitors*: similar products or services offered within countries that benefit from different exchange rates policies. According to this view, new competitors may appear within non-European countries, which may offer similar products or services and still use the exchange rates as a tool to make compensating productivity gains. Bywater (1997) also argued that since the Euro countries could not devalue their currency, they would become less competitive. He explained that a strong currency within the Euro zone could reinforce the competitive position of enterprises based in non-Euro countries such as Tunisia and Turkey, which still have weak currencies. In his view, this would particularly affect the enterprises based in the southern European countries, where monetary policy was frequently used as a

tool to improve competitiveness. A similar conclusion was presented by Deloitte and Touche Consulting (1998). Nonetheless, in this study the authors argued that the main beneficiary would be the European countries from the north. The study highlighted that in the tourism industry the majority of enterprises in the south of Europe benefited from exchange rate policies in order to increase their competitive position in respect of other enterprises based in the northern region of the Euro zone. Therefore, for those enterprises, with the end of exchange rates, the northern enterprises also could become the *new competitors*.

(ii) The threat of potential *substitutes*

The literature suggests that, in the same way as new competitors could appear, substitute product or services, which enterprises had not considered to be a threat to them in the past, may be introduced into their market after the introduction of the Euro. As discussed by authors such as James (2001) and Mussweiler and Strack, (2004) within the context of a single currency, customers could easily compare prices and find close substitutes, forcing enterprises to lower prices or offer differentiated products or services.

The effects of price-changes on customers are evident in the majority of analyses of business strategy. Authors such as Thompson (2001) mentioned that price-changes of a specific product or service initiated by any firm may lead to an increase or decrease of demand for a particular brand or service. As a result, firms would seek to establish clear product differentiation with the purpose of creating customer preference and fidelity, thus making their product or service less price sensitive.

(iii) The bargaining power of *buyers*

According to authors such as Gill and Duncan (2001), increased buyer power was likely to be one of the most important aspects resulting from the introduction of the Euro. Buyers in most cases would have more choice in their purchase decisions. It would become easier for them to compare prices and decide what provides the best value. Gill and Duncan (2001), for example,

stated that retailers would seize the opportunity to pressurise suppliers to optimise product assortment and the launching of new products and increased product innovation would feature in negotiations. Moreover, as a result of an expected increase in rivalry between suppliers some authors, such as Ratz and Hinek (2005), suggested there would be a reinforcement of buyer power. In the case of the tourism industry, this power may be further increased because, in general, there are alternative sources of supply and the supply industry comprised a large number of small operators.

Another aspect frequently pointed out in the literature, as an important issue for the bargaining power of buyers is the level of buyer knowledge (see, Tribe, 1999). Nonetheless, the literature on EMU suggested that in the early years of the introduction of EMU the level of customer education and understanding about the Euro was very low (EU, 2000). Thus, expectations, at the start of EMU, were that in the short term the Euro could have a negative effect on the power of bargaining. It should be noticed, that within the tourism industry, the power of a buyer is also affected by the need for extra knowledge. In some areas of the tourism industry, customers do not always have full information. As Tribe (1999) exemplified, for instance, when booking a hotel room, the buyer has no information regarding the room's characteristics.

(iv) The bargaining power of *suppliers*

As pointed out previously, the single currency is increasing price transparency throughout the Euro zone countries, enabling buyers to easily compare price across national borders. Some evidence suggests that there are significant disparities in net prices between suppliers in different countries that are sufficient to induce purchasers to change suppliers. In fact, in this context, commentators such as Gill and Duncan (2001) argued that suppliers would no longer be able to maintain price differentials between the Euro countries. Firms would be able to compete on a more equal footing. In fact, firms previously protected from cross border competition would find themselves increasingly exposed. This, in turn, would imply new decisions about products, prices and packaging, affecting supply chains. As already mentioned, certain suppliers may decide to reduce their prices in order to preserve their market share. Gill and Duncan (2001) suggested that in order to face new competitors, the suppliers would also

decide to differentiate their products or services. On the other hand, the enterprises would have freer access to new purchasers across Europe who would not have been considered before, which by itself could represent an opportunity for suppliers. Gill and Duncan (2001) further argued that the Euro could increase the sources of suppliers, because low cost sourcing opportunities would become readily apparent. Moreover, there would be a whole new range of suppliers available to European companies which may not have been considered in past. This, in turn, has effects on the power of suppliers, which also varies according to the concentration of the supplier. As Porter (1999) highlighted supplier power is likely to be high when there is a concentration of suppliers rather than a fragmented source of supply.

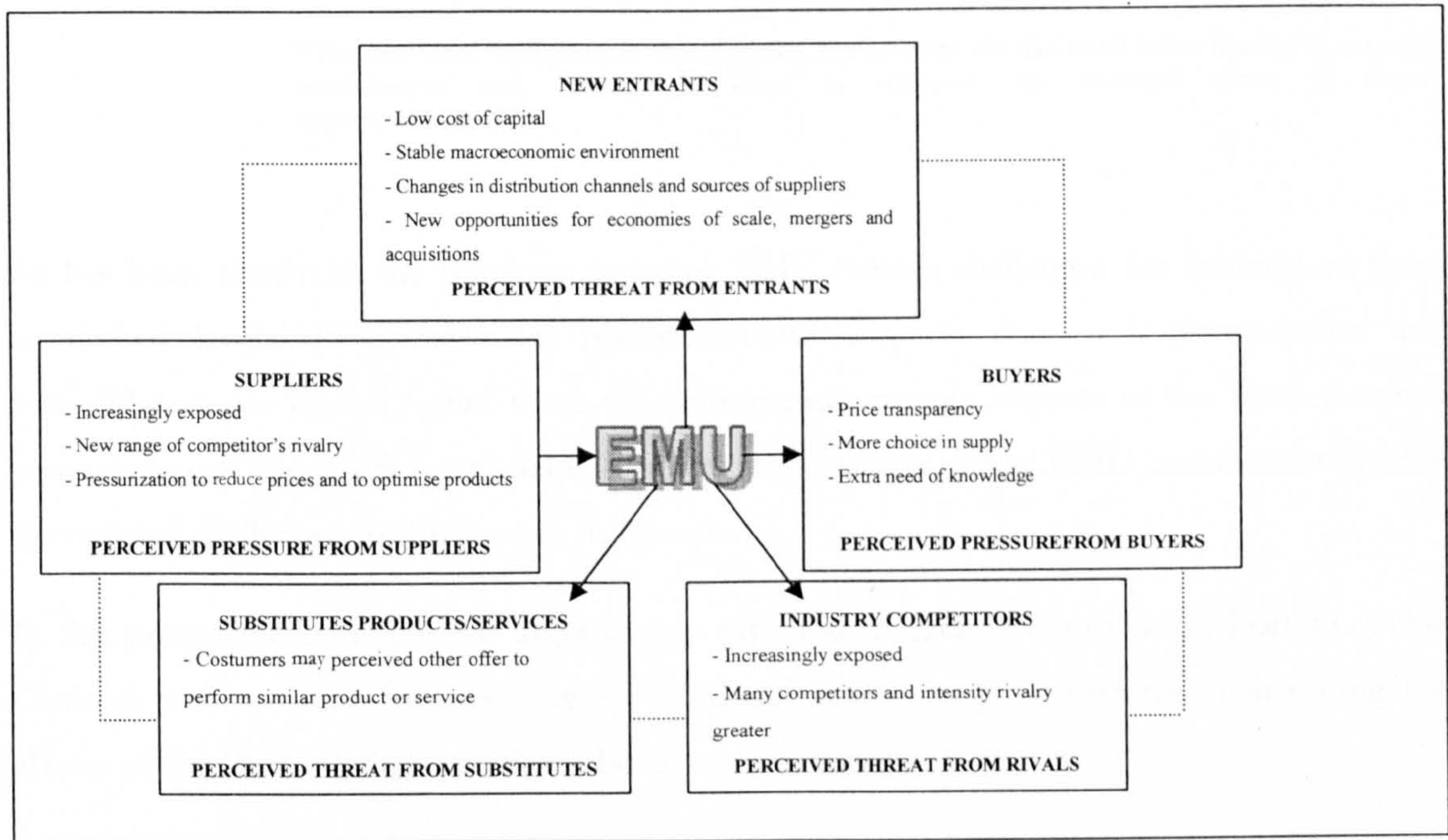
In this regard Blevins (2000) pointed out that it is extremely difficult to know how much difference the Euro made in respect of the replacement of national by international suppliers as consequence of price transparency. He argued that translating a single currency had never been particularly difficult, adding factors such as after sale support quality of guarantee and legal concerns or even language as some reasons to remain buying from domestic suppliers even given price transparency.

(v) The degree of rivalry between the *existing competitors*

According to some authors, such as James (2001), the competitive nature of the market in which businesses operate is likely to be changed by the introduction of the Euro. Under this approach, the way enterprises react to the introduction of the Euro in relation to product, price, packing, distribution, accounting and service would have a great impact. For example, within the context of the Euro, new competitors could stimulate more price competition or more investment in product differentiation. Additionally, because in the Euro context the number of competitors would increase, the intensity of rivalry between the existing competitors would become stronger. This in turn leads to increased competition and possibly reduced profits.

In conclusion, the following figure 3.7 illustrates a summary of the effects of the Euro on five forces model:

Figure 3.7. The effects of the introduction of EMU on Porter’s Five Forces model based on the literature review



Summing up, the literature reviewed suggests that EMU would affect the relative strengths of all the five forces impinging on the competitive business environment. As a result, according to the literature, EMU could affect the state of competitors and, consequently, the ultimate profit potential within an industry.

3.5. CONCEPTS RELATING TO THE OPERATIONAL BUSINESS ENVIRONMENT AND THE INFLUENCE OF EMU

“The individual businesses in the operating environment are like small boats floating in a remote environment ‘sea’, having to adapt to whatever the elements throw at them.”
(Finlay, 2000, p 195)

As has been shown in the previous sections, EMU creates challenges for business at three interlinked levels. *First*, there are macroeconomic impacts due to implementation and consolidation for EMU. *Second*, there are widespread strategic impacts as the Euro presents new sources of competition and helps to restructure markets. *Third*, EMU creates considerable operational challenges for businesses in Europe.

In the present section this last argument is explored in greater depth using Porter’s Value Chain as a framework for analysing the academic and managerial literature concerning the effects of the Euro on the operational business environment.

The section looks firstly and briefly at the basic concepts of the operational environment before considering the notion of the value chain and the implications of the adoption of the Euro on the operational business operations. The advantage of using this model is that it provides a simple but, nonetheless, powerful organisational framework for explaining an organisation’s operational environment and for reviewing what the effects of the Euro may be for this operational environment. Then, ideas of the opportunities and threats to business brought about by the Euro are reviewed in order to identify the key strengths and weaknesses of SMTEs in responding to the challenges the introduction of the Euro represents. This leads to suggestions as to why some organisations may succeed in the context of the Euro, while others may not.

3.5.1. The concept of operational business environment

Grant (2002) observed that the operational environment concept (sometimes also called ‘operating’ or ‘task’ environment) embraces many features of the firm, namely its: resources; organisational structure; systems of information; communication; reward, and control; style of management, values and traditions.

Horner and Swarbrooke (1996) included this concept in the broader microenvironment notion, which according to them consists of those factors that are capable of being either controlled or influenced by the organisation.

Authors such as Brooks and Weatherston (2000), Grant (2002), Johnson and Scholes (2001), Smith (1985) and Thompson (2001) and Worthington and Cumberpatch (in Worthington and Britton, 2003) suggested that the concept of the operational business environment includes, as key factors, the organisation’s structure and functions and the way these are configured in pursuit of specific organisational objectives.

Most authors (e.g. Johnson and Scholes, 1999 and Brooks and Weatherston, 2000) with an interest in strategy share the view that the concept of the firm’s operational environment is closely associated with the resources and capabilities of the firm to respond to possible changes in the external and competitive environment. They suggest that some enterprises are noticeably more able to cope with new challenges than others, due to their resources and competences. Thus, differences in performance in terms of competitive results depend on a firm’s resources and competences.

3.5.1.1. The firm’s resources

Authors including Johnson and Scholes (2001) grouped the resources of the organisation under four headings: physical resources, human resources, financial resources and intangibles, while Thompson (2001) considered just three major functional areas of the business: human, financial and physical resources. According to him these areas could include finance, production, marketing, research and development, procurement, personnel and administration.

On the other hand, there are authors such as Grant (2002) who argued that technological resources should also be included as a key resource. Each of these resources is explained below.

Human resources - These include, first of all, the number and types of different skilled workers within an organisation. But, it also includes other factors that employees offer to the firm such as their qualification, knowledge, and reasoning and decision-making abilities. According to Grant (2002) the key indicators of human resources are: educational, technical, professional qualification of employees and pays rates relative to the industry average.

Physical resources - These encompass the number of machines, land and buildings or the production capacity. Under this topic factors such as the equipments, size, location, sophistication, and flexibility of each resource is important.

Financial resources - These comprise the firm's borrowing capacity and its internal fund generation. Managing cash and managing relationships with suppliers of money (debtors and creditors) are also factors outlined by Johnson and Scholes (2001) as key indicators of financial resources.

Technological resources - Grant (2002) summarised the key types of these kinds of resources as the number and significance of patents, revenue from patent licenses, R and D staff as percentage of total employment.

Intangible resources – Johnson and Scholes (2001) drew attention to the importance of these resources, which they considered valuable since, as they said when businesses are sold, part of the businesses value is 'goodwill'. In this, connection Dobson, Starkey and Richards (2004) argued that the intangible resources are significant for firms in the service sector, where value depends on 'goodwill' coming from brand names, reputation, and so on.

3.5.1.2. The firm's competences

Authors such as Grant (2002) and Besanko et al. (2000) have suggested the term firm's competences or capabilities to refer to an organisation's capacity for undertaking specific activities more successfully than its competitors.

Dobson, Starkey and Richards (2004) demonstrated that the competence of any organisation is essentially defined by how well it links together its various activities, such as designing, marketing, delivering and supporting its products and services. In fact, according to these authors, the capability of the organisation depends on the quality or coordination across the various and diverse activities involved in the process of converting inputs to outputs. Similarly, Passmemard and Kleiner (2000) stated that the evolution of competitive advantage depends on the way the firms manages their activities.

Both of the concepts mentioned above - firm's resources and firm's competences - have been commonly considered, as the key issues which can give an enterprise real competitive advantage. In this regard, the literature on business and strategy has called attention to the importance of analysing both concepts with a view to determining the capacity of the firm to respond to any changing environment (e.g. Tribe, 1997, Middleton, 2001 and Kotler et al., 2005).

3.5.2. Porter's value chain approach and competition at the level of the firm

The analysis of a firm's competences is frequently linked with the value chain model, suggested by Porter in 1985. The "value chain" is based on a process view of the organisation: a system made up of interrelated subsystems each with inputs, transformation processes and outputs. The aim was to provide "a systematic way of examining all the activities a firm performs and how they interact" with one another.

The model has subsequently become a common tool of many analyses of competitiveness of a firm in a given industry (e.g., Porter and Millar, 1985; Poon, 1998 and Johnson and Scholes, 1999).

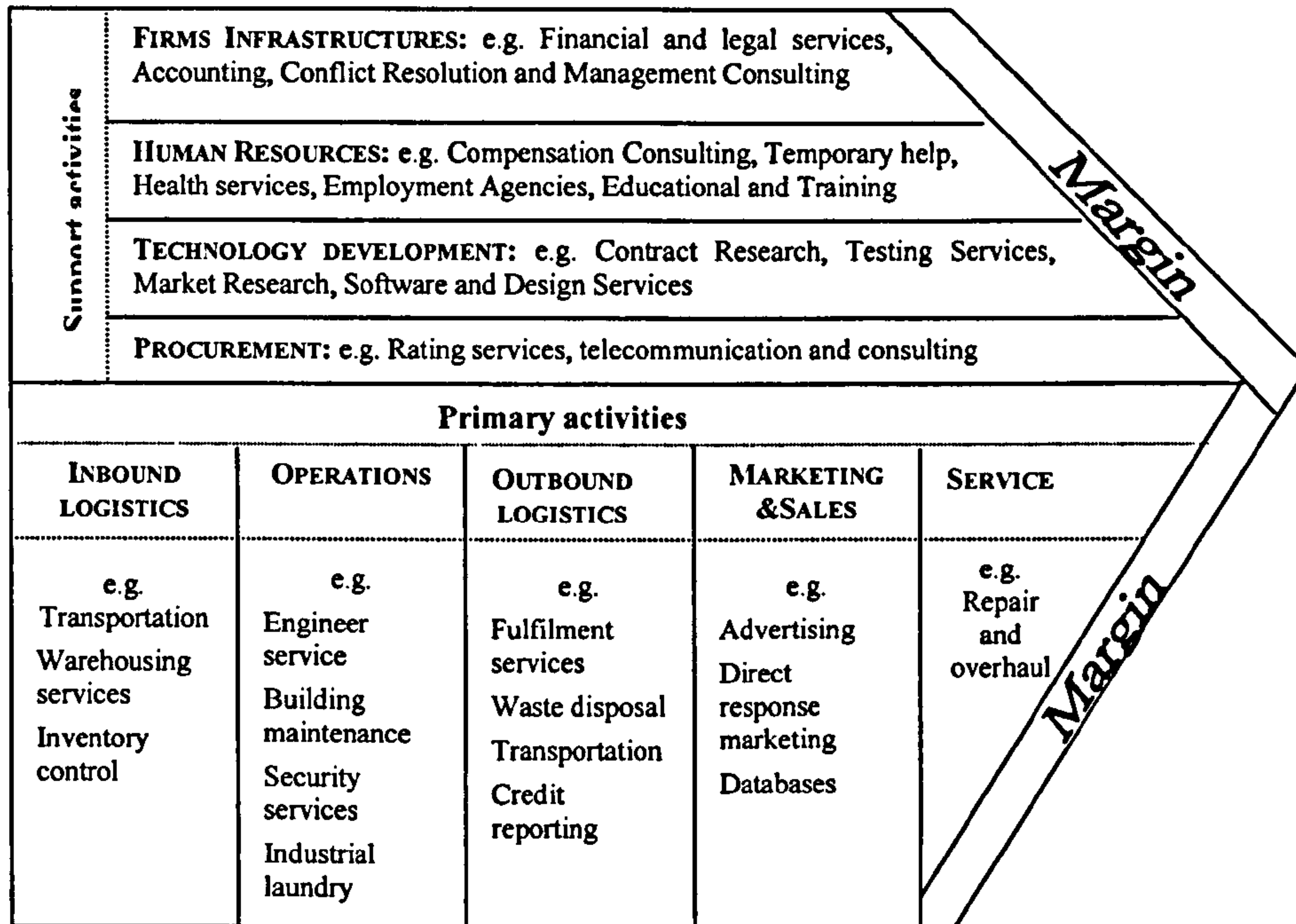
Outlined in Figure 3.8., the Value Chain describes the firm's basic activities and suggests that all the activities in the 'value chain' contribute to the creation of value for the customers. Porter (1985) distinguished these activities as either the primary or support activities that all business must undertake in some form. According to him, the primary activities are directly involved in the flow of product to the customer, and include:

1. *Inbound Logistics*, which are the relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.
2. *Operations*, which refer to all the activities needed to transform inputs into outputs.
3. *Outbound logistics*, which embrace all the activities required to collect, store, and distribute the output.
4. *Marketing and Sales*, which include all the activities, inform buyers about products or services, inducing them to buy, and use it.
5. *Services*, which include all the activities needed to maintain the product or service working effectively for the buyer after it is sold and delivered.

Equally Porter (1985) grouped the secondary activities, into four main areas to support the primary activities:

1. *Procurement*, involving the acquisition of inputs, or resources, for the enterprise.
2. *Human Resource Management*, which means all the activities involved in recruitment, hiring, and training.
3. *Technological development*, consisting of the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.
4. *Infrastructure*, this includes the departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management. They support the entire chain.

Figure 3.8. Porter's value Chain



Source: Porter (1985)

The term 'margin', located in the right side of the figure 3.8, refers to the difference between the total value and the collective cost of performing the value activities.

The main contributions of Porter's model are the fact that the Value Chain describes the various activities within and around an enterprise and shows that the activities in the value chain are interlinked, suggesting that the cost behaviour of a value activity cannot be understood individually. As Porter stated the linkages provide a potentially powerful source of cost advantage because they 'require joint optimisation or coordination of activities across organisation lines'.

However, this model is not unique. For example, Chaharbaghi and Lynch (1999) proposed a hierarchy of resources model to analyse these internal resources. This model identifies four

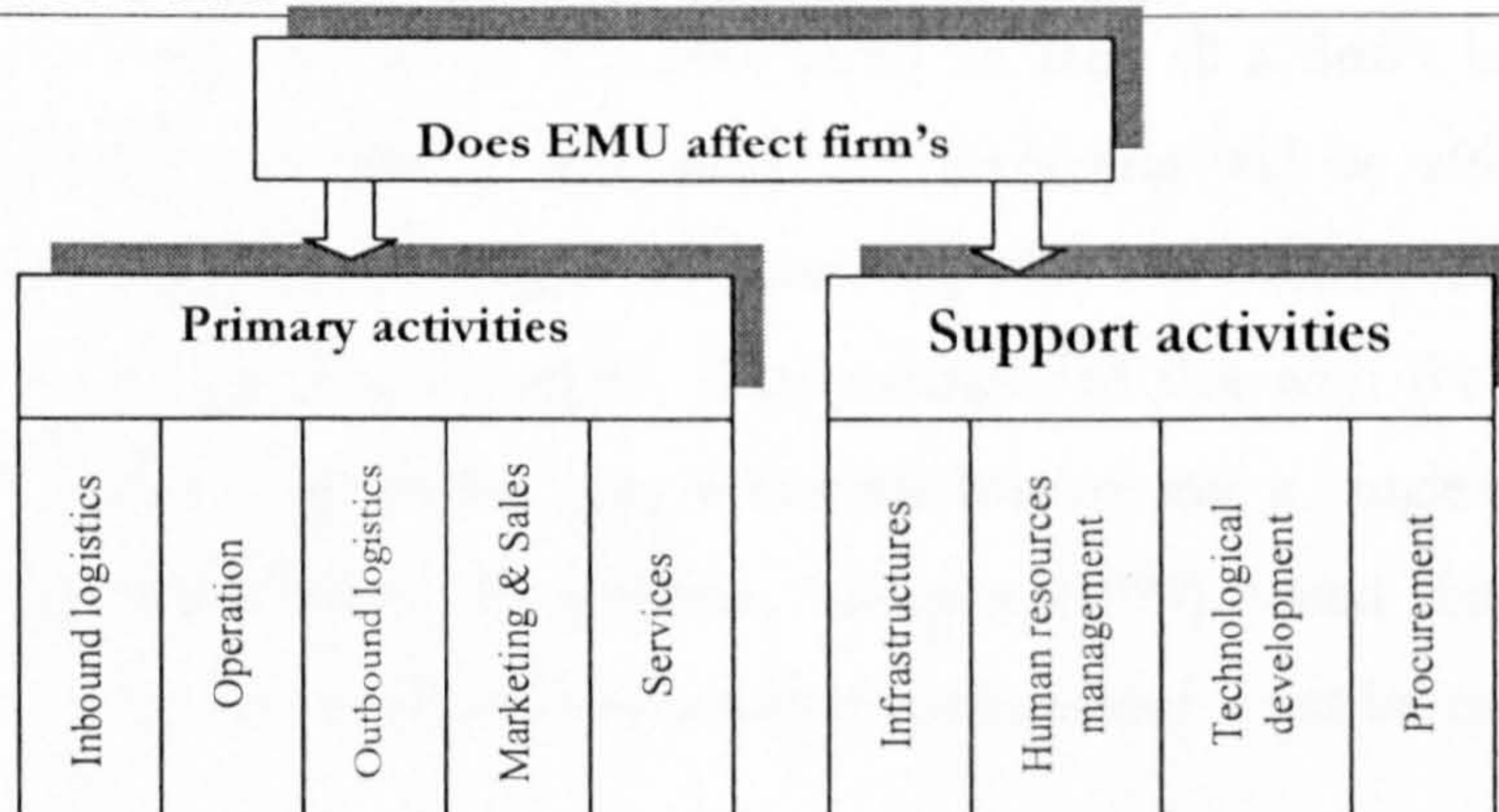
levels of resources that are internal to the organisation: peripheral resources, base resources, core resources and breakthrough resources. There are also resource audit methods available for internal resource analysis.

3.5.3. Review of the influence of EMU upon the operational business environment using Porter's value chain

Most of the focus of the effects of EMU so far has been on meeting the operational impacts brought about by the single currency. Various studies have been published at this level (see for example: Branco, 1997; Deloitte Consulting, 1998; Costa, 1999; Shackelford, 1998; Torres Marques, 1999 and Cunha, 2003). In the literature there is a consensus that the introduction of the single currency requires great changes in the business' operational environment. Moreover, the evidence suggests that changes in the macro and competitive environment, already mentioned in the previous sections, directly affect the operational environment and businesses operating.

It is aim of this section to explore the impact of the Euro upon the operational environment, breaking down the business's operation into the firm's different activities. For that, Porter's value chain framework seemed adequate and was applied, as shown in figure 3.9. The main purpose of this is to identify the influence of EMU, and the Euro in particular, on the different business' activities, and, at the same time, to show that the linkages in the value chain can lead to a business gaining competitive advantage over its rivals.

Figure 3. 9. Framework of the influence of the Euro on Porter's Value Chain



A review of the literature about the effects of the Euro at an operational level has suggested that the Euro has implications for both the primary and support activities identified in the value chain model, affecting the way the businesses operate and the linkages between the activities. Much of the existing literature suggests that the influence of the Euro is notable at all stages of the value chain.

Authors such as Johnson and Turner (2000) stated that there were five well defined cross-functional areas affected by the Euro: information technology; communication; general support services; human resources, and management strategy. Moreover, they added that the Euro also has implications on the competitive advantage of the enterprises.

With respect to the primary activities, and in terms of the *inbound logistics*, the literature suggested that (e.g. Gill and Ducan, 2001) the influence of the Euro was most notable in terms of relationships with suppliers and upon the cost of the inputs, as shown in the previous chapter. In terms of the *operational factors* the Euro's influence is also clear. According to authors such as Cunha (2003) the enterprises had to improve their resources and competences in operational activities in order to face potential new entrants.

Concerning *outbound logistics* the introduction of the Euro results in changes in market structure, which affects a firm's activities such as those associated with collecting, storing, and physically distributing the product to buyers, delivery vehicle operations, order processing and scheduling.

In terms of the influence of the Euro on Marketing and Sales, Bywater (1997) argues that the Euro affects factors such as market and competitor's analysis, pricing points, price list, price-displays, bar codes and catalogues and advertising. In fact, all a firm's brochures and other material published that is related with sales and marketing will be affected by the Euro. Additionally Weber (1998) and Bieger and Laesser (1999) drew attention to the fact that the Euro requires new marketing strategies. They exemplified this with the fact that the Euro could represent a new image of Europe, as Europe has become a 'single product' requiring a rethinking of marketing plans. In addition, Marques (1999) stated that the opportunities brought about by the emerging macroeconomic environment must be taken into account in

any marketing action. Customer information must become an important tool for the enterprises to improve their sales.

Regarding service activities, some authors (e.g. Cunha, 2003) believed that the advent of the Euro could result in extra services requirements, since in their view it will encourage additional sales.

By *procurements factors*, is meant, the *function* of purchasing inputs used in the firm's value chain. For some authors (e.g. Johnson and Turner, 2000) the Euro represents a potential stimulus for the emergence of a new source of suppliers and shifts in the costs of inputs, which has implications for the firm's overall costs and differentiation.

Concerning the implication of the Euro on *human resource* management a study conducted by Deloitte and Touche Consulting (1998) demonstrated that the adoption of the Euro required specific staff training in the accounting and informatics departments, as well as all staff who would deal directly with customers and suppliers. In addition, the study called attention of the influence of the Euro on salaries, health and life insurance, pensions and employment contracts. It mentioned the importance of this information being available to employees. Nonetheless, the same study published data demonstrating that before the introduction of the Euro, in 1998, only a few enterprises in Portugal (16%) had analysed the likely impact of the Euro on human resources. In addition, in 1998, the number of enterprises, which had studied the implications of the Euro on life and health insurance or pensions, was nil.

In terms of a *firm's infrastructure*, as Costa (1999) argued, the changes in accounting procedures, legal and contractual features were some of the operational impacts brought about by the Euro. For example, the accounts of all businesses transactions and associated documentation needed to be converted to Euros. This includes the production of services, statements, credit notes etc and, production of the firm's account for statutory and fiscal purposes; re-casting of prices; production of tax and others statutory returns; production of internal management statements and, finally, financial control reports, conversion of banks accounts and payment instruments.

In terms of *legislation* Maduro et al. (2000) noted that legal contracts would need to be amended, including employment contracts, loans, mortgages, leasing arrangements, rental agreements, supply agreements, options, dividends and insurance policies.

Finally in respect to the influence of the Euro on *technological development*, authors such as Weber (1998) and drew attention to the fact that the adoption of the Euro requires the adaptation of both software and hardware. Weber (1998) mentioned that vending machines, cash registers, computer keyboards, and calculator buttons would all have to be changed to handle Euros. In addition, information technology: billing, invoicing, accounting, management information and scanning systems must be changed. In fact, all systems would need to be examined and adapted to the Euro, data files and programs, such as customer and suppliers accounting systems, payroll systems, cost and price calculation systems, general ledger systems and payment and reconciliation systems, containing monetary value.

The following table (3.4) summaries the major influences of the Euro upon the operational environment using Porter’s value chain.

Table 3. 4. The major implications of EMU on the operational environment using Porter’s value chain

Support activities	FIRMS INFRASTRUCTURES:	Legal and contractual features Shifts on financial services Management Consulting Accounting change		
	HUMAN RESOURCES:	Educational and Training		
	TECHNOLOGY DEVELOPMENT:	Needs of the new software and hardware (Adaptation of the electronic payment terminal, modification of the computer systems: fare, invoicing and accounting software)		
	PROCUREMENT:	Rating services		
Primary activities				
INBOUND LOGISTICS	OPERATIONS	OUTBOUND LOGISTICS	MARKETING & SALES	SERVICE
Suppliers changes Cost of inputs	Facilities Operations Intense rivalry	Buyers and market changes	Advertising Brochures Customer information Prices	Installation and testing Services Repair and Overhaul

3.5.4. Identification of key strengths and weaknesses of SMTEs due the adoption of EMU

All types of enterprises and sectors confront the implications of the adoption of the Euro on their operations. From a review of the literature emerged the suggestion that the impact of the Euro on businesses could differ. For some businesses, the adoption of the Euro was not expected to cause serious problems at an operational level as most of changes are routine changes in systems. For others, the impact of the Euro may be significant. In this latter situation, the firm's resources, together with its competences in separate activities, will have a relevant role in influencing the superior performance of the enterprise (Johnson and Turner, 2000 and Whyman, 2002).

Hence, this section identifies the proposed key strengths and weaknesses of tourism enterprises in the context of the external opportunities and threats following the introduction of the Euro. A detailed analysis is not viable at this stage because the strengths and weaknesses depend on factors such as the type, structure, locality and so on which are not taken into account in this general analysis. For example the term 'tourism enterprise' incorporates a variety of businesses associated with the tourism industry. In this research, a selection of accommodation businesses will be studied. The aim is to outline some literature aspects relating to enterprises needs as result of the environment changing.

3.5.4.1. Firm's strengths and weaknesses within the context of EMU

As Ambrosini et al. (1998) stated *strength* would be an internal resource that would enable an organisation to deal effectively with its business environment. In contrast, an internal *weakness* would leave opportunities poorly accounted for, or not addressed at all. Thompson (2001) argued that organisational changes should go to further improve positions of strength and eradicate areas of weakness.

In this context it is widely recognised in the literature that EMU could have a great impact upon the operations of enterprises, principally, of the SMEs, because they were not well prepared for the Euro, and commonly had lesser resources and capabilities. Additionally, the

probability was that this type of enterprise has not had much experience in dealing with environmental change. A study conducted by Hervey (1999) showed that the SMEs tend to be less enthusiastic with the majority stating that they do not expect much business benefit. The Table 3.5 summarises the major potential internal strengths and weaknesses of the SMTEs within the external and competitive Euro's environment that are suggested in the literature.

Table 3.5. Potential strengths and weaknesses of the SMTEs within the context of EMU

Tourism SMTEs	
Strengths	Weaknesses
Products/services with increasing shares of growing markets	Slow management response
Dominance of key market segments	Intensified competition
Location	Weak financial resources

3.6. CONCLUSION

The evidence that has been presented within this chapter indicates that the majority of the studies that preceded the introduction of the Euro acknowledged that EMU was thought likely to have impacts varying in scope and range on the tourism business environment. These studies concluded that EMU affects national, industry and operational environments. Among the effects on the national business environment, the economic implications have been the ones most commonly recognised in the literature. Nonetheless, several studies have also documented the social, political, and legal implications on the participating countries. These findings suggested that as consequence of EMU there would be changes in the competitive advantage of Portugal brought about by this new macroeconomic environment.

In terms of the effects on the industry environment, the literature demonstrated that several authors pointed out that the structure of industry is likely to change due, for example, to the intense rivalry of competitors after the launch of the Euro. Some have argued that the ultimate profit potential within an industry will as a result be altered.

Finally, in regard to the implications of EMU on the operational business environment, there was a consensus in the literature that changes on the main activities of the enterprises would occur including changes in operating systems, marketing and sales, purchasing, legal issues, human resources and so on. These changes give enterprises' opportunities but also threats that need to be overcome. Hence, there were some authors suggesting that the lack of action by the enterprise increases vulnerability, while preparedness maximises potential gains.

To understand the implications of EMU on the business environment of hotels operating in the North of Portugal, this research addresses a set of questions which were used to inform the development of questionnaires used in the various stages of fieldwork. The methodological choices and stages of the research are described and explained in the following chapter on methodology.

4. RESEARCH METHODOLOGY

4.1. INTRODUCTION

The choice of the research methodology is a complex stage in any type of research and needs to be considered very carefully and precisely. A poor methodology will fail to provide accurate answers to the questions under investigation and little or no reliable information will result. In fact, much will depend on the quality of the research methodology adopted. Hence, designing a research process, as in any research, was a central task in this study.

The aim of this chapter is to provide a description of the overall research methodology used for evaluating the research questions, focusing primarily on the multiple stages of the research process. To achieve this aim, the chapter discusses the ‘what’, ‘why’, and ‘how’ questions related to methodological choices. The chapter also explains the conceptual framework adopted in this research in order to understand the perceived implications of EMU on the competitiveness and decision-making of the hotels in the North of Portugal. The alternative approaches of quantitative versus qualitative methodologies are briefly discussed and the position adopted in this study is stated and explained. The research process selected within this study is then described. This includes the formulation of the research problem, the key stages in research design, the data collection techniques and the data analysis procedures. At the end of the chapter a brief conclusion is presented.

The conceptual framework of the research is now presented.

4.2. EXPLANATION OF THE CONCEPTUAL FRAMEWORK

The interconnected nature of the elements in the business environment, together with the multifaceted nature of competitiveness, pose special challenges for impact assessment because the linkages between these elements are often far from simple. Hence, the framework adopted in this research involves three main components: national, industry and operational environments which together offer a basis for determining the perceived implications of EMU on the hotels' competitiveness and decision-making.

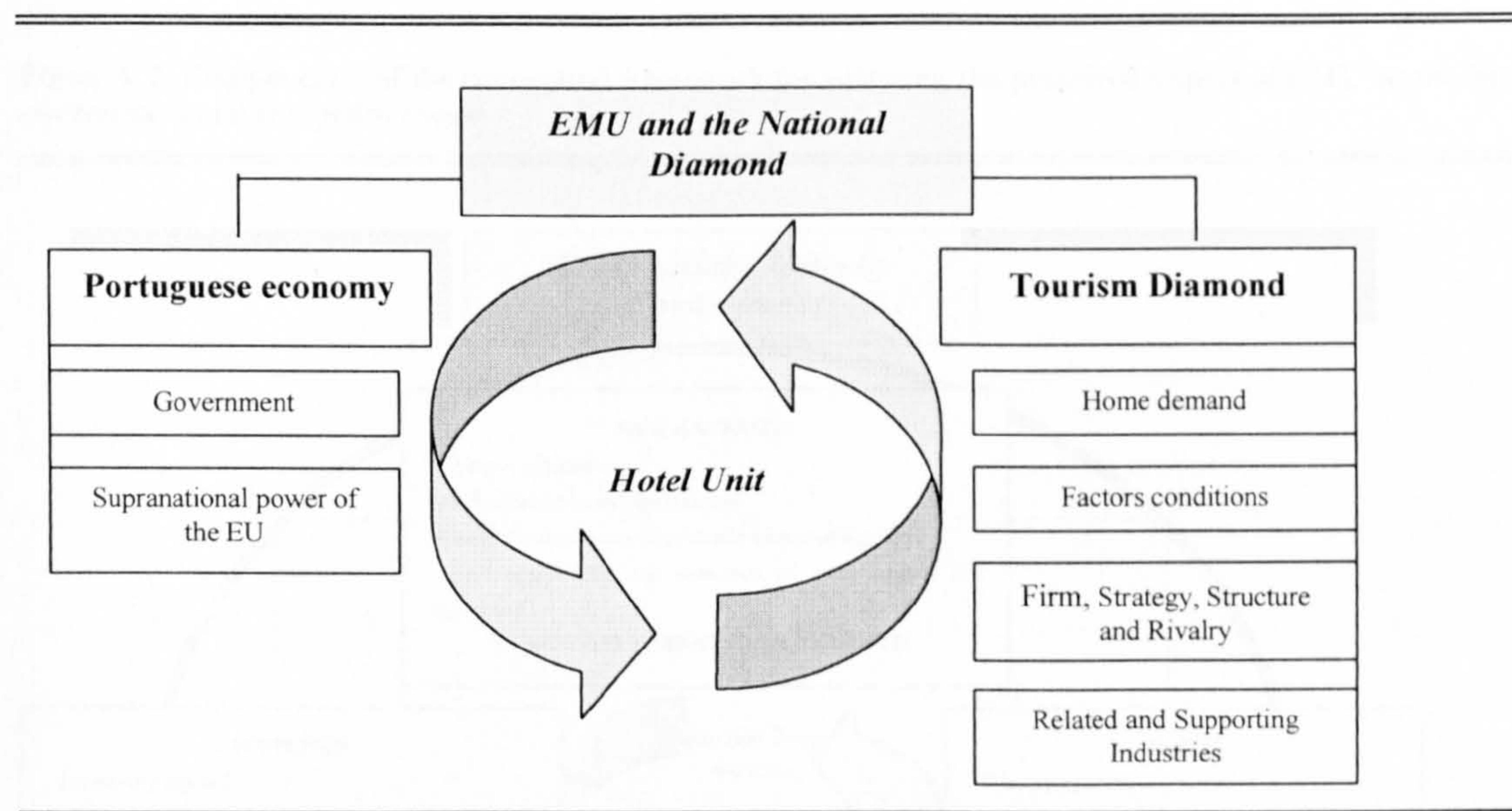
Component 1: analysing the national environment

In the first step, the model of the *Diamond* developed by Porter (Porter, 1990) was selected and adapted as the basis for analysing the national environment. There were two main reasons for using the Diamond model. First, Porter's Diamond includes not just *factor conditions* (macro perspective) as most of the traditional models do (e.g. Smith, 1776, Ricardo, 1817, Heckscher and Ohlin, 1933; Solow, 1988 and Boltho, 1996), but also relevant variables based on the activity of the firms (micro perspective), such as *supporting and related industries* or *the context for a firm's strategy and rivalry*, which would allow the encapsulation of more dimensions of competitiveness in the study of the implications of EMU (i.e. macro and a micro perspective). *Second*, the literature revealed that the model had a long history in providing a basis for the study of competitiveness of individual industries or sectors (e.g. D'Cruz and Rugman, 1993; Day and Wensley, 1988; Dunning, 1993a, 1993b; Grant, 1991; Bosch and Man, 1997; O'Shaughnessy, 1996 and Hodgetts, 1999). However, the Diamond model had not been applied to the study of the implications of EMU on the tourism sector or the hotel industry, providing an opportunity to apply and assess the suitability of the model to provide a framework for studies such as this.

Within the context of EMU, there seems to be ample evidence that the Diamond is influenced by factors outside the home country and in particular the supranational power of EU. Hence, using Porter's Diamond for the purpose of this study required the incorporation of an additional variable in the model that does not appear in the original model, but which can have an important role in studying the perceived implications of EMU. This new variable is the

supranational power of the EU and is related to the fact that EMU has contributed to the reinforcing of the power of EU decision-making on economic and political issues, as demonstrated in chapter 3 (sub-section 3.3.3.) and creating, in this way, an additional influence on national competitiveness with power enough to be treated as an autonomous variable. By contrast, the role of chance, which Porter emphasises in the model as referring to random events that can either benefit or harm the national business environment in which firms compete (e.g. major technological breakthroughs, wars or inventions), was not evaluated in the context of the implications of EMU, because these events by its nature are not influenced by EMU. Component 1 is illustrated in the following figure (4.1).

Figure 4. 1. Component 1 of the conceptual framework for analysing the perceived impact of EMU on the business environment and competitiveness

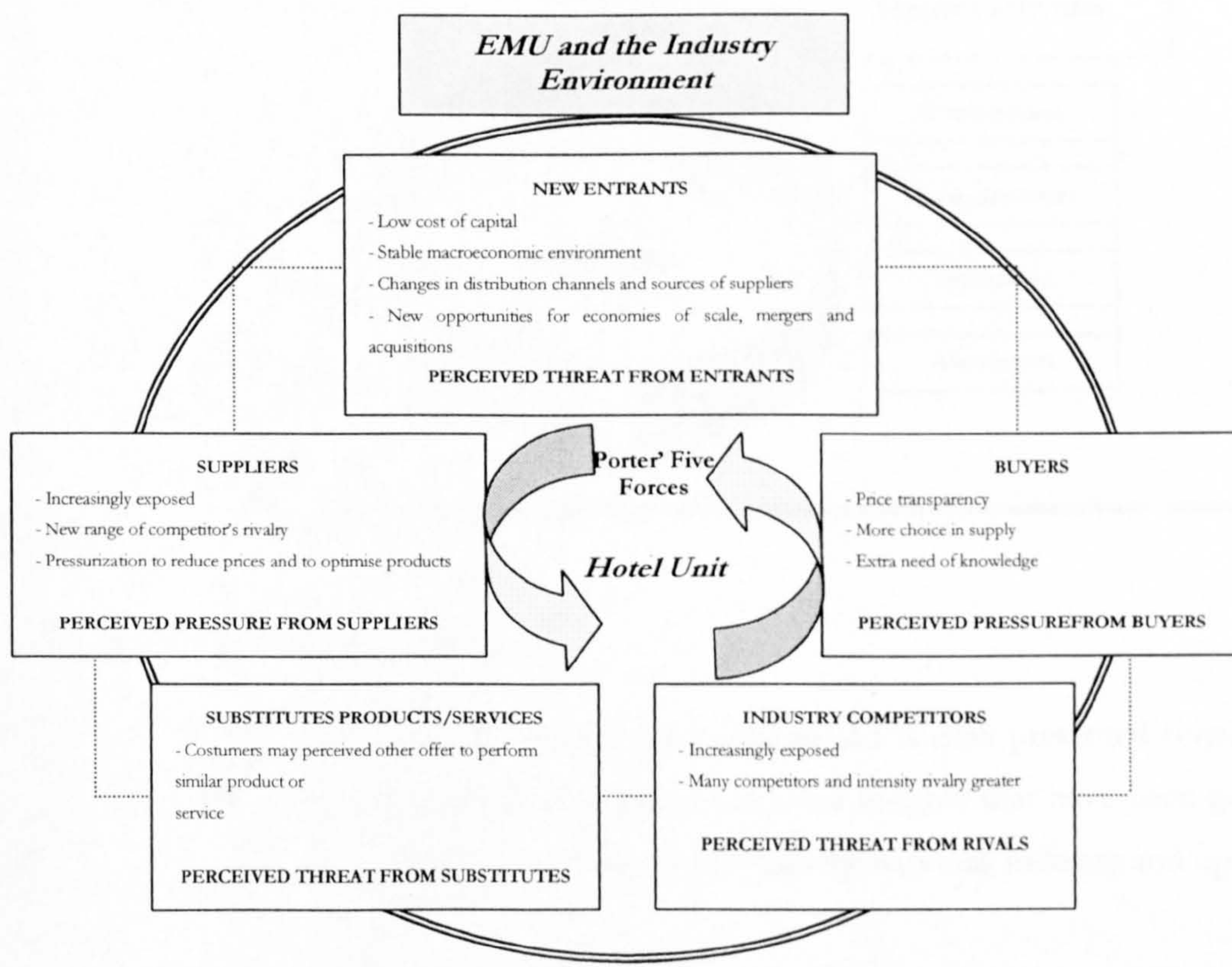


Component 2: analysing the industry environment

The concept of the Five Forces (Porter, 1985; 2001) was used as the second component of the research framework to analyse the perceptions of the implications of EMU on the industry environment in order to identify how hotels can obtain a competitive position within the industry following the introduction of EMU.

There are four main reasons for using the Five Forces model. First, the model sets out a set of competitive forces (see Chapter 3 subsection 3.4.3 for details) that affect the ability of an industry to serve its customers and make a profit. The model, based on well-established microeconomic theories such as supply and demand theory, cost and production theory, price elasticity and competition theory, is used to define and analyse the competitive environment of an industry. Second, the model combines these considerations into a single framework. Third, the model can be applied to particular companies, market segments, industries or regions. Finally, it confirms the relationship between a firm’s, or an industry’s, competitive position and its profits, suggesting that the action of competitive forces determines the long run profitability of a given industry. Therefore, a change in any of the forces normally requires an enterprise to re-assess the marketplace. Component 2 is illustrated in the Figure 4.2.

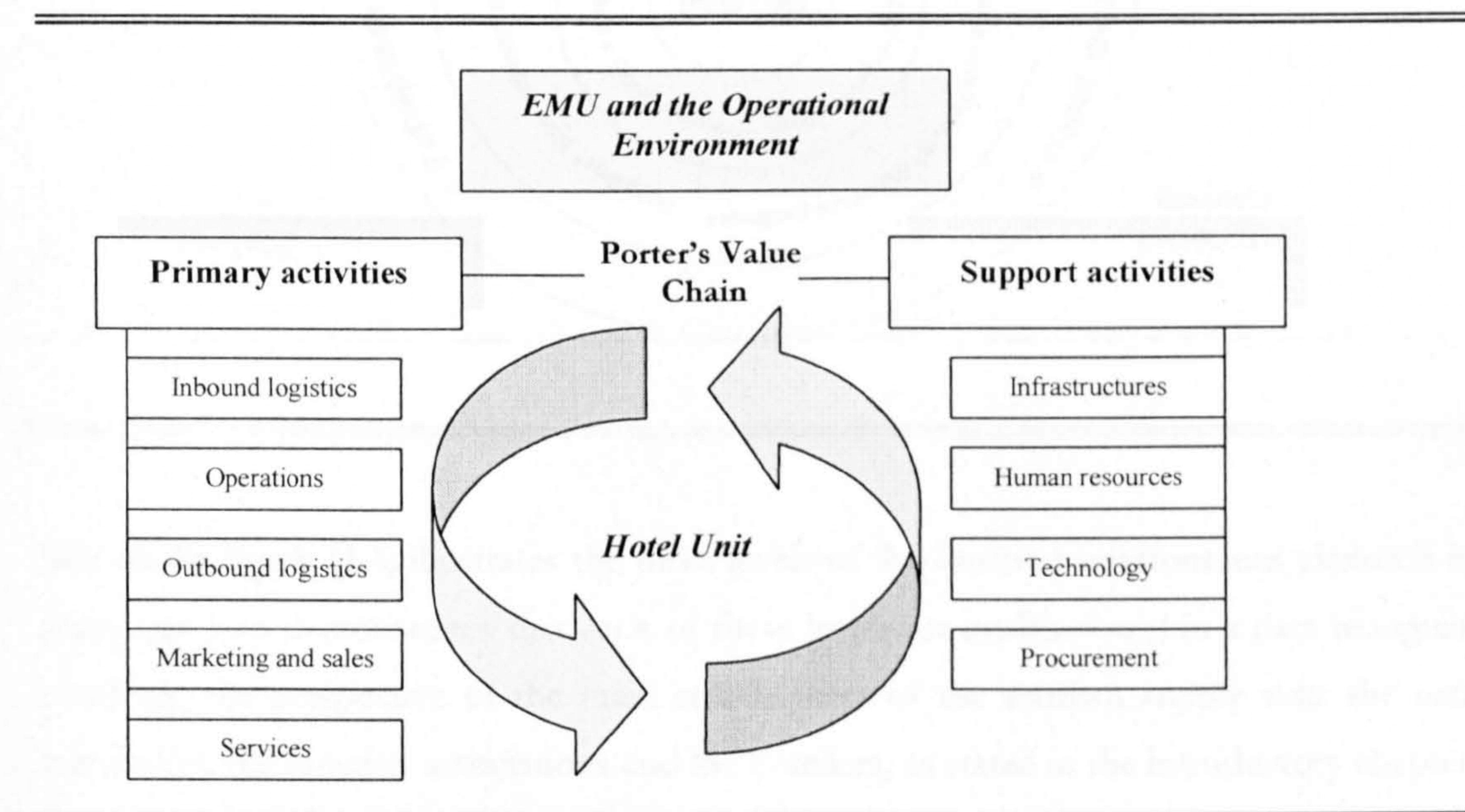
Figure 4. 2. Component 2 of the conceptual framework for analysing the perceived impact of EMU on the business environment and competitiveness



Component 3: analysing the operational environment

In the third component, the research makes use of the concept of the value chain (Porter, 1980) to analyse the impact of EMU on the operational environment, breaking down the operation of the businesses into the different activities. The main purpose of this is to identify the influence of EMU, and the Euro in particular, on the different activities of the businesses, and, at the same time, to show that the linkages in the value chain can lead to a business gaining competitive advantage over its rivals. This component is illustrated in the Figure 4.3.

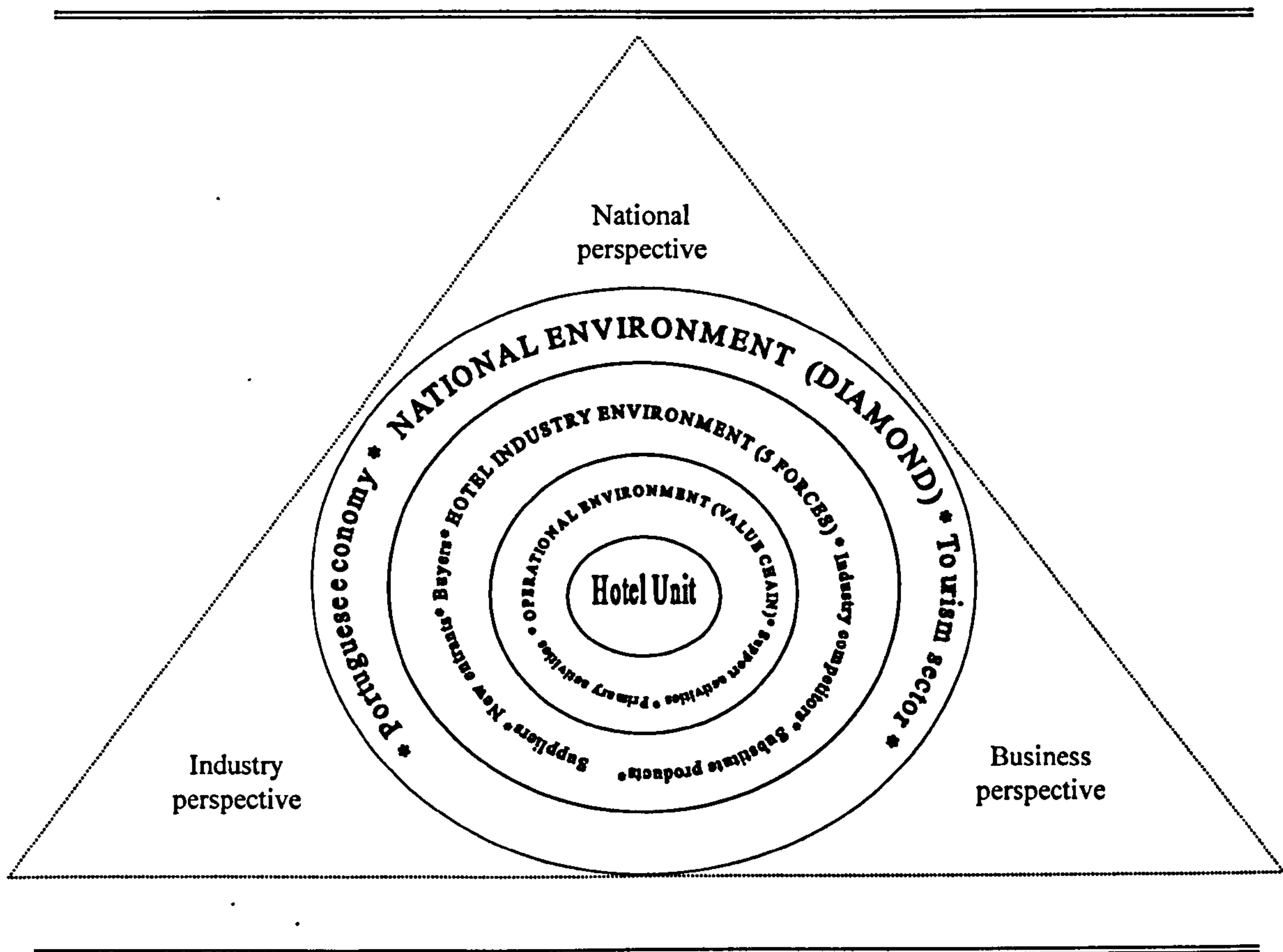
Figure 4. 3. Component 3 of the conceptual framework for analysing the perceived impact of EMU on the business environment and competitiveness



The multi-component approach

To unify these components, an overall conceptual model is now presented (Figure 4.4) that takes into account the various theoretical and empirical insights that have been gained at this stage. The model is composed of the three levels, namely: national, industry and operational.

Figure 4. 4. Conceptual framework for the research



The above figure (4.4) illustrates the three levels of the business environment explored in the study and also demonstrates that each of these levels are analysed within a data triangulation, involving the perspective of the main stakeholders of the tourism supply side: the national authorities, the industry associations and the hoteliers, as stated in the introductory chapter and further explained in subsection 4.3.6.

Porter's models (Diamond, Five Forces and Value Chain) have been the most influential in the formulation of the research framework, as can be observed through the distinct rings of the above figure, with each one including one of the three models developed by Porter: Diamond (national environment), Five forces (industry environment) and Value Chain (operational environment). Perhaps what is most valuable about Porter's models is the extent to which these models can be applied in a range of contexts or industries. Here, these models are able to capture views on the three levels of tourism business environment and subsequently structure

the data and information collected about EMU as a key force in the tourism business environment with effects on competitiveness and decision-making. Having described the main theoretical concepts and components involved in the study of the perceived implications of EMU, the next sub-sections describe how they were operationalised.

4.3. THE QUALITATIVE VERSUS QUANTITATIVE RESEARCH

Several authors have discussed which methodological approach is the best for conducting social research (e.g. Patton, 1990; Jarrat, 1996; Finn et al. 2000; Jennings, 2001 and Punch, 2005). However, there appears to be a consensus in the literature that no approach is better than the other. Each approach has advantages and disadvantages and, as Punch (2005) concluded, although they present differences in the nature of data, the methods used for data collection and the analysis process (as shown in Table 4.1), both approaches are valid and contribute to social research. For instance, qualitative research, he argued, allows the researcher to study selected issues in great depth, openness and detail, which increases understanding of the cases studied, but reduces generalisability due to the lack of structured design or standardised procedures. In contrast, as Punch (2005) suggested, the use of a quantitative approach allows for greater ability to summarise results in statistically meaningful way, making for easier aggregation of data, systematic comparisons and replication of the study in other studies. However, in comparison to qualitative research quantitative research collects a much narrower dataset.

Table 4. 1. Essential features of qualitative and quantitative research

	Quantitative Methodology	Qualitative Methodology
Research Paradigm	Grounded in the positivist social sciences paradigm	Grounded in the interpretative social sciences paradigm
Research Approach	Deductive	Inductive
Nature of truth	Requires hypotheses	Generate hypotheses during the research
Type of research	Descriptive or causal	Exploratory
Purpose	Explaining	Understanding
Viewpoint	Outsider's perspective - reality is what quantifiable data indicate it to be	Insider's perspective – reality is what people perceive it to be
Research techniques	Questionnaire, experiment, observation	Interview, observation, focus groups
Role of researcher	Objective Fewer special interviewing skills required	Subjective Requires interviewer with specific skills
Sample size	Generally large	Generally small
Ability to replicate	High	Low
Analysis	Statistical, summarisation and numerical form.	Subjective, interpretative and narrative Themes

Source: Adapted from Jennings (2001) and Patton (1990)

In the case of this research, the central approach taken, quantitative, was not so much influenced by the argument between quantitative and qualitative approaches, but rather based on the criteria suggested by Punch (2005), that is, on the research questions and the emergent findings. The basis of this decision is explained in the following paragraphs.

Qualitative methodology is grounded in the interpretative social sciences paradigm. In this approach, the researcher ‘commences the study in the empirical world in order to develop explanations of phenomena’ (inductive nature) (Jennings, 2001, p.39). Qualitative research is used when it is difficult to identify a suitable theoretical framework within which to achieve the research aim. However, an analysis of the literature review (Chapters 2 and 3) suggested that the aim of the research could be achieved by using existing theories and models. In particular, the use of the Porter’s models, which are well established in business studies, could provide a sound theoretical basis for studying the perceived implications of EMU on SMTEs (hotels). As a result, it was possible to develop a comprehensive and innovative conceptual framework

(section 4.2.3.), which could inform what data needed to be collected. Moreover, as the review of the literature demonstrated, most theories on the influence of external forces on the business environment have not been applied to the general context of EMU, and specifically to the SMTEs in Portugal. Thus, the *quantitative methodology* which ‘*commences with theories or hypotheses about a specific phenomenon, gathers data from the real-world setting and then analyses the data to support or reject hypotheses*’ (Jennings (2001, p.22) was seen as more appropriate for this study. In other words, rather than attempting to build a new theory, which may be better achieved by qualitative research, this study focuses on applying existing business and management theory, in particular the Porter’s models, to the study of the implications of EMU on businesses.

One of the innovative features of this investigation is a *triangulation* of perspectives on the implications of EMU on hotels. In addition to the hotel perspective, this research also sought to contribute for the knowledge of the topic by understanding the national authorities’ and the industry associations’ perspectives. While different questionnaires/interviewing guides were used for each study group (the choice of data collection method will be explained in Section 4.3.5.2.), there were common areas of questions, which aimed to compare the different viewpoints of the hotel’s stakeholders.

Finally, since the study aimed to investigate the implications of EMU based on different perspectives, the quantitative approach allows the measurement of the perceptions of a great number of people to a limited set of questions, which facilitates comparison between the distinct study-groups involved in this research.

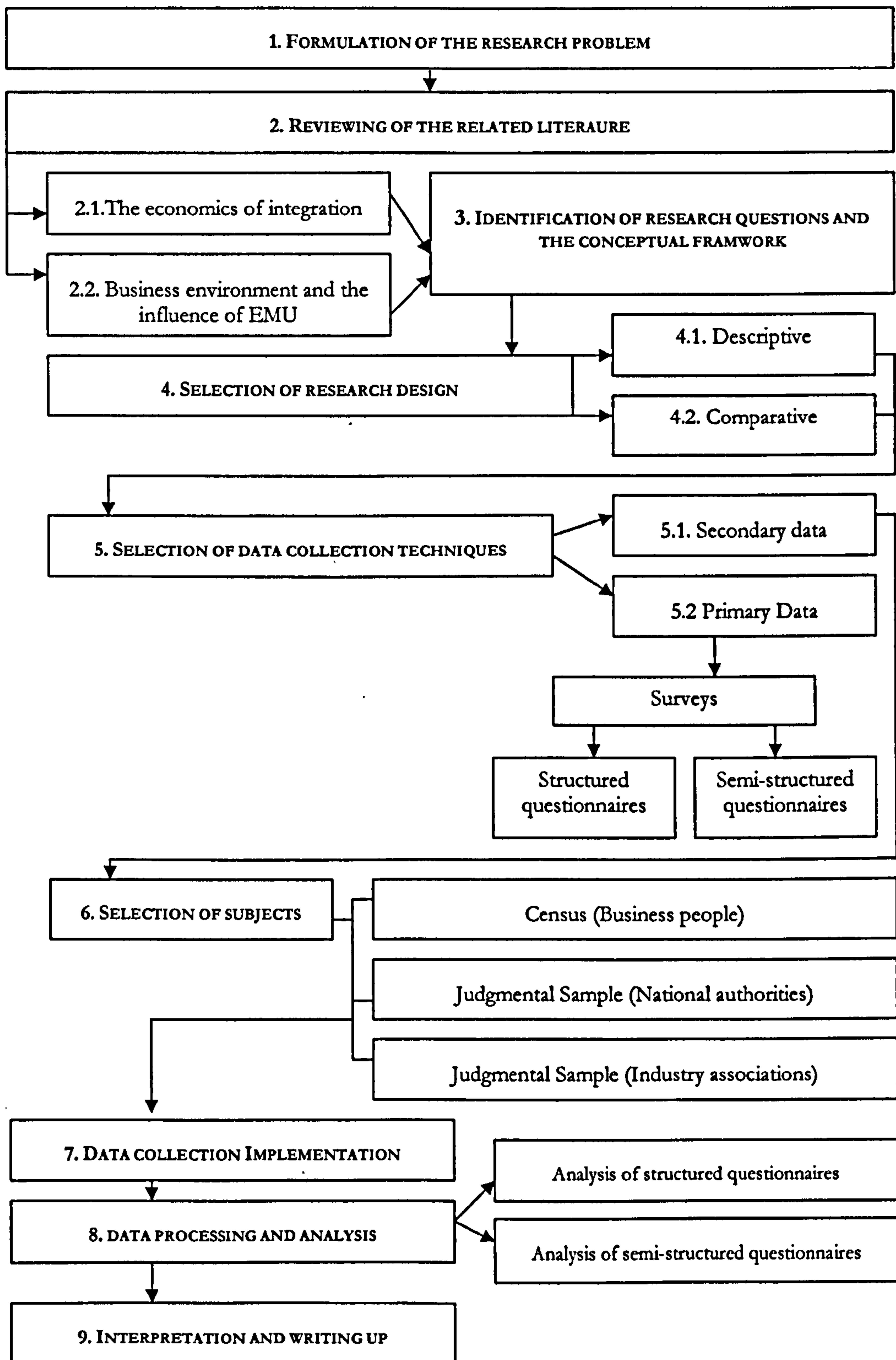
4.4. THE RESEARCH PROCESS

An examination of the literature on research methods revealed that multi-stages occur in any research process. There is no a consensus about the precise number of stages to be followed during research. But, in general, authors of texts on research methods share the idea that those stages include determining the purpose of the research, reviewing the literature, knowing whom and what to research and deciding how and when to research (see for example, Pizam, 1994; Oppenheim, 1999; Balnaves and Caputi, 2001; Punch, 2005 and veal, 2006).

This research has adopted the main stages proposed by Pizam (1994) although they were later adapted to encompass the specificities of the area of study, as emphasised in Figure 4.5.

1. Formulation of the research problem
2. Reviewing the related research;
3. Identification of research questions;
4. Selection of research design;
5. Selection of data collection techniques;
6. Selection of subjects;
7. Data collection implementation;
8. Data processing and analysis.
9. Interpretation and writing up

Figure 4. 5. Stages of the research process in this study



4.4.1. Formulation of the research problem

Any piece of research starts with the identification of a question, or research problem, which, according to Pizam (1994), may be suggested by some practical concern, such as the provision of information for future decision-making, or by some scientific or intellectual interest, such as a concern with some social problem or an interest in some general area of behaviour. In the case of this research, both of these factors were important in the selection of the research topic. In addition, as was suggested by Jennings (2001), the personal interest of the researcher was also a reason for the selection of the topic.

First, from a scientific point of view, despite claims that EMU will be a powerful force influencing tourism businesses, at the time this research began little empirical research on the perceived implications of EMU on the tourism sector had been conducted and it still remains poorly documented. If the tourism sector is to capitalise on the opportunities and challenges posed by the full economic integration of Europe, it is important to understand the hotel sector stakeholders' perceptions of the likely perceived impacts of EMU on hotels.

Second, from a practical point of view, this research is the first attempt to provide in-depth information about the perceived implications of EMU on hotels in the north of Portugal in order to help to understand their strategies/actions within a new business environment brought about by EMU.

Finally, in respect of personal interest, having lectured on European Integration and Tourism Planning courses, the researcher has constantly witnessed the strong and important relationship between European integration and tourism activities as well as the various problems resulting from a lack of tourism planning under the context of economic integration. In addition, having lived in Portugal, the researcher was deeply interested in contributing to the development of one of the most important sectors in Portugal, which as the researcher believes, will have more and more importance for Portuguese economic development.

4.4.2. Reviewing related literature

The review of related literature, the following stage in the research, is an indispensable part of the research process (Hart, 1998). The review allows the researcher to find out what already exists in the topic area and provides the framework for the topic. It helps the researcher to become thoroughly knowledgeable about the topic and to be ready to do research that advances knowledge on the topic.

In the context of this research, the key literature and findings on the implications of EMU were reviewed. Following the advice given by Hart (1998), the major concern was to analyse key studies and highlight the major findings rather than to try report every study on the implications of EMU. For this purpose, the literature review was broken down into two main inter-related areas, which together provide the overall underpinning of the topic. The areas include:

- The economics of integration and the fundamental concepts of European integration (Chapter two); and
- The business environment and competitiveness concepts and the influence of EMU (Chapter three).

This was done to provide an appropriate analysis of the literature and to show how each part relates to the other. Particular efforts were made to identify and analyse the way the research in this subject area has been developed, the different approaches to thinking about the subject and the gaps/opportunities resulting from the existing work. As result, important conclusions for the development of the study emerged. Among the main conclusions which have, in part, already been mentioned at the beginning of this chapter, are that in spite of EMU having been considered by several authors as a key driving force in the business environment of firms (e.g. Shackleford, 1998; Bieger and Laesser, 1999; Lepecq, 1999; Piggott and Cook, 1999; Johnson and Turner, 2000; Rickards, 2003; DeGrauwe, 2005 and Ratz and Hinek, 2005), and the acknowledgement by several authors (e.g. Bieger and Laesser, 1999; Lepecq, 1999; Piggot and Cook, 1999 and Ratz and Hinek, 2005) of its importance for the sector, there exists a gap in the literature on the implications of EMU in the tourism area. In fact, much of the vast literature on EMU is not related to the tourism sector. In addition, most of the outputs of the

available studies focused on expectations and possible scenarios built by the authors and not on the views from the key people involved in the tourism business environment.

It was also evident that not many academic articles have been published after 2002 on the theme, which together with the fact that some Portuguese and British newspapers (e.g. Daily Telegraph; *Expresso*; Financial Times; Sunday Times; The Observer and *Vida Económica*) have been contributing to the debate on the costs and benefits of EMU, required the researcher frequently to use newspapers as a source of information in spite of the risk that they could introduce potential bias in the research due the nature of the theme.

The relevant literature on methodology, as detailed in this chapter, was also reviewed in order to help the research to define the best way to achieve the main purpose of the research.

4.4.3. Identification of research questions

The literature review indicated a lack of studies on the implications of EMU on Portuguese enterprises in general, and on tourism enterprises in particular. In addition the little information that was available was outdated. Therefore, the overall aim of this research was:

To analyse and critically evaluate the perceived impacts of EMU on the competitiveness and decision-making of hotels in the North of Portugal, based on the views of the stakeholders - hoteliers, industry associations and national authorities.

Following from this overall aim, four research objectives, expressed here in the form of research questions, were formulated:

- How regional economic integration, with particular reference to the evolution of the European Union and the introduction of European Monetary System, is understood in the literature?
- What are the *expected* and *perceived* effects of European Economic Integration and Monetary Union on the national, industry and operational environment of the hotels operating in the North of Portugal?

- How has EMU affected the decision-making or strategies of the tourism/hospitality stakeholders?
- Do the hotels senior managers' perceive the effects of EMU in the same way as the national authorities and industry associations?

In order to produce the answers to these research questions and to achieve the aim and objectives of the study, the research design, discussed below, was adopted.

4.4.4. Research design

‘Would you tell me please, which way I ought to walk from here?
That depends a good deal on where you want to get to, said the Cat.
I don't much care where, said Alice.
Then it doesn't matter which way you walk, said the Cat.’
(Carroll, 1989, pp.63-64)

As the extract of the renowned book, *Alice's Adventures in Wonderland*, suggested, without being clear about what is going to be researched it is excessively difficult to plan how to research it.

According to Oppenheim (1999) research design refers to the ‘*plan or strategy of the research, and the logic behind it, which will make it possible and valid to draw more general conclusion of it*’. In the same way McMiller and Wilson (1983) defined research design as the overall plan of the research, intended to yield answers to research questions and Balnaves and Caputi (2001) stated that research design is the guide to how the research was constructed and carried out. As a result, and bearing in mind the type of information required and the purpose of the research, there exist various forms of research design, which can be categorised according to five major forms: exploratory, descriptive, comparative, explanatory and evaluative (see, for example, Pizam, 1994; Finn et al, 2000; Balnaves and Caputi, 2001 and Jennings, 2001, for details).

Following Jennings (2001), and bearing in mind the aim, objectives and research questions of this study, the present research opted to use primarily a *descriptive approach*, but to complement this approach with *comparative approach*, which together would permit the

description of the perceived influence of EMU upon tourism enterprises in Portugal, provide background information about the theme in question, and comparisons of the perceptions of the influence of EMU held by hoteliers, national authorities and industry associations.

Once the approaches have been determined, the next stage was to consider the data collection techniques in order to select the proper methods and suitable tools for data collection.

4.4.5. Selection of data collection techniques

In order to collect the necessary information, secondary and primary data collection techniques were used in this research. *Secondary data* include data already gathered by other researchers for purposes other than the completion of the current research project, while *primary data* include data that are collected directly by the researcher to use in the research project. (Ritchie and Goeldner, 1994; Pizam, 1994; Babbie, 1995; Jankowicz, 1995; Oppenheim, 1999; Finn et al. 2000; Jennings, 2001 and Saunders et al. 2007).

4.4.5.1. Secondary data

Within this research secondary data were collected from public (e.g. Directorate General for Tourism (DGT); National Statistical Board (INE); and Ministry of Economy and, at international level: WTTC, WTO and European Commission) and private organisations (e.g. Hotel Directory of Portugal) in order to obtain statistical information on hotel activity indicators or other relevant tourism statistics. The national tourism plan approved by the Portuguese government and European legislation was also examined to obtain information.

The option to use secondary data at the outset of this investigation was based on the fact that these data provide valuable context for reporting the research findings. In addition, other advantages of collecting secondary data, commonly identified by researchers such as Pizam (1994); Babbie (1995); Finn et al. (2000) and Jennings (2001), were also taken into account, namely: (i) easy and quick access to information; (ii) relatively low costs in obtaining them; (iii) the ability to go back in the time; (iv) the time and money saved by not having to replicate studies.

Nonetheless, the data collected in secondary sources demonstrated that some of the common limitations found when using secondary data were also evident in this research (for a full list of the common limitations, see for example Jennings, (2001)). For example, at the time this research began, little and incomplete information in official statistics in general, and in particular in tourism, was available. In fact, in certain cases the figures quoted in tourism business statistics that were needed to identify SMTEs in northern of Portugal (e.g. size and number of existing SMTEs) and economic statistics, relevant to contextualising the implications of EMU on macroeconomic environment, varied according different sources, revealing relatively high margins of error and inaccuracy. On the other hand, the data collected did not always address the precise aims of the present research. Hence a high dependence on the secondary data would have introduced considerable uncertainty into the research and consequently primary data was required.

Most of the secondary data used were placed in the introduction and literature review chapters instead of in the research findings. The aim was not to re-interpret secondary data for a different purpose to the original, one of the ways to use secondary data, but simply report the data in its original format as support or evidence for the research argument.

4.4.5.2. Primary data

In spite of primary data collection being more time consuming and more expensive than secondary data collection, the use of primary data within this research, as in any research, allowed the collection of information for the exact purpose of this research and to target the particular population(s) desired for the study. By doing this, as stated in the introductory chapter, three perspectives relevant to the success of the hotel industry were involved in the research with the aim being to identify the perceptions of the implications of EMU held by hotel business people, which were represented by the owners/senior managers of the hotels selected; the national authorities, represented by the Minister in question or his/her representative and in certain cases by the president of the organisation; and the industry associations, represented by its director or his/her representative.

In addition, based on the geographical division of Portugal used for EU statistical purposes, the north of Portugal was selected as the geographical area of the study of hotel business because, as stated in Chapter 1, this region, given a global market context, in which alternative tourism destinations to ‘sun and beach’ are becoming increasingly appealing to rising segments, has potential as a Portugal tourism destination. The fact that the north has received considerable attention over recent years in terms of private investment and government policies and promotional efforts, together with its being feasible to reach the hotel respondents as it is the area where the researcher lives, were further reasons for selecting the north of Portugal as the area in which to collect primary data.

The question was, however, *what would be the best techniques to use within the primary data collection?*

From the most common types of primary data collection techniques (see Pizam 1994, for details), **direct communication**, and in particular questionnaires and interviews, was the technique chosen for this study. In fact, bearing in mind the purpose of this research and the research questions being addressed, it was decided that to collect primary data from the hotel businesses would be best achieved by the use of questionnaires with face-to-face contact, containing a mixture of closed and open-ended questions, while gathering primary data from the national authorities and industry associations would be best achieved by using face-to-face interviews based on semi-structured questionnaires, containing primarily open-ended questions.

The hotelier respondents who were spread out throughout the area chosen were all at a senior level within their hotel being, either owners or managers, and were anticipated to be heterogeneous both in regard to their backgrounds and the types of hotels for which they were responsible. As a result structured questionnaires, based on a mixture of open and closed questions, were administered face-to-face with hoteliers for a number of reasons. First, hoteliers were the largest of the stakeholder (respondent) groups within the study and structured questionnaires reduce the time taken to collect the data through the use of ‘closed questions’. Second, the use of open questions allowed for hoteliers to provide not only answers based on predefined options but also their own explanations taking into account the heterogeneity referred to previously. Third, and while it may appear contradictory to the last point, the use of set questions, and closed questions, asked in exactly the same way, reduced

the extent of variability in the potential interpretation of the questions by the interviewer and the respondents. Finally, the personal nature of the interview encouraged participation and allowed for the interviewer to ensure completion of what was a long and complicated set of questions.

Face-to face interviews, based on semi-structured questionnaires with the national authorities and the industry associations, were used for a number of reasons. First, many of the respondents were at a very high level and personal interviews were considered as more likely to lead to participation in the study. Second, as for the hoteliers, it was considered that personal interviews would be most appropriate because it would encourage participation and allowed for the interviewer to ensure completion of the set of questions. Third, asking questions that were phrased generally, but which the respondent/interviewer interpreted into the context of the remit of the authority/association, was considered to be more effective and efficient than a series of different questionnaires (one for each different type of authority/association). Fourth, because some of questions/topics might not appear, or actually be, relevant to the authority/association given their remits, it allowed both the interviewer and the respondent together to determine relevance rather than relevance being pre-determined, an issue that was particularly relevant in respect of national authorities for whom consideration of tourism/the hotel industry may only be a peripheral responsibility. Finally, the interviewer could continually monitor that the respondent was answering from the standpoint of the authority/association and not their own personal standpoint, although ensuring the correct standpoint was difficult to do in practice.

4.4.6. Selection of subjects

Having established the research collection techniques most relevant to this research, the next stage was to identify how many respondents should be involved in the study. According authors as such Pizam (1994), Descombe, (1998) and Sapsford, (1999), all researchers have the option to study either all of the study units that are the focus of the research project (population/census) or select a sample of study units or participants from the population (sample). The study of the entire population is considered as the perfect situation but, due the

large size of many of the populations involved, the difficulty of access to the population and/or money, human and time restrictions this may not be possible. As a result, a sample of the population is often used as an alternative (Jennings, 2001).

In this research, due the type of the information needed and the distinct characteristics of the three groups of respondents, it was decided to apply different approaches according to the three groups in question: the national authorities, the industry associations and the hotel businesses. The logic behind this is further explained below.

i) Selecting the national authorities

In terms of the national authorities, the use of probabilistic sampling was not appropriate given the information required and from whom it was required. The information needed was on the views of the authorities and not the views of the individual respondents, which meant that no more than one interview per organisation was required. As a result a non-probability method of sampling was adopted. Non-probabilistic sampling techniques, such as snowballing and convenience samplings, were assessed as not being appropriate for this research (Finn et al., 2000), because the researcher knew from whom data should be collected. Thus *judgemental sampling* was used to select units from the overall population. This approach to sampling, as suggested by Oppenheim (1999) relies on the selection of the situation, or people, according to the theoretical purpose of the research and in this case judgemental sampling was used to select only those authorities, which according to their remit had a potential role in respect of the tourism sector or of the environment in which the tourism businesses are operating. Based on these criteria, and from an extensive list with more than 40 national authorities, 16 were selected to participate.

In total, 10 authorities actually participated in the study. They were: (1) Ministry of Economy/Secretary of State of Tourism; (2) Ministry of Finance (3) Ministry of Labour and Solidarity; (4) State Secretariat of Local Administration and Regional Planning; (5) DGT - General Directorate of Tourism; (6) ITP - Portuguese Tourism Board; (7) Tourism Observatory; (8) National Institute of Tourism Training; (9) ICEP - Investment, Trade and Tourism of Portugal and (10) CCRN - Coordinating Commission for the North Region.

The remaining 6 authorities did not participate due to the high number of meetings they had in that period or because they did not reply to the telephone calls asking for participation. Among these, there were: the National Association of Portuguese Municipalities; Ministry of Public Works, Planning and Regional Administration and the Tourism Regions located in the North of Portugal, which are responsible for the specific promotion of the tourism in the region. Bearing in mind that these authorities perform distinct responsibilities in the tourism sector, their participation in the study could have offered additional perspectives on the topic of the research. The potential contribute of these authorities is discussed in the evaluation chapter (chapter 8 sub-section 8.2.2.1)

ii) Selecting the industry associations

With respect to the industry associations, the approach adopted was similar to the approach employed with the national authorities. A *judgemental sample* approach was adopted to involve only those organisations that dealt directly with the hotel industry. At this stage, the sampling procedure involved three main steps: identification of the entire population; selection of the units from the overall population according to the theoretical purpose of the research (judgemental sampling) and contacting the units selected.

As a result, the heads of 7 local and national industry associations with direct involvement in the hotel industry were contacted and 5 agreed to participate in the study. They were: (1) AEP - Portuguese Business Association; (2) ADETURN - Tourism in the North of Portugal; (3) Association of the Hotel General Managers in Portugal; (4) CTP - Confederation of the Portuguese Tourism and (5) UNISHNOR - Union of the Hospitality and Restoration Northern Associations.

The remaining 2 (Association of the Hotel in Portugal and APAVT - Portuguese Association of Travel Agencies and Tourism) did not reply to the phone calls or letters. It should be noticed that, in spite of the potential for the views of these 2 Associations to enrich the findings of the research with two additional perspectives, their absence is a limitation out of the control of the researcher, as discussed in the evaluation chapter (sub-section 8.2.3.1).

iii) Selecting the hotel businesses

For the purpose of this research, all the hotel businesses invited to participate in this research were located in the North of Portugal. The main reasons for choosing the North of Portugal were related to the fact that, under a context of constant challenges for the Portuguese Tourism sector (as explained in the Chapter 1 sub-section 1.2.2), this region has a great potential as Portuguese Tourism Destination and not many academic studies involving this geographical area have been developed. Moreover, the reason why the North has been the only region included in the study, was about what kind of findings and limitations could be found if two or more regions were included. The inclusion of two regions will show similarities and differences between the answers. But the same would be true for three or more regions. Therefore, this raises one main question: *where to stop increasing the number of regions*, which may ultimately have led to having to include all the regions in Portugal. This would be impractical due research, time and money limitations. In addition in terms of results, they will reveal similarities and differences, but they will not reveal if they were typical or not.

To identify the whole population of hotels in the north of Portugal, the official data provided from the General Directorate of Tourism (DGT), Hotel Directory of Portugal, National Statistical Institute (INE) and Tourism in the North of Portugal Association (ADETURN) were accessed to ensure that all hotels were approached. Subsequently, it was identified that there were differences between the four official sources in terms of the number of hotels operating in the North of Portugal (ranging from 94 to 102 hotels). As a consequence, while according to the official statistical data (DGT, 2002), there were 102 hotels located in the North of Portugal, nevertheless further research, using other sources such as the telephone directory or Internet, a further 8 hotel units were identified, giving a total of 112 hotel units.

The decision about these hotels was whether to undertake a ‘census’ or a sample of this population. A *census* refers to a situation when the researcher intends to cover the whole population (Sarantakos, 2005) and it was this that was used in this research. The reasons for using this approach with the hotel businesses was because the hotels were the main focus of this study and by covering the whole population the representativeness of the results would be

ensured. The choice of this approach was possible because the population was not very large and could be clearly defined and identified. As result, all the hotels derived from the DGT list (102) plus and telephone directory (8) were selected to participate. However, it may be argued that a full census was not achieved as the eventual number of hotels that participated accounted for 93 percent of the hotels located in the North of Portugal. This decision, and the extent to which it was achieved, has implications for the types of statistical analysis possible because it effectively ruled out/rules out the use of inferential statistical procedures based on hypothesis testing, as is explained later in Section 4.4.8.1. The achievement of 93% and implications is discussed in Chapter 8 (chapter 8 sub-section 8.2.3.1).

4.4.7. Data collection procedures and stages

As stated previously, the collection of data in this study was done using two methods: interviews using semi-structured questionnaire and interviews using structured questionnaire. The procedures and stages of designing and administering the interviews using semi-structured questionnaires and structured questionnaires are explained and discussed below.

4.4.7.1. Interviews using semi-structured questionnaires

The data were gathered from the national and industry associations using face-to-face interviews based on semi-structured questionnaires. For this purpose two sets of surveys were conducted:

- *The national survey* with the national authorities influencing the tourism sector, and
- *The industry survey* with the industry associations associated with the hotel industry.

The procedures taken to design each survey are explained in next sub sections.

i) Designing interviews with the national authorities: the use of interviews based on semi-structured questionnaires

The ‘national survey’ was based on the conceptual framework adopted in this research, with the aim of understanding the viewpoints of the national authorities on the implications of EMU for the business environment faced by businesses, as well as the measures and the actions undertaken by the Portuguese national agencies as a result of the introduction of EMU. The nature of the institutions was also taken in account in designing the survey. As a result, the questionnaire did not only embrace the national views on the three levels of the business environment (as identified by the literature), but also gave particular emphasis to the views on the national environment and especially the Portuguese economy, since this is the area in which the national authorities are highly involved and most likely to provide information. For this purpose, the concepts of component 1 of this research framework (already explained in sub-section 4.2) and, more particularly, Porter’s Diamond Model, were used as the basis for the central questions of the national survey. The structure adopted to support the interviews (see, structure of the survey in Appendix A1.1), was divided into 7 parts covering the following areas:

- Part I. Information about the authority
- **Part II. The implications of EMU upon the Portuguese economy: general perspectives**
- **Part III. The implications of EMU at operational level of the authority**
- **Part IV. The implications of EMU for the Portuguese tourism sector**
- Part V. The implications of EMU at the level of the hotel industry
- Part VI. The implications of EMU at the level of individual businesses units
- Part VII. The respondent.

Parts II, III and IV were developed in great detail in this survey, by focusing on primarily open-ended questions on those topics in which the interviewees, by their activities, were likely to be more confident. For example, within part II, the central questions were expanded to

cover other aspects considered as relevant. For this purpose there were included open-questions about the influence of EMU on the economic situation of Portugal in order to understand how the national authorities explain the ongoing effects of EMU. They were also asked to explain the influence of the most common forces cited in the literature (i.e. Stability Growth Pact, Single Monetary policy and the Euro) for the economy of Portugal after the introduction of EMU. In part III, there were included specific questions focusing on changes in the activities and priorities of the national authorities as a result of EMU. In part IV, there were included specific open-questions on the implications of EMU for the Portuguese Tourism sector (namely, questions to understand the influence of EMU on the tourism national policies, national infrastructures and competition).

The main characteristics of the national survey are summarised in the following table (4.2).

Table 4. 2. Main characteristics of ‘national’ survey

DESCRIPTION OF DATA SET	HOW SAMPLE WILL BE SELECTED	NATURE OF INSTRUMENT ADMINISTRATION	SURVEY PURPOSES	SAMPLE SIZE	RESPONSE RATE (%)
Portuguese national authorities influencing the tourism sector	Judgment Sampling	Survey	Identify the perceptions and decision-making of the national authorities facing to the implications of EMU Explore the explanations on the national context	10 (from a population of 16)	63

ii) Designing interviews with the industry associations: the use of interviews based on semi-structured questionnaires

As far as the ‘industry survey’ is concerned, the aim was to design a survey with a view to obtaining information from the Portuguese hotel industry associations about their views on the implications of EMU on the business environment and their decision-making and, in particular, about the industry context after the launch of EMU. Following the conceptual framework of this research, Porter’s Five Forces model was the basis of the questionnaire which primarily focussed on the industry context. In addition, the viewpoints of the industry associations on the national and the operational environment of the hotels were also explored.

The industry survey, using a similar structure to the national survey, was adapted to the industry associations, putting emphasis on parts III, IV, V and VI rather than the part related to the implications on the national environment. As result, within the industry survey there were left out specific questions about the ongoing situation of economic in Portugal and the questions on the implications of EMU on the tourism sector and the hotel industry were underlined. Hence, parts III and IV included more than 50 percent of the questions asked in this survey. The structure adopted is presented below:

- Part I. Information about the association
- Part II. The implications of EMU upon the Portuguese economy: general perspectives
- **Part III. The implications of EMU upon Portuguese tourism sector**
- **Part IV. The implications of EMU at the level of the hotel sector**
- **Part V. The implications of EMU at the level of individual hotel units**
- **Part VI. The implications of EMU at operational level of the association**
- Part VII. The respondent

For the same reasons as for the national survey, the industry survey also adopted interviews based on a semi-structured questionnaire as the data collection technique (see, Appendix A.1.2). In fact, by using this technique the interviewer had the chance to ask for further clarification (by using open questions) and to pursue these issues according to the features of each respondent being studied without compromising the quality of the information collected. Table 4.3., summarises the main characteristics of this survey.

Table 4. 3. Main characteristics of 'Industry' survey

DESCRIPTION OF DATA SET	HOW SAMPLE WILL BE SELECTED	NATURE OF INSTRUMENT ADMINISTRATION	SURVEY PURPOSES	SAMPLE SIZE	RESPONSE RATE (%)
Portuguese industry associations linked with the hotel sector	Judgemental sampling	Survey	Identify the perceptions and decision-making of the industry associations, while organisations, facing to the implications of EMU Provide an overview of the competitive environment of Portuguese SMTEs	5 (from a population of 7)	71

4.4.7.2. Designing interviews with the hotel businesses: the use of structured questionnaires

Following the conceptual model adopted by this research, the questionnaires used with businesses hotels included 60 questions that, apart from specific questions related to the respondent and the hotel, were derived, essentially, from Porter's Diamond, Five Forces and Value Chain models. Through the use of these models, the different components of the business environment likely to be influenced by EMU: national, industry and the operational business environments were covered by the questionnaire. In order to emphasise the level at which the business respondents were highly involved, 40 per cent of the questions were devoted to the implications of EMU on the operational environment (part VI of the questionnaire).

The questionnaire was designed with six parts preceded by a general introduction to explain the purpose of the questionnaire and to ensure confidentiality in the treatment of the information. An explanation of the aim of each part is presented below and a copy of the questionnaire is in the Appendix A.1.3.

Part I - hotel details - aimed to obtain the hotel characteristics, such as: principal activity, location, type of ownership, number of establishments and locations, main sources of the capital used, number of employees, work force structure, services offered, presence in other countries, and so on.

Part II - identification of the manager/owner - sought to obtain details of the person who answered. Namely, in terms of academic and experience background, age and sex.

Parts III and IV aimed at providing information on the respondent's viewpoints of the implications of EMU on the macro environment, current and potential changes taking place in the external environment in which the hotel was operating, and identifying how the changes were affecting the business. The hotel's opportunities and threats as result of the external environment changing, due the introduction of EMU, were identified under these parts. At this point, three different political, economic and social issues were explored. Moreover, within these parts, questions were included to facilitate the analysis of the competitive advantage of Portuguese inbound and domestic tourism (using Porter's Diamond) under the context of EMU.

Under Part V the implications of EMU at hotel industry level were investigated. This part was based on the competitive approach, which embraces the identification by the business respondents of the factors that demonstrate that EMU affects, or does not affect, the competitive position of the hotel industry. This was based on the concepts of Porter's Five Forces framework, showing the influence of EMU on each of those forces which, according to Porter (1990), affect the profits of an industry.

Finally, Part VI, the central issue of this questionnaire, aimed to identify the implications of EMU on the different activities of the hotel, using an operational approach. For that, the concepts of Porter's Value Chain model were applied in order to examine the influence of EMU on all the activities a firm performs. This part also aimed to provide data on the weaknesses and strengths of the hotel in accordance with their resources and competences and as well to understand what the firm is doing (and, what the firm is expecting to do) to respond to the impacts of EMU.

Table 4.4, summarises the main characteristics of this survey.

Table 4. 4. Main characteristics of ‘business’ survey

DESCRIPTION OF DATA SET	HOW SAMPLE WAS SELECTED	NATURE OF INSTRUMENT ADMINISTRATION	STUDY PURPOSES	POPULATION	RESPONSE RATE (%)
Owners/managers of hotel Business	A list provided by the DGT Telephone directory Internet	Survey	Identify business’s perceptions and their decision-making facing to EMU implications in order to compete even better.	112 hotels	93

Beyond the attention devoted to the content of questions, the stage of designing questionnaire in this survey, as in the national and the industry surveys, involved consideration of other matters central to the success of a good questionnaire, such as: (i) the wording of questions; (ii) questions sequence; (iii) type of questions and (iv) length and appearance of the questionnaire. For this purpose, the main recommendations proposed by Descombe (1998) and Oppenheim (1999) were considered during the design stage of the questionnaire. For example, the questionnaire was written in a way to make it simple and easily understood by the interviewees. Some of the original terms used in Porter’s models on which the conceptual framework was based, such as the ‘power of buyers’ or ‘home demand’, were avoided and replaced in the text with simpler words that would be unambiguous in the context. In addition, there was a concern to design a questionnaire that was as user-friendly as possible and asked only questions that were absolutely vital for the research were also concerns. Moreover, there was a concern to adopt the right type of questions for the information needed. ‘Closed’ questions were used in the measurement of the perceived effects of EMU and ‘open-ended’ questions were used to have a greater flexibility of answers and to better understand responses to the closed questions, namely those ones which could offer doubts about the real meaning (e.g. *closed question*: Identify the main advantage brought about EMU based on a set of predefined options; *open question*: Why is this an advantage?).

4.4.7.3. Contacting the hotel' stakeholders (national authorities, industry associations and hotel businesses)

Having designed the questionnaires the next stage of data collection was to define the method of approach to the respondents.

The national authorities and the industry associations, after they had been selected on the basis of their influence on the environment in which the hotels are operating, were contacted by a letter addressed to the previously identified most senior member of each authority or association explaining the aim of the study and requesting an interview. For the purposes of this research, it was necessary to determine the viewpoint of the organisations rather than the personal viewpoint of the respondent. Thus, it was important to involve a respondent who could present the institutional viewpoint (e.g. ministry or president of the association).

Approximately two weeks after the letter was sent, the person or his/her assistant was contacted by telephone in order to confirm if he/she received the letter and if the interview could be booked. There were several cases within the national authorities that contact was made by the authority within two or three days of their receiving the request, suggesting their interest in the topic.

From the 16 national governing authorities and 7 industry associations selected, 10 national authorities and 5 industry associations agreed to participate in the study. Subsequently the interviews were scheduled for a convenient time and location. Those who declined the invitation claimed that their agenda was too full. There were two cases for whom, although an appointment was arranged, the interview did not materialise due to the official commitments of the respondent.

As to the hotel businesses, the process of approach to the respondents was quite similar. Each hotel, ranging from one to five stars according to Portuguese Tourism Board standards, was initially contacted by telephone in order to identify the name of the senior person, owner or manager, in the hotel with the aim of personalising the following contact. Then, a personalised letter was mailed, explaining the purpose of the study and its importance. The letter also served to reassure the potential respondents about anonymity.

Approximately one week after the letter was sent, a follow up telephone call was made to confirm if the potential respondent, had received the letter and if the meeting could be booked. As mentioned earlier, from the 112 hotels contacted, 104 people agreed to participate in the study, so the most suitable dates for the participants were identified. The remaining 8 declined the invitation stating that they did not have the time available to participate or that it was a policy of the hotel not to participate in any academic study. However, even with the exclusion of those hotels, the percentage of those participating was 93 percent of the population. Moreover, an analysis of non-responses, based on the hotels' location, type of ownership and star rating, suggested little differences between those that participated and those that did not participate. Thus, the results of the research could be regarded as representative of the whole population. It should be mentioned that among the 8 hotels that declined the invitation, 6 hotels do not appear on the Official DGT list of hotels, meaning that only 2 hotels derived from the official list did not participate in this study.

4.4.7.4. Carrying out the surveys

The final stage of data collection, **carrying out the survey**, is now explained. As the procedure of carrying out the survey was similar in the national and industry surveys, they are presented in the same sub section.

i) The national and the industry surveys

The 15 interviews were carried out over three months (March - May 2003) through face-to-face semi structural interview that lasted for about 1.45 hours each.

The researcher conducted the interviews personally in order to avoid bias, to increase the validity of data and also to have a direct contact with the respondent. The interviews, when authorised were taped, were carried out in different cities of Portugal. As the majority of the national authorities are located in Lisbon, most of the interviews were conducted there. However, they also took place in Oporto and Aveiro.

Furthermore, after the interviewee and interviewer had introduced themselves and passed over the ‘warming up’ stage, the main good practices of interviewing, suggested by authors such as Strauss and Corbin (1998) and Finn et al. (2000), were respected, meaning that, when conducting the interview, the researcher introduced the aims of research, kept to the agreed time, asked about taking notes and taping, kept to the objectives of the research, was formal but relaxed, led the interviewer, listened more than spoke and avoided interviewer bias.

The surveys were a relatively long process since they depended up the extremely full agendas of the respondents due their positions and responsibilities. Therefore, this process took more time than anticipated.

ii) Hotel businesses survey

The data from the hotel businesses were collected over five months (March-July 2002), through face-to-face interviews with hotel respondents supported by a structured questionnaire. In spite of face to face personal interviews being more expensive than other ways of surveying, such as by mail or telephone, the main benefit anticipated was that a higher response rate would be obtained.

Before the main study commenced the questionnaire was piloted in five hotel units. The objective was to test the validity of the survey questionnaire. Business respondents were asked not only to answer the questions, but also to underline factors that were not clear to ensure that all respondents understood every question. As a result of the comments made, it was found that there was no need for major changes but in different situations similar answers had different meanings. As result, it was decided to include *open questions* following the majority of the closed questions in order to better understand responses to the closed questions.

4.4.8. Data processing and analysis

Before the analysis, the data collected from the business survey were coded and entered into the Statistical Package for the Social Sciences (SPSS) 10.0. On the other hand the data collected from the national and industry surveys, since they used mainly open-ended questions, were

transcribed onto the computer, translated to English and entered into the NUD*IST (Non-numerical Unstructured Data Indexing, Searching and Theorising) software. This stage was very time consuming, for every hour of talk on a tape it took several more to transcribe it. However, as Descombe (1998) argued it is also a very important part of the research, because it brings the researcher 'close to the data'.

4.4.8.1. Analysing the structured interviews with the hotel businesses

According to the literature, there are two main statistical approaches to analysing quantitative data: descriptive statistics and inferential statistics (Finn et al. 2000; Balnaves and Caputi, 2001 and Jennings, 2001). Essentially, as Jennings (2001) stated, they differ in the relationship between a sample and its population. While descriptive statistics denotes the search for describing the aggregation of raw data in numerical terms, inferential statistics are based on probability sampling and are relevant to testing hypotheses and making statements about the sample in relation to the population being studied. Inferential statistics is used when 'it is necessary to infer from the sample to the population from which the sample was selected and only accounts for a small part (Balnaves and Caputi, 2001).

The choice of the use descriptive or inferential analysis depends on the aims, objectives and hypotheses of the research process, and, above all, it depends on if the researcher is dealing with data collected from a sample or a population. When analysing data based on a sample, the researcher's aim is to generalise to the survey population, which explains the use of inferential statistics (Finn et al, 2000). In contrast, when analysing data based on a whole population, researchers have included every member of a given population, thus inferential statistics should not be applied. On the other hand, the descriptive analysis can be used in both cases.

Bearing in mind the objectives of this research and the fact that, within the business survey, the data were gathered from effectively the entire population, the quantitative data were analysed using descriptive analysis. Inferential statistical procedures were not needed because there was effectively too few to infer to, and to take account of, in terms of those not answering potentially altering the answers/conclusions.

At an early point, the data were analysed using basic descriptive methods, such as frequencies and cross tabulations. These are statistical methods of summarising large quantities of data so that patterns and relationships within the data may be observed (Miller and Wilson, 1983). Indeed, the frequencies used for categorical variables, provide a clear description of the number and percentages of observation in some given category. In this case, each variable was examined separately - *Univariate technique* - with the aim of illustrating patterns and tendencies in the data, both for ease of presentation of the respondents' profile and the viewpoints studied. In addition, for continuous variables descriptive methods – median and mean – were used in order to summarise the characteristics of the group. Tests assessing the existence of statistically significant difference were not performed because the data were effectively a census.

4.4.8.2. Analysing the semi-structured interviews with the national authorities and the industry associations

The central approach used in this research in relation to the semi-structured interviews with the national and industry authorities and association, based on open-ended questions, was content analysis. The data were first analysed using two types of content analysis suggested by Jennings (2001): summation and explanation. *Summation* involves a data reduction into categories that integrate and generalise the major topics of the interviews. On the other hand, *Explanation* means that the text is explained based on the content of the documents (Jennings, 2001). The content analysis was supported by the software programme QSR NUD*IST 6, which essentially enables the researcher using key word searches, coding and retrieving text from multiple interviews in a database. This use of this research software was also helpful to pull up the sentence in which that key word was used, allowing to see the work in some context.

Therefore, to undertake the content analysis five main procedures suggested by Descombe (1998) were followed. They are now presented and explained.

- Breaking the data down into units for analysis. Based on the research framework, this procedure implied decisions on the units (words or sentences) that are useful for the analysis (e.g. national, industry and operational business).

- Identify relevant categories for analysing data. Once the data were analysed following the initial coding procedure, the concepts were organised by ‘key words’ on the basis of themes, concepts or similar characteristics, reflections on the categories (e.g. each concepts of the different models used in the framework).
- Code the units in line with categories, using the computer software. This procedure aims to make the connections between categories and the data from the coding procedure.
- Count the frequency with which these units occur, in order to identify how frequently it occurs and in what order it occurs. This was particularly useful in quantifying the responses obtained.
- Analyse the text in terms of frequency of the units in order to allow the researcher to understand how ideas are related (similarities and differences) and identify the participants’ views that enabled a description of the relevant aspects of the implications of EMU as understood by the national and industries organisations.

Commonly, although the content analysis was used as the main type of analysis within the national survey and industry survey, it should be noticed that the replies were not explored in a qualitative approach, commonly associated with content analysis. Instead, building on Onwuegbuzie and Leech (2004) and Witcher et al.’s (2003) studies, in which the authors illustrated how emergent qualitative themes could first be ‘quantitized’ and then subjected to descriptive analysis, the emerged themes from the content analysis were transformed into quantitative data based on the frequency with which an answer occurred. As suggested by Miles and Huberman (1994), there were two main reasons for doing this: to identify patterns more easily with the view to describe research results and to maintain analytical integrity.

4.3.8.3. Analytical Framework

The output of the primary research are presented in terms of the themes arising from the answers rather than by the surveys conducted. The logic behind this was to put together the

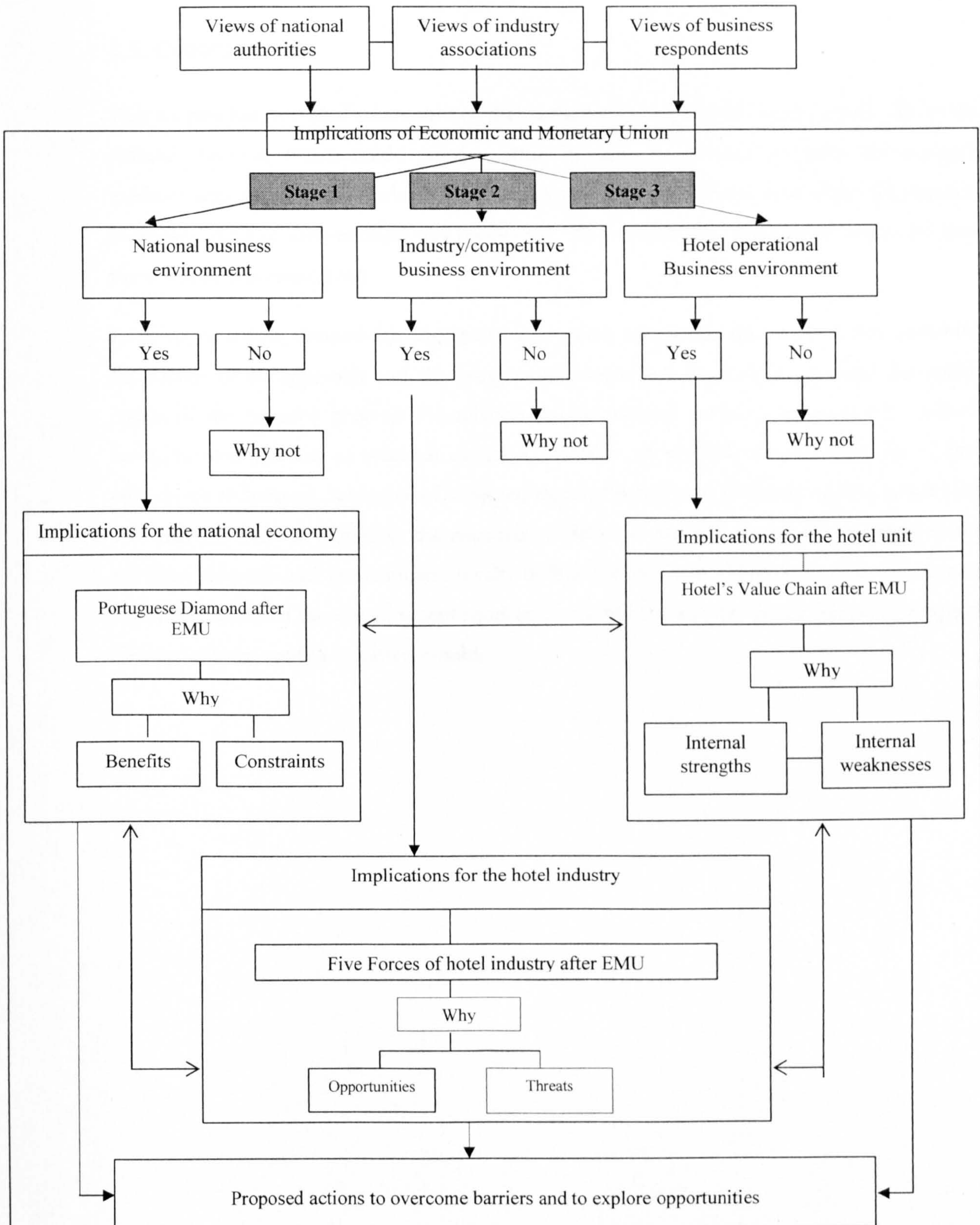
views of the three study groups on the same topics, instead of presenting these views separately in different chapters, which could make difficult an immediate comparison of perceptions and make the text repetitive. As result, the following framework was adopted in this research with the findings being presented in terms of the three levels of business environment:

- **Stage 1** - Chapter 5 - Analysis of the perceived effects on the national environment, using mainly Porter's Diamond Model;
- **Stage 2** - Chapter 6 - Analysis of the perceived effects on the industry competitive environment, through Porter's Five Forces Model
- **Stage 3** - Chapter 7 - Analysis of the perceived effects on the operational environment, by using Porter's Value Chain Model.

At each stage, the views of each study group are presented, analysed and compared. For this purpose, the findings resulting from the literature review and mainly from the primary data collection (surveys with 104 hotel business respondents and with 10 respondents from the national authorities and 5 respondents from the industry associations) are used. Nonetheless, it should be noticed that, as already explained previously, the contribution of the three study groups to each of the business environment levels and themes differs, since the main focus of each survey varied according to the main focus of each of the groups of respondents.

The analytical framework used to present the results is illustrated in Figure 4.7. and is recapped at the beginning of chapters 5, 6 and 7 to underline the focus in the analysis in the chapter.

Figure 4. 6. Main stages of the data analysis



4.5. CONCLUSION

This chapter has provided an account of the methodology used in the study. It summarises the research process, which made up the entire research programme, explains the research methods selected and explains both the research strategy and the manner in which the practical implementation of each method was conducted. This enables the reader to know exactly how the research was carried out.

In doing so it first, defined the conceptual framework adopted in this research and explained the choice of an approach and the *triangulation* perspective. Second, it discussed the multi-stages of the research process: formulation of the research problem, reviewing the related research, identification of research question, selection of research design, selection of data collections techniques, selection of subjects, data collection and planning of data processing and analysis. The chapter links the research models and research questions described in the previous chapters and the empirical results outlined in the next chapters. It does not discuss the performance of the measurement models. These will be reported in the following chapters dealing with the study's empirical results.

5. THE NATIONAL BUSINESS ENVIRONMENT AFTER THE INTRODUCTION OF EMU

5.1. INTRODUCTION

The academic literature, discussed in chapters 2 and 3, assumed that EMU represented one of the most significant changes in the business environment in participating countries. In fact, many authors (e.g. Barbosa et al. 1999; Jonung, 2002; Micco et al., 2003 and Mussweiler and Strack, 2004) and the media (e.g. Financial Times; Daily Mail; *Espresso* and Wall Street Journal) have claimed that EMU would bring many changes for the participating national economies by affecting the national environment in which enterprises are operating.

As mentioned in chapter 3, the literature commonly refers to changes in national economies as a new macroeconomic policy framework characterised by first, a single independent central bank responsible for monetary policy and with a strict mandate to preserve price stability being established and, second, the Stability and Growth Pact (SGP) setting behavioural guidelines for the fiscal policies of national authorities. Other changes discussed in the literature were already identified (Chapter 3, subsection 3.3.3.). However, as already mentioned in previous chapters, questions about the effects of EMU on the national economies and on national competitiveness were a critical element of discussion at the time this research began. The debate was essentially composed by two different views: the supporters and, on the other hand, the opponents and sceptics of EMU (DeGrauwe, 2005).

In fact, despite several years having passed, this discussion still continues. For instance, authors such as Trichet (2004) have supported the idea that the Euro has become a strong, stable and credible currency and, since the introduction of EMU, the Euro countries have witnessed a period of low rates of inflation and low levels of long-term interest rates. Consequently, it has been suggested that EMU has been highly successful in furthering macroeconomic stability in

Europe and national competitiveness (e.g. Mundell, 2004 and Trichet, 2004). On the other hand, several ideas have been proposed with reference to the weaknesses of EMU. The following provides a brief summary of these:

- (i) The Euro convergence criteria required by the Maastricht Treaty pushed forward great changes for the participating countries in terms of macroeconomic variables. Nonetheless, important macroeconomic factors such as unemployment were underestimated (Mathieu and Sterdyniak, 2003);
- (ii) Since the early days of EMU, some countries of the Euro Zone have witnessed a stagnation of their economies, higher levels of inflation, deterioration of their trade accounts and a reduction in the number of available policy tools that they can use to tackle their problems (*The Daily Telegraph* on June, 09, 2003 and EC, 2005a; EC, 2005b),
- (iii) Some countries, such as Portugal, have been under immense pressure by the European Commission to cut government spending wholesale as required by the Stability and Growth Pact, damaging consumer confidence and resulting in slow economic growth (FT on October, 23, 2003; EC, 2005a; EC, 2005b and EC, 2006).

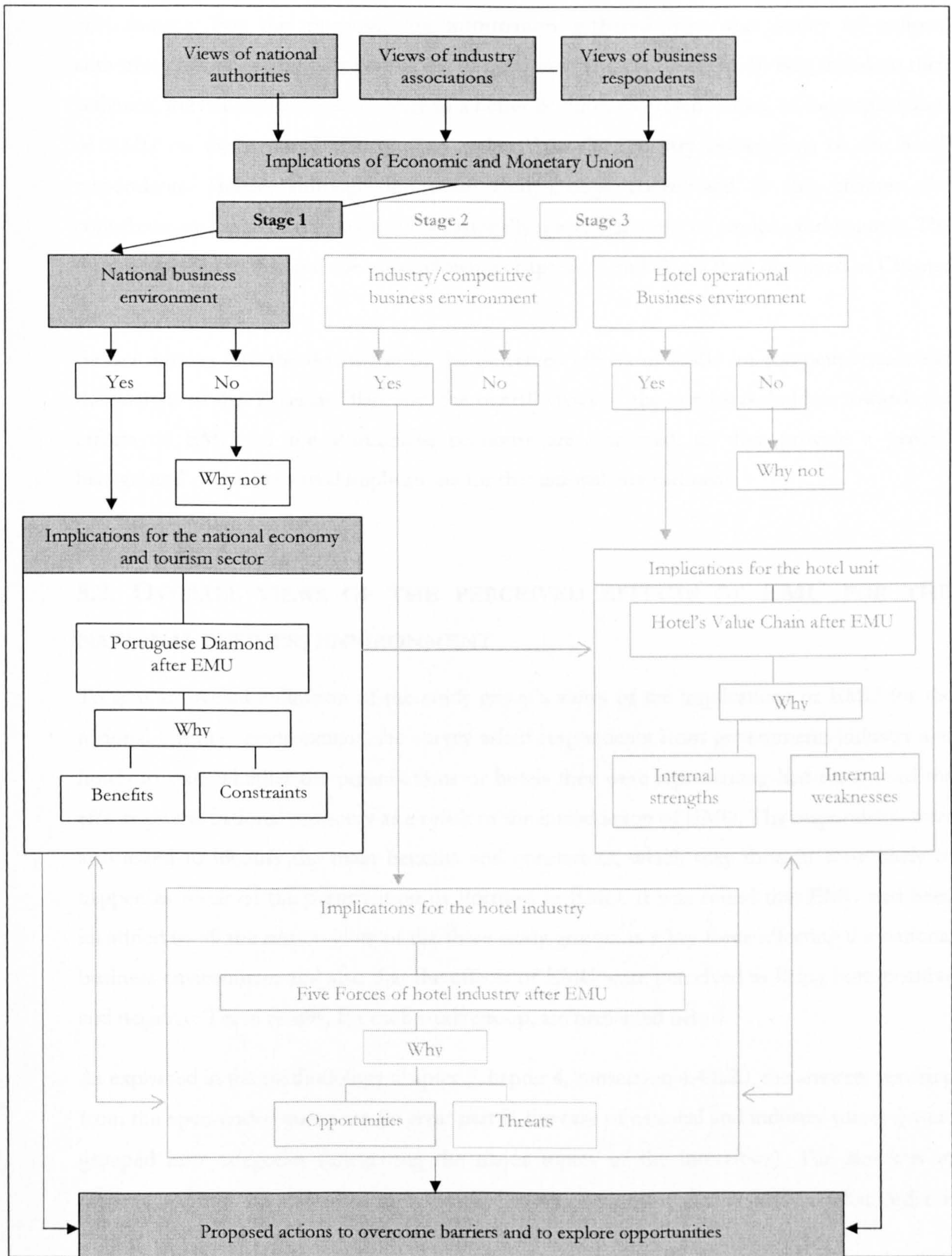
Within the debate of the effects of EMU, how have the stakeholders of the hotel industry in Portugal perceived and react to the changes brought about by EMU on the national business environment in which the Portuguese hotels are operating? Did they recognise and understand the effects of EMU on the Portuguese tourism competitiveness? Did the respondents anticipate, at the time the surveyed was run, such issues, meanwhile, identified in the literature?

The aim of this Chapter is to address the above questions by establishing the perceptions of the potential effects of EMU against the determinants of the Diamond model that Porter (1980, 1998) identified as relevant for national competitiveness, and which are, here, applied to the Portuguese economy and, in particular, to the Portuguese tourism sector. That is, *factor conditions, demand conditions, firm structure, strategy and rivalry; related and supporting industries and government* (Porter, 1980, 1998) (see chapter 2 for details). Given that *chance* (also considered by Porter to have an influence on the national system) relates to those events that are outside the control of firms, such as wars and terrorist attacks, they were not evaluated in this study.

Conversely since, within the context of EMU, there seems to be ample evidence that the *national Diamond* is influenced by factors outside the home country, as explained in the methodology chapter, an additional variable - the *supranational power of the EU* - was studied in spite of it not being in the original model of the Diamond. In fact, the original model does not adequately address the role of EU in the participating economies.

The following Figure (5.1) visualises the main stages of the data analysis presented in this chapter. They are identified by the boxes in grey. The remaining boxes (related to industry and hotel operational environment) are analysed in the next two chapters.

Figure 5. 1 Main stages of the data analysis of Chapter Five



As can be observed in the Figure 5.1 above, the focus in this chapter is on the national environment. For this purpose, the information gathered from the survey of national authorities forms a significant part of the discussion in terms of content. In fact, based on their activities, the national authorities were in a better position to present views on the implications of EMU on the national environment rather than the industry associations or the hotel respondents. Hence, although the three study-groups contributed to this chapter, the contribution of each of the groups is occasionally uneven in terms of amount and content. The results reported in this and the two following chapters (6 and 7) are then discussed in Chapter 8.

Before moving into the discussion of the perceived effects of EMU on competitiveness and the analysis of the Tourism Diamond, the overall views of the hotel stakeholders towards the effects of EMU on the Portuguese economy are discussed, as they provide a general background of the perceived implications for the national environment.

5.2. OVERALL VIEWS OF THE PERCEIVED EFFECTS OF EMU FOR THE NATIONAL BUSINESS ENVIRONMENT

To gain an overall indication of the study group's views of the implications of EMU for the national business environment, the survey asked respondents from government, industry and hotels to state whether the organisations or hotels they were representing had recognised the effects on the national economy as a result of the introduction of EMU. The respondents were also asked to identify the main benefits and constraints, which they thought were likely to happen as result of the participation of Portugal in EMU. It was found that EMU had been identified by all the respondents of the three study groups as a key force affecting the national business environment and also that the effects of EMU were perceived as being both positive and negative. These results, for each study-group, are presented below.

As explained in the methodology chapter (Chapter 4, subsection 4.4.8.2.), the answers resulting from the open-ended questions (in great part in the case of national and industry surveys) were grouped into categories (integrating the major topics of the interviews). The aim was to observe patterns of responses and identify how frequently it occurs and in what order it

occurred. Hence, as will be noticed in this section and also in the next ones, the information from open-ended questions is displayed in tables that show the aggregate categories (in italics) that resulted from the process of data reduction and illustrate the themes that made up main each category and explain the context of the answers (normal text). In addition, several quotations were presented as part of the text interpretation in order to reinforce an understanding of the more precise meanings of a specific question and thereby enriching the data presented.

5.2.1. Views of the representatives of the national authorities

As the results indicated (Table 5.1) all the national authority respondents believed that the process of EMU had impacted, and would impact, positively on economic activity in the Euro countries namely in the medium and long-term of EMU.

Table 5. 1. National authorities' perceptions of the positive outcomes of EMU for the Portuguese economy and the explanations given

Aggregate description of positive outcome (<i>italics</i>) and specific answers combined to form aggregate positive outcome description (normal text)	Number of respondents anticipating a positive outcome	Number of responses informing the positive outcome
<i>Deepening of economic integration between EU members</i>	3	
Single Monetary Policy as a new step of European integration		2
Common currency is a tangible element that consolidates the European project		1
<i>Improving the Portuguese image</i>	2	
Strong image of EU in the World Economics and Politics		2
Developing a greater European Identity		1
Improving the international business power		1
<i>More competitive environment</i>	4	
Reductions in transactions costs, exchange risk and the possibility of gleaning additional economies of scale which together increase competition		4
<i>Improving the macroeconomic climate (economic growth) at medium and long term</i>	10	
Low level of inflation		5
Strong currency		1
Single currency		2
Reduce real interest rates and thereby stimulate investment, output and employment		8
Price transparency		1
<i>More efficient political and financial integration at medium and long term</i>	1	
New macroeconomic climate		1
<i>Reduction of the interest rates</i>	3	
Economic and fiscal convergence		3
<i>Ease in doing business</i>	2	
Improving the macroeconomic climate of business		2
Lower transactions costs		2
<i>Exchange rate stability</i>	10	
Single Monetary Policy		10

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Using multiple responses, the national respondents indicated that they believed that EMU was intended to create a stable macroeconomic environment through greater exchange rate

stability, lower transaction costs, lower levels of inflation, ‘price transparency’, employment and a strong single currency. In particular, they shared the idea, as stated by one of the authority respondents, that:

“EMU and a single currency prevent exchange rate turbulence within the Euro market” and “decreases economic uncertainty for consumers and enterprises, due to the end of exchange rate oscillations.”

Among the answers obtained, it was found through 4 responses that EMU encouraged competitiveness, which was considered to be positive for the Portuguese economy. In addition, as shown in Table 5.1, that reflects what the respondents said, the benefit caused by the reduction of interest rates within the Euro Zone was also perceived (three times). as being important The following quote of one national authority demonstrates these views:

“In the future, the economic situation and consumer welfare will tend to improve, since there are still low interest rates and there are also a single monetary policy and real economic convergence”.

Finally, it was evident that there were two views that Portugal’s international image had improved after the introduction of the Euro.

Nonetheless, it should be noticed that a further analysis of the explanations provided by the national authorities revealed that all of the respondents believed that, *“to reap the benefits of EMU, all the countries involved needed to make further efforts”*,. Some of the issues identified in the literature, for example, those focussing on the Portuguese case (Barbosa et al. 1999) argued that there was a need for effective coordination of common European policies, an adoption of a rigorous fiscal discipline and the completion of all the other requirements of the SGP, were also identified by 8 out of the 10 national authorities interviewed. In addition, for these authorities, the need to fulfil these requirements had delayed, in part, the arrival of the main benefits brought about by EMU. But, as they said, in the medium and longer term the Euro countries will witness the success of EMU. For them, EMU should not be blamed for the fact that several countries and, in particular Portugal, were in economic recession (at the time the survey was run). As mentioned by one respondent:

“Portugal has been in a period of economic adjustment, because during the Nineties there had been excessive government expenditure, not due the introduction of EMU”.

Views of EMU constraints

When the respondents were asked about the negative implications caused by EMU for the national economy, it was found that all of the national authority respondents perceived no negative effects brought about by EMU, but they did anticipate some constraints or challenges, as six of the authority respondents preferred to call them. These outcomes and their explanations are identified in Table 5.2 below in accordance with the number of responses and respondents referring these effects.

Table 5. 2. National authorities' perceptions of the constraints of EMU for the Portuguese economy and the explanations given

Aggregate description of EMU constraints (<i>italics</i>) and specific answers combined to form aggregate outcomes description (<i>normal text</i>)	Number of respondents identifying constraints	Number of responses identifying constraints
<i>Loss of sovereignty</i> Loss of national monetary policy at national level	3	3
<i>Labour market rigidity in the medium and long term</i> Absence of labour market convergence criteria	1	1
<i>Increasing competition</i> People and enterprises are not ready for additional competition	2	2
<i>Portugal entered in the wrong way</i> Lack of 'real' convergence	2	2
<i>Strong currency valuation in the long term</i> Loss of competition	1	1
<i>Lack of ability of, and reaction by, the enterprises to face the new environment</i> Small size of enterprises	4	4
<i>Operational and institutional costs during the transitional period</i> Change of currency	2	2
<i>Reduction of National Investments in the medium term</i> Need to fulfil the requirements of EU	1	1
<i>There are no negative effects</i>	4	

Note: 1. The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Four responses indicated that there were no negative implications for the Portuguese economy. However, in terms of negative answers, the *'lack of ability of, and reaction by, the enterprises to face the new environment lack of the enterprise reaction'* was the most frequently cited challenge by the national authorities (cited by 4 national authorities). For these respondents, the small size of enterprises could affect their ability to cope increasing competition.

A further analysis of the main challenges identified and the reasons behind the other national authorities' responses highlights other issues. For instance, the fact that political decision taking became constrained (through the loss of policy tools in terms of sovereign monetary and exchange rate policies) was also mentioned. It was argued that Portugal, as with the other Euro countries, lost the ability to use monetary and exchange rate policy in order to address economic shocks and this could be a constraint for the Portuguese economy. In addition, the initial costs of switching to the Euro and the implementation of the new legal, economic and financial institutional frameworks were also mentioned (two times).

Despite the above mentioned aspects resulting from participation in monetary integration, it should be noted that the 6 respondents who identified constraints or challenges believed that the potential benefits would be more important than these factors and they would help to overcome the obstacles caused by the implementation of EMU.

5.2.2. Views of the representatives of hotel industry

Similar to the results obtained for the national authority respondents, the responses given by the industry association respondents (Table 5.3) lead to the conclusion that the five associations interviewed considered that EMU improved the macroeconomic environment. The decrease in real interest rates, the level of inflation and exchange rate stability and the end of cost transactions within the Euro zone were the main reasons cited by these respondents for the improvement of the macroeconomic environment. As result, all of the association's respondents believed that, in the short, medium and long term, consumers, investment and employment would be positively affected. In addition, one of the respondents added that *"Portugal, as with the other Euro national economies, would benefit from a stronger currency in the world"*.

Based on three responses the data also revealed that EMU represented a deepening of European economic integration, since it implied a single monetary policy and a convergence of national economic policies. The remaining responses pointed to the increase in the efficiency of the single market due to the single currency. These findings are presented in the following table (5.3), which identifies the aggregate description of the positive outcomes and the main reasons for those outcomes brought by EMU.

Table 5. 3. Industry associations' perceptions of the positive outcomes of EMU for the Portuguese economy and the explanations given

Aggregate description of positive outcomes (<i>italics</i>) and specific answers combined to form aggregate positive outcomes description (normal text)	Number of respondents giving the positive outcome	Number of responses forming the positive outcome
<i>Deepening of economic integration between EU members</i>	3	
Single Monetary Policy		3
Common currency is a tangible element that consolidates the European project		1
<i>A more efficient single market</i>	2	
Single Monetary Policy		2
Single currency		2
Reductions in transaction costs, exchange risk and the possibility of gleaning additional economies of scale		1
<i>Improving the macroeconomic climate</i>	3	
Low level of inflation		2
Lower transactions costs		2
Reduced real interest rate and thereby stimulates the investment, output and employment		3
Stimulation of the consumer		4

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

From Table 5.3 it is also evident that the same explanations were offered for different benefits. For example, single monetary policy was the reason behind a more efficient market and also deepening of economic integration. This suggested some similarities in the views presented, although presented in different way.

Views of EMU constraints

In terms of the constraints (Tables 5.4 below), the data from the industry association survey indicated that, with the exception of one respondent, all the industry associations shared the opinion that there were some challenges brought about by EMU.

Table 5. 4. Industry associations' perceptions of the constraints of EMU for the Portuguese economy and the explanations given

Aggregate description of negative outcomes (<i>italics</i>) and specific answers combined to form aggregate constraint outcomes description (normal text)	Number of respondents identifying constraints	Number of responses forming the constraints
<i>The rigour required by SGP</i>	3	
The economic situation is negatively influenced by cuts in the government budget		3
<i>The inability of Portugal to reply with efficiency to the deepening of European integration</i>	2	
The lack of productivity and of business strategies and proactive reactions		2
The Portuguese mentality and lack of qualified people		2
Single Monetary Policy		1
<i>Inflation</i>	1	
Opportunism by some people as a consequence of the changeover		1
<i>There is the risk of the currency valuation in the medium term</i>	1	
Strong currency due to an increasing demand for Euros		1

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

In accordance with data from Table 5.4, the SGP was the major concern of the respondents, because they believed that the level of Government investment would be affected by the strict rules imposed by the Pact. In this respect, one association added that EMU would possibly contribute to a delay in Portuguese economic growth since, as its representative mentioned:

“EMU required additional efforts by the participating countries to fulfil the Maastricht requirements and SGP, which in the short term had influenced the number of new national investments. The need to reduce national expenditures pushed national authorities to limit national investments”.

Moreover, it was also evident among the responses that there were worries about the ability of Portugal to respond with efficiency to the deepening of European economic integration, which pushes the enterprises into a more and more competitive and demanding market. They feared that the lack of productivity, of qualified people and of a spirit of enterprise would cause problems to Portugal. One of the respondents mentioned as a constraint “*an inflationary moment when the changeover period took place*”, but added that “*it was a transitory situation*”. There were two additional references concerning the risk of the Euro becoming a very strong currency and the risk of Portugal not being allowed to use its own monetary policy to respond to possible asymmetric shocks.

5.2.3. Views of the business respondents

The data from the business survey (using a closed question) revealed that all of the respondents recognised the potential effects on the Portuguese economy brought about by EMU. As Table 5.5 demonstrates, a very high percentage of the business respondents (96%) had positive attitudes towards the effect of EMU on the Portuguese economy.

Table 5. 5. General attitudes of the hotel business respondents towards the Portuguese participation on EMU

General attitude	Total	
	N	%
Positive attitude	100	96
Negative attitude	3	3
Uncertain	1	1
Total	104	100

When the hotel respondents were asked, through the use of two multiple response questions, to identify the two most important benefits and constraints for the Portuguese economy because of joining EMU, a close examination of the responses revealed that 100 respondents identified benefits, while only 68 respondents identified constraints. Moreover, from the

responses obtained a number of common ideas were evident in terms of benefits and constraints, which made it possible to cluster the responses into meaningful categories created according to the similarities of the answers.

Positive views

Table 5.6. summarises the benefits most frequently identified by the respondents. The main constraints are summarised after the discussion of these benefits (see, Table 5.9).

Table 5. 6. Perceptions of the business respondents on the positive outcomes of EMU for the Portuguese economy

Positive outcomes	Total	
	N (n=200)*	%
Simplicity and business efficiency	89	45
Political and economic convergence	43	22
Portuguese economic development	29	15
Improving the competitive position	20	10
Improving of the image of Portugal	11	6
Increasing rigour as a result of EU intervention	8	4
Total	200*	100

* Note that the counts add up to 200. That is the total number of responses because each respondent could give up to two responses.

In overall the benefit most frequently mentioned by the respondents was '*simplicity and business efficiency*', which was cited 89 times (45%). Conversely, '*increasing rigour as a result of EU intervention*' was the least frequently benefit cited (8 times in 200 or 4%).

Regarding the reasons given by these 100 respondents (Table 5.7), who identified benefits to explain the advantages of EMU, answers such as '*the use of a single currency*' and '*increasing Portuguese prestige*' took a large proportion of the overall responses. Nonetheless, the respondents also mentioned reasons such as '*business simplicity*', '*EU is more rigorous than Portugal*',

‘stronger position of Portugal around the world’, and ‘economic convergence’. As in the above table (5.6), the results are presented based on multiple responses which explain why the results come to a total of 200 and not 100.

Table 5. 7. Main reason presented by business respondents for each positive outcome identified

Single reason (normal text) for each perceived outcome (bold and italics)	Total	
	N	%
<i>Simplicity and business efficiency</i>	<i>(n=89)</i>	
The use of a single currency	82	92
End of some bureaucracy	7	8
<i>Political and economic convergence</i>	<i>(n=43)</i>	
Business simplicity and efficiency	34	79
Increasing Portuguese prestige	9	21
<i>Portuguese economic development</i>	<i>(n=29)</i>	
The use of a single currency	18	62
Increasing Portuguese prestige	11	38
<i>Improving the competitive position</i>	<i>(n=20)</i>	
Business simplicity and efficiency	18	90
End of some bureaucracy	2	10
<i>Improving of the image of Portugal</i>	<i>(n=11)</i>	
Stronger position of Portugal	7	64
Economic Convergence	4	36
<i>Increasing rigour as a result of EU intervention</i>	<i>(n=8)</i>	
EU is more rigorous than Portugal	5	63
Increasing Portuguese prestige	3	37

Note: the number in brackets correspond to the total number of respondents identifying each outcome

It is clear from Table 5.7 that in some cases, the same reasons were given to explain different benefits. For example, ‘the use of a single currency’ was the main logic behind the responses given by those respondents who identified ‘simplicity and business efficiency’ as an advantage, but also by the responses given by those respondents who identified ‘Portuguese economic development’ as a benefit.

Since the review of the literature had demonstrated that ‘**increasing economic stability**’, was one of the main common benefits cited by the proponents of EMU, the business respondents

were asked to identify his/her level of agreement about of the advantage proposed in the literature. This was done in order to compare the benefits perceived by the business respondents with the main advantages cited by the literature. For this purpose the business survey used a closed question, meaning that the respondents had to opt for one of the following answers: ‘*completely disagree*’, ‘*disagree*’, ‘*agree*’, ‘*completely agree*’ and ‘*neutral*’. There were no ‘*completely disagree*’ or ‘*completely agree*’ answers given by the respondents, as result they were excluded from Table 5.8.

Table 5. 8. Agreement of the hotel business respondents with increasing economic stability being an advantage of joining EMU

Hotel business' views	Total	
	N	%
Disagree	10	10
Neutral	19	18
Agree	75	72
Total	104	100

Table 5.8 demonstrates that more than 70 percent of the respondents agreed that EMU would increase economic stability nevertheless, 8 percent of the respondents disagreed and 18 percent took a neutral position.

Views of the constraints of EMU

In terms of the likely negative effects caused by EMU, the data from the business survey revealed that, when the hotel respondents were asked to identify the two main disadvantages/constraints brought about by EMU for the Portuguese economy, only 68 respondents said that they could identify negative implications. Hence, as compared to the perceptions of the benefits, a considerably lower number of respondents recognised disadvantages (68 against 100 respondents). In addition, from these 68 respondents, only 39

respondents identified two disadvantages, the remaining 29 identified only one disadvantage, even though they could state up to two responses.

The list of disadvantages identified is presented and ranked in Table 5.9 in accordance to the total number of times they were cited by the respondents, as shown in the right hand column. For example, the disadvantage that the respondents listed most often was ‘*loss of sovereignty*’ (41 times), while the least cited disadvantage was ‘*additional competition*’ (15 times).

By comparing these results with the most cited disadvantages found in the literature, namely: ‘*loss of option to manage exchange rates*’ and the ‘*strength of the Euro*’ (e.g. Torres, 1998), it is evident that these respondents support the fact that the loss of sovereignty (caused by a European single monetary policy) could be a disadvantage to Portugal. However, in terms of the likely strength of the Euro, there was much less evidence that the hotel stakeholders support the views found in the literature on EMU.

Table 5. 9. Perceptions of the hotel business respondents of the negative outcomes of EMU for the Portuguese economy

Negative outcomes	Total	
	N (n=107)	%
Loss of sovereignty	41	38
Increasing gap between the Euro members	29	27
Inflation	21	20
Additional competition	16	15
Total	107*	100

* Note that the counts add up to 107 instead of 136 as expected, because from the 68 respondents only 39 identified two disadvantages

When asked to explain the disadvantages identified by giving the main reason for the disadvantage, various reasons were identified. Namely, ‘*increasing EU intervention in the national economy*’ and ‘*lack of enterprises preparation*’, were the most cited reasons (see, Table 5.10.). From the results, it was also evident that the same reason was used to explain different

disadvantages. For example, the *'lack of enterprises preparation'* was given to explain an increasing gap between the Euro members, but also competitive concerns.

Table 5. 10. Main reason presented by business respondents for each negative outcome identified

Single reason (normal text) for each perceived outcome	Total	
	N	%
<i>Loss of sovereignty</i>	<i>(n=41)</i>	
Increasing EU intervention in the national economy	41	100
<i>Increasing gap between the Euro members</i>	<i>(n=29)</i>	
Lack of enterprise preparation	27	100
<i>Inflation</i>	<i>(n=21)</i>	
Portuguese mentality	15	71
The high value of the Euro	6	29
<i>Additional Competition</i>	<i>(n=16)</i>	
Lack of enterprise preparation	11	69
Portuguese economic situation after EMU	6	31

Note: the number in brackets corresponds to the total number of respondents identifying each outcome

5.3. PORTUGUESE TOURISM COMPETITIVENESS AFTER EMU

There was no consensus in the literature as to the likely effects of EMU on the competitiveness of Portugal. Authors such as Keller (1998) expected that factors such as a strong European currency and the loss of a national exchange rate policy would reduce the competitiveness of Portugal's tourism. Consequently, Portugal may no longer be able to compete effectively on price as it did in the past. Other authors such as Torres (1998) argued that, following the introduction of EMU, Portugal had more chance to be competitive because, for example, increasing simplicity and price transparency would benefit the competitiveness of the tourism sector. Therefore, in the surveys it was asked if the respondents thought EMU had affected Portuguese competitiveness in terms of tourism. The results are

discussed below. Chapter 8 presents further discussion on this topic by comparing the views between the three stakeholder groups.

5.3.1.1. The views of the national authorities on tourism competitiveness

Six of the 10 authorities believed that EMU had positively affected the competitiveness of Portugal as a tourism destination, showing similar views in their explanations (Table 5.11).

The following quotation by one respondent summarises their views:

“EMU brought about a new macroeconomic environment, which has improved the competitive environment of Portugal and the tourism sector”.

In addition, it was mentioned twice that, because the single currency implied the elimination of exchange rate risk and exchange conversion costs, *“the transactions costs in trade activities were reduced”*. As reported within one of the responses, this, together with *‘the price transparency across the Euro countries, contributes to greater competition, and to attracting investors’*.

Table 5. 11. National perceptions of the effects of EMU for Portugal as tourism destination

Aggregate description of the perceived effects of EMU for Portugal as tourism destination (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents	Number of responses forming the aggregate description
<i>EMU increases tourism competitiveness</i>	6	
The competitive environment of Portugal benefits from a new macroeconomic environment brought about by EMU		6
The Euro makes business and movement easier within the Euro area		2
‘Price transparency’ across the Euro countries contributes to greater competition		3
‘Price transparency’ might represent a risk for the competitive tourism business environment of Portugal		1
<i>EMU is not an essential factor affecting the competitiveness</i>	3	
Quality is more important to obtain competitiveness		3
Competitiveness is based essentially on the products characteristics of the products		2
EMU helps to obtain competitiveness but is not the most important factor		1
Do not have a view	4	
Do not have official views		4

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

Among the remaining responses, it was found that the national authorities thought that the services and tourist products provided in Portugal have a better relationship between *'price and quality'* than in the other Euro countries. For these respondents, this together with the fact that *'the Euro makes the tourist life easy'*, specifically the movement of tourists within the Euro's zone, would benefit Portugal.

On the other hand, another authority mentioned that they were quite sceptical about the positive relationship between EMU and tourism competitiveness. This respondent indicated that even if *'price transparency'* might be a benefit, it also might represent a risk for the competitive tourism business environment of Portugal. Within the answer, he explained that:

"The higher exposition of prices after the introduction of EMU may encourage tourists to opt for the Spanish services, since they are offering similar or better services at a cheaper or the same price than the Portuguese service".

In addition, three respondents mentioned that they considered that EMU affects the competitive environment but not directly. These respondents argued that EMU helps convergence and, indirectly, the process of becoming competitive, but it is not an essential factor affecting the competitiveness. Indeed, they shared the idea that factors such as *'quality'* and the *'characteristics of the products or services'* are much more important factors affecting the competitive position than EMU. In this line of thought it was mentioned in one of the answers that *"EMU might facilitate and incite competitiveness, but has not had a direct influence on Portugal as tourism destination"*.

It should be noticed that 4 out of 10 national authorities had no view on this topic, answering that they have no official data which could help them to have a view.

5.3.1.2. The views of the industry associations on tourism competitiveness

Among the representatives of the industry associations the pattern of responses was almost equally divided (Table 5.12). Three of the associations stated that the competitiveness of the

tourism sector was not affected, while the other two said that EMU affected Portugal at this level.

Table 5. 12. Summary of the industry associations' perceptions on the effects of EMU for Portugal as tourism destination

Aggregate description of the perceived effects of EMU for Portugal as tourism destination (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents	Number of responses forming the aggregate description
<i>EMU increases tourism competitiveness</i>	2	
EMU intensifies tourism competitiveness, which requires new strategies and proactive measures		2
The Euro simplifies business activities increasing competitiveness		1
<i>Tourism competitiveness was not significantly affected by EMU</i>	3	
Other issues are more important to obtain competitiveness		1
Competitiveness is based essentially on the product and service quality		3

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

For those respondents who did not believe in the effects on competitiveness (3), competition was seen to be linked, essentially to factors such as quality or the prices of services/goods. As one association representative responded: “*EMU or a single currency did not have a direct influence on these factors*”. In fact, for this respondent and the other two, the loss of the ability to use exchange rate policy, pointed out by some studies as a factor that could affect the competitiveness of the countries in the Euro zone (e.g. Deloitte and Touche Consulting, 1998; Bywater; 1997), was not a concern, since they believed that the price of the currency has not been so important for tourist choices. One respondent added that “*the use of exchange rates would be important for the textile sector, but not for the tourism sector due to the nature of this sector*”.

On the other hand, in the view of the remaining two associations, EMU affected tourism competitiveness, because the new business environment brought about by EMU required proactive measures and strategies, reinforcing a more and more competitive environment.

5.3.1.3. The views of business respondents on tourism competitiveness

Table 5.13 shows that effectively half of the respondents (54% of total) believed that EMU had affected, either positively or negatively, Portugal's competitive position and, consequently, Portugal as a tourism destination. Almost 40 percent said that EMU had positive implications for the competitive position of Portugal, while 14 percent considered that the effect was negative.

Table 5. 13 Hotel businesses' perceptions on the effects of EMU for Portugal as a tourism destination

Effects of EMU for Portugal as tourism destination		Total	
		N	%
Effects	Positive	39	40
	Negative	14	14
	No effects	45	33
	Don not know	6	6
	Total	104	100

The main reasons given by the respondents to explain their views are presented in the following table (5.14).

Table 5. 14 Main reason that the hotel businesses identified, or not, implications of EMU on Portugal as a tourism destination

Single reason (normal text) for each perceived effect (<i>italics</i>)	Total	
	N	%
<i>Positive effects</i>	<i>(n=39)</i>	
The existence of different prices of services offered	18	46
Simplicity	21	54
<i>Negative effects</i>	<i>(n=14)</i>	
The existence of different prices of services offered	9	64
Portuguese enterprises are not ready for the need to improve services and quality	5	36
<i>No effects</i>	<i>(n=45)</i>	
EMU is just an instrument	21	47
The existence of different prices of services offered	1	2
Other factors are more important	23	51

Note: the number in brackets corresponds to the total number of respondents expressing each view

It can be seen in Table 5.14 that ‘*the existence of different prices of services*’ and ‘*simplicity*’ were the reasons most cited as implications of EMU on Portugal’s as a tourism destination (49 times). For the majority of these respondents, services and products had lower prices in Portugal than in other Euro countries, affecting positively the position of Portugal as a tourism destination. However, it should be noted that some respondents used the same argument to say that the existence of different prices could have a negative effect on Portugal, because from their point of view the services were more expensive in Portugal than in countries such as Spain.

5.4. THE PORTUGUESE TOURISM DIAMOND AFTER EMU

The aim of this section is to discuss the perceptions of the effects of EMU on tourism competitiveness by using the model of the Diamond and, in particular, the four dimensions that Porter (1990) identified as relevant for national competitiveness: *factor conditions*, *demand conditions*, *firm structure, strategy and rivalry* and *related and supporting industries* (Porter, 1980, 1998)

and also two additional factors considered to have an influence on the national system: *government* (as suggested by Porter, 1990) and the *supranational* power of EU.

5.4.1. Factor conditions

As mentioned in the Chapter 3, this dimension includes natural and cultural resources, capital, infrastructures and human resources. For this study, the natural resources were excluded from the analysis for the obvious reason that the natural resources that Portugal enjoys in terms of landscape and climate would not change due to the introduction of EMU. As a result, this subsection focuses on the influence of EMU on factor conditions related to capital, infrastructure and human resources.

5.4.1.1. Capital

The availability of capital assumes a particular importance for the growth of businesses and is particularly important in the hotel industry where initial investment requires larger amounts of capital in comparison with the other tourism enterprises. It is also evident that public sector investment in infrastructure, which contributes to the growth of the tourism sector, such as transport, airports or basic public services, requires large amounts of capital. As a result, any change in the capital markets may have important effects on tourism development.

Within the context of EMU, many economists, such as Spiegel (2004), argued that monetary integration leads to financial integration, having positive consequences on bilateral borrowing from EMU partner nations and also on the cost of capital. He explained that a country's accession to the EU required the elimination of its capital controls and allowed banks from EU creditor nations to operate within its borders bringing lower costs in terms of capital available. Hence, according Spiegel (2004), there was a dramatic increase in Portuguese borrowing through the 1990s. At the same time, the share of borrowing from EMU-partner nations in Portugal more than doubled, from 37.5 percent of overall borrowing on average per year during the period before 1991, to 85.6 percent of overall borrowing on average after 1999 (Spiegel, 2004).

When the study groups involved in this study were asked about the effects of EMU on capital, it was evident that there were different views within the three groups of stakeholders. The results found in each study group are discussed as follows and compared in Chapter 8.

5.4.1.1.1. The views of the national authorities

From the data gathered with the national authorities (Table 7.15), it was evident that some effects commonly pointed out in the literature (e.g. Spiegel, 2004), such as an increase in the amount of capital available after the introduction of EMU and, consequently, a decrease in its cost, were recognised by all the authorities.

Table 5. 15 National authorities' perceptions on the effects of EMU on the relationship EMU and capital

Aggregate description of the perceived effects of EMU in capital (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts positively capital</i>	8	
EMU consolidates free movement of capital		3
Capital market became more efficient		8
<i>To witness a positive relationship between EMU and capital there are some requirements to fulfil before</i>	2	
Private and public borrowings need to be controlled to obtain benefits		1
At present the level of indebtedness is too much higher to have benefits		1
<i>Do not have a view</i>	2	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

As shown in Table 5.15, 8 responses indicated that EMU had brought about positive effects in terms of free movement of capital and an efficient capital market. However, within the responses of national authorities, it was evident that two authorities believed that the positive relationship between EMU and capital was undermined, explaining, for instance, that people in general, entrepreneurs and some former governments had increased the level of indebtedness as result of lower interest rates instead of making new investments. As result, these two

respondents believed that in order to increase the benefits from EMU through a more efficient market, public and private borrowing should be based on the needs of investment, which they believed would happen in the short to medium term.

Moreover, the responses also showed that 2 out of 10 national authorities had no view on this topic, saying that they never thought about this, because they believed that other national authorities, such as the ministries of Finance and Economy, would reflect on this.

5.4.1.1.2. The views from the industry associations

Within the industry associations' responses, it was found that 4 out of 5 association respondents interviewed believed that, after the launch of EMU, there was more capital available in Portugal. This was believed to be the result of the free circulation of capital within the Euro zone, which they suggested was encouraged by EMU. Nonetheless, it was indicated through three responses, that access to capital was still a problem for SMEs, a size category which describes the majority of tourism enterprises. In contrast, in another responses it was pointed out that in the view of the association that the respondent represented "*there were no effects of EMU on the cost of capital or amount of capital available*", explaining that "*since the beginning of the 1990s and, in particular since 1993, the participating countries of the European Union already had a common market in terms of goods, people, services and capital*". In addition, as he mentioned "*SMTes still have problems in financing their needs*" and "*EMU could not help these enterprises*". A summary of the two main patterns of the results are presented in the following Table (5.16) in accordance of the responses obtained.

Table 5. 16. Industry associations' responses on the relationship EMU and Capital

Aggregate description of the perceived effects of EMU in capital (<i>italics</i>) and specific answers combined to form aggregate description (<i>normal text</i>)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts positively capital</i>	4	
EMU consolidates European common market		3
There are more capital available in the Euro zone		4
EMU encourages free movement of capital		2
<i>There are no effects on capital as result of EMU</i>	1	
The effects on capital were result of the single common market		1

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

5.4.1.1.3. The views from the hotel businesses

An analysis of the frequencies (Table 5.17) shows that 83% of the total business respondents believed that EMU did not have any impact on the cost of capital, revealing a clearly different point of view to the majority of the respondents of the other two study groups.

Table 5. 17. Perceptions of the hotel business respondents of the effects of EMU in the 'cost of capital'

Effects of EMU in the 'cost of capital'	Total	
	N	%
Increased	-	-
Decreased	5	6
No Change	86	83
Do not know	13	13
Total	104	100

A similar result was found when the business respondents were asked about changes in the 'access to capital'. As shown in Table 5.18, the majority of the respondents (56%) did not expect changes on this topic.

Table 5.18. Perceptions of the hotel business respondents towards the effects of EMU in the 'access to capital'

Effects of EMU in the 'access to capital'	Total	
	N	%
More difficult	3	3
No change	57	56
Easier	31	30
Do not know	13	13
Total	104	100

When these respondents were asked about the reasons why the access to capital had not changed, the only explanation provided was related to the fact that the Portuguese bank bureaucracy had remained after EMU, impeding any positive effect on capital market. In fact, from the point of view of three respondents, bank bureaucracy should be eliminated in order to increase the possible benefits of EMU on levels of capital. In contrast, for those respondents who expressed positive views towards the effects of EMU on access to capital (30% of total), the effect on banking competition caused by the freedom of capital, and also the simplicity of dealing with a single currency were the two reasons presented for likely easier access to capital.

5.4.1.2. Infrastructure

Since Portugal joined the EU in 1986 (European Economic Community, at that date), the Portuguese economy has benefited from European structural funds provided in order to converge with the other economies. As result, large amounts have been invested in the road and railroad network, airports and general infrastructure (IAPMEI, 2001). The question is how

EMU could help, or not, to improve infrastructure development. Therefore, the study groups were asked about their perceptions of the implications of EMU for the Portuguese infrastructure and which may influence tourism development. The results are presented below.

5.4.1.2.1. The views of the national authorities on the national infrastructures

When the national authorities were asked about the likely effects of EMU on the national infrastructure it was noticeable that, generally speaking, they believed that in the medium or long term EMU will bring positive effects on transport and infrastructure in Portugal (See subsection 5.2.1.1 for details on the benefits). In fact, 8 out of 10 respondents indicated that, factors such as *lowering interest rates, improvement of the macroeconomic environment, national economic stability*, were mentioned as factors pushing towards an improvement of the Portuguese infrastructure, which, in turn, will benefit the tourism sector (Table 5.19).

Table 5.19. National authorities' perceptions of the likelihood of changes/improvements in national infrastructure

Aggregate description of the perceived effects of EMU in national infrastructures (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts positively national infrastructures</i>	8	
The new macroeconomic environment is favourable for infrastructure investment		2
Lowering interest rates will be reflected in an improvement of the infrastructure in Portugal and in particular in the Tourism sector		2
As the Portuguese economy becomes more stable, new investment in infrastructure will be possible		2
<i>To witness a positive relationship between EMU and national infrastructures there are some requirements to fulfil before</i>	2	
There is a high level of public expenses that need to be reduced before any potential effect		2

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

However, as shown in Table 5.19, 2 respondents drew attention to the fact that, in the short-term, the investment in infrastructure may not be possible due to the need to reduce public sector debts, which could delay, in part, the development of the tourism sector.

5.4.1.2.2. The views of the industry associations on infrastructure

The industry association respondents gave a mix of responses to the question of the effect of EMU on infrastructure development.

Table 5.20. Industry associations' perceptions of the likelihood of changes/improvements in national infrastructure

Aggregate description of the perceived effects of EMU in national infrastructures (italics) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts positively national infrastructures</i>	1	
The new macroeconomic environment is favourable for infrastructure investment		1
<i>EMU has no impacts in national infrastructures</i>	3	
EMU plays no role in national infrastructure development		3
The development of national infrastructure is essentially result of European funds		3
<i>EMU impacts negatively national infrastructures</i>	1	
SGP requires cuts in public expenses		1

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

As Table 5.20 shows, three out of five associations were not confident that EMU would play a role in improving of the infrastructure. For them, the development of the infrastructure which had been occurring in Portugal was essentially a result of the European funds available for the participating countries. As one of these associations mentioned:

“Portugal has received a lot of financial support from the EU, through the European Fund for Development and the Cohesion Fund, and this is the reason for the improvement of the infrastructure.”

Moreover, if the EU reduces the current financial support provided to Portugal, the development of infrastructure will stop, even with a new macroeconomic environment brought about by EMU”.

In contrast, the other 2 associations believed that EMU could affect development of the infrastructure in two different ways. For one of these associations:

“Since EMU represents improvements in the economy, the infrastructure will indirectly be positively affected”.

For the other one:

“The implications of the SGP for cuts in public investments will negatively affect the development of the infrastructure”.

5.4.1.2.3 The views of the business respondents on infrastructure

The data from the business survey (Table 5.21) revealed that, when the business respondents were asked about their perceptions of the effects of EMU on Portuguese infrastructure, the majority of the respondents (80%) thought that EMU would have no effect.

Table 5.21. Perceptions of the hotel business respondents of the likelihood of changes/improvements in the national infrastructures

Effects of EMU in the national infrastructures	Total	
	N	%
Yes, there are effects	15	14
No, there are no effects	83	80
Do not know	6	6
Total	104	100

5.4.1.3. Human resources

According to the literature, one of the main implications of EMU comes from employees knowing whether enterprises in the same activity, but in different countries, are offering higher

wages, as result of the wage transparency (Brooks and Weatherston, 2000). The implications could be that some employees will be dissatisfied or there will be an increase in worker mobility within the Euro Zone. In addition, other authors argued that changes in the macroeconomic environment as result of EMU, such as possible implications on investment or economic growth, could alter the employment rate within the Euro Zone (Walters, 2002). There were also those, such as Lepecq (1999), who expected that the Euro could alter the attitudes of consumers resulting in a requirement for staff training, involving consequences for human resources.

Therefore, in order to evaluate how the study groups perceived the effects of EMU on tourism human resources (characterised by large numbers of unskilled workers) the respondents in each group were asked about their views on the effects of EMU on the Portuguese labour market. The results, presented below, reveal that the three study groups perceived many fewer effects of EMU on labour than those suggested by the literature, as discussed in Chapter 8 (subsection 8.3.3).

5.4.1.3.1. The views of the national authorities on tourism human resources

From the answers given by the national authorities, it was found that all the national authorities shared similar opinions about the implications of EMU on the labour market in terms of workforce mobility, employment and peoples' attitudes. In fact, in all responses from the national authorities regarding the relationship between EMU and tourism human resources there were references to the potential effects of increasing competition on the performance of the workforce (Table 5.22).

Table 5. 22. National authorities' perceptions of the effects of EMU on tourism human resources

Aggregate description of the perceived effects of EMU on the tourism human resources (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts positively human resources</i>	10	
Human resources will be positively adapted to the new competitive environment		3
Competition brought about by EMU requires more qualified people		3
Within the context of EMU, enterprises to be competitive, need qualified people		2
EMU requires labour market flexibility to improve the market competitiveness		5

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

As shown in the above Table 5.22, the respondents believed that Portuguese employees would realise that the market had become more competitive after EMU and, as result, would do their best to improve the performance of their workforce.

A further analysis of the data also highlighted that according to four of these national authorities, EMU urgently required labour market flexibility, arguing that, as one authority stated, “*The Euro countries were undertaking demanding structural reforms in the labour market due the requirements of European integration*”. These respondents believed that the effects of EMU on the labour market were essentially caused by the economic implications instead of factors such as ‘wage transparency’. This opinion was reinforced in the answer of one of the respondents with an important role in social matters, who said that, although their authority had not carried out any study of the possible effects of EMU on employment, they recognised that:

“EMU may cause effects at this level, since EMU has implications for the economic environment in which the enterprises are operating and reinforces the need for qualified workers”.

The respondent added that:

“The authority had a National Plan for Employment and, although that Plan was not created because of EMU, the likely effects of EMU on businesses competitiveness were considered when the Plan was designed.”

Despite the respondents being asked about the effects on human resources in the tourism industry, the national authorities in their responses mentioned human resources in a general way because, as they explained, the effects would be similar in the different sectors of the Euro economies.

5.4.1.3.2. The views of the industry associations on tourism’s human resources

From the answers obtained within the industry survey, the need for a free labour market was mentioned by two of the five association respondents, who explained that *“within the context of a single currency and common market there is no more place for any obstacles in terms of labour mobility”* or that *“EMU reinforced the European single market”*.

The common concern found within the responses from the five industry associations was that, within a more demanding business environment brought about by EMU through changes on the competitive position of the hotel units, a skilled workforce was urgently needed.

5.4.1.3.3. The views of the hotel businesses on tourism human resources

The data from the business survey (Table 5.23) showed that, in general, the business respondents did not perceive changes in human resources as a consequence of the introduction of EMU. Moreover, when they were asked their views on the potential changes of EMU on workforce mobility and labour qualifications, both items referred to in the literature as the most important implications for human resources, the large majority of the business respondents explained that workforce mobility has always existed, even before the single currency. In addition, they believed that in the tourism sector there is a need for a skilled workforce but EMU had little, if any influence on this. Only 3 percent of the respondents said that they believed that EMU impacts positively on the level of labour qualification. For these respondents, after EMU the European market became more competitive. As result, there is an additional need for more skilled people.

Table 5. 23. Perceptions of the hotel business respondents of the effects of EMU on tourism human resources

Effects of EMU in the tourism human resources	Total	
	N	%
Positive effects	3	3
Negative effects	-	-
No Effects	101	97
Total	104	100

5.4.2. Demand Conditions

As mentioned in Chapter 3, the *demand condition* determinant of the competitive Diamond looks at local and foreign demand and consumption of products and services (Porter, 1990). About this topic, most of the studies (see for example WTO, 1998) on the implications of EMU on the tourism sector expected an increase in tourist flows as one of the most important effects of EMU. Therefore, the study-groups were asked about their views on the effects of EMU on these demand conditions, namely in terms of the tourist flows.

5.4.2.1. The views of the national authorities on demand conditions

As shown in Table 5.24, it was evident that all the national authorities thought that EMU could have an impact on tourist flows.

Table 5. 24 . National authorities' perceptions of the effects of EMU on tourism demand

Aggregate description of the perceived effects of EMU on tourism demand (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts positively tourism demand</i>	10	
Positive macroeconomic changes will incite people to travel		10
Simplicity of using a single currency		8

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

In the view of all the national authorities, since EMU improves the macroeconomic environment, the Euro citizens would be more disposed to travel affecting positively the flows of domestic tourists and Euro country tourists. Moreover, eight of them believed the simplicity of the single currency would affect the demand conditions. As was expressed in the following quotation by one authority respondent “*simplicity brought about by the Euro might encourage people either from the Euro countries or non-Euro countries to travel within the Europe*”.

5.4.2.2. The views of the industry associations on demand conditions

By analysing the data from the industry association survey (Table 5.25), it was evident that the industry associations had similar views to those of the national authorities. In fact, from the perspective of the industry associations a single currency had positive effects on tourist flows. However, all of the respondents shared the idea that, in spite of the contribution of EMU, that the reasons for tourists travelling are much more related to factors such as the “*tourist interests*” or “*the quality of the services*” than a single currency or the simplicity caused by this.

Table 5. 25. Industry associations' perceptions of the effects of EMU on tourism demand

Aggregate description of the perceived effects of EMU on tourism demand (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts positively tourism demand</i>	2	
Positive macroeconomic changes will incite people to travel		2
<i>EMU has no significant impacts on tourism demand</i>	3	
EMU plays a role in hotel demand but is not the main important factor for tourist choices		1
The service quality is more important than EMU		2
The tourist interests are more important than a single currency		1

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

The data from industry associations also showed that in terms of the effects of EMU on Portuguese tourists the responses were mixed. Three of the respondents thought that the propensity of Portuguese people to travel may decrease in the short and medium term due to the current economic situation in Portugal which, as was explained, “*is not caused by EMU, but by many other factors, such as high levels of indebtedness of Portuguese families*”.

On the other hand, it was mentioned by two respondents that the implications of EMU for the macroeconomic environment, in the short term, would be positive on the propensity to travel of Portuguese people internally and externally.

5.4.2.2. The views of the hotel business on demand conditions

In respect of the views of the business respondents, as shown in Table 5.26, a large percentage of the respondents (almost 60% in each case) believed that domestic demand and the tourist flows from outside of the Euro zone did not change significantly after EMU.

Table 5. 26. Hotel businesses' perceptions of the number of tourists in Portugal

Effects of EMU on tourism demand	Total					
	Portuguese Tourist		Euro Tourist		Non Euro Tourist	
	N	%	N	%	N	%
Increase	25	24	54	53	35	34
No change	65	63	42	42	63	62
Decrease	14	14	5	4	4	4
Total	104	100	101	100	102	100

The data in Table 5.26 also reveals that when some business respondents (less than 15% of the total) mentioned that the tourist flows would decrease after EMU, the majority of these respondents were referring to a decrease in domestic flows.

When the business respondents were asked to explain their answers (Tables 5.27, 5.28 and 5.29), it was found that the majority of the respondents explained that tourist choices are dependent on the destination quality or price rather than a single currency. In addition, for those respondents, who perceived a decreasing number of domestic tourists (67% in total), the fact that EMU could in the short term negatively affect Portuguese economic performance was the main reason for this. In fact, in their view (Table 5.27) the propensity to travel of Portuguese people was affected by economic performance.

Table 5. 27. Main reason given by hotel business respondents for their answers regarding changes in the number of Portuguese tourists

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Increase</i>	<i>(n=25)</i>	
Improvement of macroeconomic level	25	100
<i>No change</i>	<i>(n=65)</i>	
EMU is just an instrument	26	41
Other factors are more important (e.g. services quality)	38	59
<i>Decrease</i>	<i>(n=14)</i>	
Inflation	11	79
Decreasing of economic conditions	37	21

Note: the number in brackets corresponds to the total number of respondents identifying each effect

As is demonstrated in Table 5.28 in following, in respect of the flow of tourists from other Euro countries, the majority of the respondents believed that the Euro increased hotel demand. This was explained by the ‘*price transparency*’ and ‘*simplicity*’ that they associated with EMU.

Table 5.28. Main reasons given by hotel business respondents for their answers regarding changes in the number of tourists from the Euro zone

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Increase</i>	<i>(n=54)</i>	
Price transparency	9	11
Simplicity by the use of single currency	45	88
<i>No change</i>	<i>(n=42)</i>	
EMU is just an instrument	15	36
Other factors are more important (e.g. services quality)	27	64
<i>Decrease</i>	<i>(n=5)</i>	
Decreasing of economic conditions	4	100

Note: the number in brackets corresponds to the total number of respondents identifying each effect

In terms of the implications for the number of tourists from the non Euro Zone, the data (Table 5.29) reveals that the majority of the respondents (62% in total) who said that there were no changes explained that in their view EMU has no impact on this and demand is affected by different factors, such as the quality of services. On the other hand, as shown in Table 5.29, *simplicity*, brought about by the use of single currency and the *economic situation*, were also explanations for changes in the number of tourists.

Table 5. 29. Main reason given by hotel business respondents for their answers regarding changes in the number of tourists from the non Euro zone

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Increase</i>	(n=35)	
Easier movement within the Euro zone	2	6
Simplicity from the use of single currency	33	94
<i>No change</i>	(n=63)	
EMU has no impact on this	30	48
Other factors are more important (e.g. services quality)	33	52
<i>Decrease</i>	(n=4)	
World economic situation	4	100

Note: the number in brackets corresponds to the total number of respondents identifying each effect

A note should be made, that when comparing the expectations from the three study groups with the national statistics for the tourism sector in Portugal, the tourism sector in Portugal has increased over the last few years (ICEP, 2006). Nonetheless, these official figures do not reveal the extent to which the Euro has contributed and several factors could have contributed towards this increase.

5.4.3. Firm structure, strategy and rivalry

Under this topic the three study groups were confronted with two views found in the literature: on one hand, authors such as Costa (1999) stated that the changes caused by EMU in the national business environment would positively affect the structure, strategies and management of firms. On the other hand, an investigation of the structure of tourism businesses suggested that changes in aims, strategies and management would not be evident in Portuguese tourism enterprises due to the nature of the tourism businesses which is characterised by a large number of small enterprises (with a low level of education and productivity) operating in individual ways (DGT, 2002).

5.4.3.1. The views of the national authorities on firm structure, strategy and rivalry

As summarised in Table 5.30, in terms of the national authority survey, it was found that EMU was seen as a pervasive issue of the firms' strategies and rivalry. Generally speaking, they believed that EMU represented a significant shift in the national environment of Portuguese enterprises and has potentially far reaching implications for the choice of strategy and tactics. Economic integration effects, interest rates, exchange rates, transaction costs and other single currency effects should be fed into the strategic planning process of the enterprises. However, among the responses obtained from the authorities it was found that the "*lack of enterprise reaction*" and "*the enterprises ability to face the new macro environment*", were mentioned by 2 respondents, respectively, as potential constraints for some enterprises. In fact, in contrast with the views expressed by the others respondents, these two responses showed some scepticism about the current level of the competitiveness of the enterprises in Portugal and namely they ability to get the opportunity to improve or change strategies.

Table 5. 30. Summary of the national views on the implications of EMU on firm structure, strategy and rivalry

Aggregate description of the perceived effects of EMU on firm structure, strategy and rivalry (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts firm structure, strategy and rivalry</i>	8	
Economic integration effects, interest rates, exchange rates and other single currency effects should be fed into the strategic planning process of the enterprises		7
Transaction costs and single currency effects should be fed into the strategic planning process of the enterprises		3
<i>EMU has no significant impacts on firm structure, strategy and rivalry</i>	2	
The enterprises ability to face the new macro environment is limited		1
Lack of enterprise reaction		1

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

When the national authorities were asked about the effects of EMU on their own strategies in terms of the tourism sector, in general, the respondents highly involved in the tourism sector agreed that the implications of EMU formed part of their strategic planning process to ensure strategies remained current and appropriate. Three authorities mentioned that EMU would reinforce the *National Tourism Strategic Plan* through the positive impacts that EMU had on the economy and on tourism flows. Two of these authorities explained that through the *National Tourism Strategic Plan* (See, *Ministério da Economia*, 2005 for details about the Plan), in which they are involved, they were making efforts to achieve new objectives in the tourism sector by 2015. These objectives included: increasing per capita tourist expenditure, improving seasonality; increasing the number of tourist arrivals; increasing length of stay; and increasing the number of return visits. Hence, they believed that the positive effects brought by EMU, would reinforce their objectives for tourism.

There were also two additional views from different respondents that the low cost strategies, commonly used by the Portuguese enterprises, had more chance to be successful within the new macroeconomic context. The remaining respondents, who played no direct role in the formulation of the *National Tourism Strategic Plan*, mentioned that they had no specific strategies for the tourism sector, because this was not their area of competence. However, they believed

that in general their actions to improve the areas in which they were directly involved, such as social and financial, would have also positive effects on the tourism sector.

5.4.3.2. The views of the industry associations on firm structure, strategy and rivalry

The data from the industry survey (5.31) showed that EMU was also recognised as an additional issue for changes in a firm's structure and strategies. Following on from what they had mentioned about the implications of EMU on tourism competitiveness (see subsection 5.2.2.2) two respondents said that, in the more competitive environment, firms needed to rethink their own strategies. In this context, they mentioned that the hotels, for example, should implement, or reinforce if necessary, '*strategies of differentiation*', in terms of the services offered and quality.

Table 5. 31. Summary of the industry views on the implications of EMU on firm structure, strategy and rivalry

Aggregate description of the perceived effects of EMU on firm structure, strategy and rivalry (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts firm structure, strategy and rivalry</i>	5	
EMU requires new strategies (e.g. Differentiation)		5
Hotels need to be more efficient		2

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

There were also three views that, to be competitive in the new macroeconomic environment, hotels must continually improve operational effectiveness in their activities while simultaneously pursuing distinctive rather than imitative strategic positions. However, it was found from their answers that the lack of management strategies and actions within this new context was a concern for these associations. As one of these respondents mentioned:

"We worried that the lack of hotel strategies, together with the lack of productivity and qualified skills, may reduce the potential positive effects of EMU".

Adding that:

“this can explain why the effects of EMU on hotel strategies, structure and management were not so evident”.

When the respondents were asked about potential changes for their own associations in terms of their structure, strategies and management, the data showed that all the respondents said that in their association this had not happened because there was no need for it to happen. In addition, as the 5 associations reported, their actions or strategies were always designed towards a more competitive environment, and as one association said *“EMU is an additional issue contributing to a more competitive environment”*.

5.4.3.3. The views of the hotel business respondents on firm structure, strategy and rivalry

The data from the business survey (explored in detail in Chapter 7, section 7.3.7) revealed that the majority of the respondents (more than 80%) despite recognising the effects of EMU on the external and competitive environments, thought that EMU had no (or little) influence on their own businesses, adding that for this reason EMU did not require new actions or strategies.

5.4.4. Related and Supporting Industries

As mentioned in Chapter 3, the tourism sector is significantly influenced by related and supporting industries as this sector has strong linkages to a large variety of industries and enterprises. Hence, a high level of co-operation and co-ordination among related and supporting services is usually required.

Nonetheless, data from an official source in Portugal - DGT - revealed that co-operation has been insufficient in Portugal where there is still a high level of fragmentation in the tourism sector. As a result other destinations, where tourism-related services have achieved a higher degree of co-operation, may pose a threat to Portugal. (DGT, 2002)

In this context, some of the views expressed in the literature (e.g. Costa, 1999, Torres, 1998), that increasing competition as a consequence of EMU could enhance the relationship between enterprises and related or supporting enterprises (as for example suppliers), were explored with the study groups.

5.4.3.1. The views of the national authorities on related and supporting industries

Only two authorities, both directly involved in the tourism sector, had a view on this topic. The remainder mentioned that they would prefer not to answer because they did not have a clear perception of this.

According to those who had a view, “*EMU pushes enterprises to co-operate*” and “*the linkage between enterprises must be reinforced*” as a result of its impact on the competitive position. One of these respondents mentioned that:

“They believed that enterprises in order to become more competitive will make alliances with other enterprises in order to obtain competitive prices and services.”

On the same line of thought, the other respondent indicated that:

“Enterprises are now more conscious about the importance of co-operation with related and supporting enterprises.”

5.4.4.2. The views of the industry associations on related and supporting industries

The answers obtained within the industry survey were very short and revealed that, although the majority of these associations (4 out of 5) have recognised the likely effects of EMU on enterprise co-operation, since EMU was pushing enterprises towards greater cooperation, they believed that there was no evidence of this happening. As one association respondent mentioned:

“Co-operation is still very limited between tourism enterprises and, in particular, among the hotels and other enterprises. There is still a high level of fragmentation in the tourism sector”.

In addition from three answers given by 3 of these respondents it was underlined that co-operation and/or alliances between tourism enterprises would help enterprises to cope with the challenges brought about by EMU.

However, according one of the industry associations there was a chance to witness changes on related and supporting industry. As this associations explained the expected effects in on business competitiveness may encourage the hotels to cooperate.

5.4.4.3. The views of the hotel business on related and supporting industries

The data from the answers given by the business respondents (discussed in chapter 7, section 7.3) showed that, in contrast with the expectations reported in the literature, the majority of business respondents did not perceive changes to related and supporting enterprises, arguing that these effects were not so evident up to 2003. For instance, when the business respondents were asked about the effects of EMU on the location of their suppliers, the majority of the respondents (almost 90%) said that there had been no effects. The results from business survey are further discussed in Chapter 7 and 8. A comparison of these finding with the others from the national authorities and the industry associations is provided in Chapter 8.

5.4.5. Government

It is evident that decisions and actions made at a national level may have an important impact on business and competitive activity. Political changes are likely to create opportunities for, or present threats to, enterprises (Brooks and Wearherston, 2000). In relation to this, Porter (1990) using the diamond model included '*government*' as an additional influence on the national business environment. Therefore, the research investigated the viewpoints of the three study groups on the political implications that EMU was likely to have on national policies and decision-making. For this purpose, the analysis focuses on changes in the activities and priorities of the national authorities as a result of EMU. The results are presented below. As already stated, within this analysis, special attention has been given to the national authorities' views, since the main focus of the survey of national authorities was the effects of EMU at the

national level. Nonetheless, the views of the others two groups are also discussed and are important.

5.4.5.1. The views of the representatives of the national authorities towards changes in the national priorities

When the national authorities were asked about the effects of EMU on their activities and priorities, 6 of the 10 respondents stated that there were no changes evident because of the introduction of EMU. For them, there was no political response that required a change. In contrast, 4 respondents indicated that their activities and priorities had changed because of the participation of Portugal in EMU.

Table 5.32. Summary of the national perceptions of the effects of EMU on national priorities and activities

Aggregate description of the perceived effects of EMU on national priorities (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts the national priorities</i>	4	
There is a need to fulfil the EU requirements		5
SGP limited the national decision making		4
The new macroeconomic context requires new responses		2
<i>EMU does not play a role on the national priorities</i>	6	
There is no need of specific responses		1
There is no political responses that required a change		5

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

Among these four respondents, three explained that the convergence criteria required by the Maastricht Treaty pushed the Euro countries to reduce government spending and, consequently, the budget of the public institutions became more limited, restricting their decisions. As a result, one of the respondents explained that changes in government investment policy and priorities could be expected since, due to budget limitations imposed by

the SGP, some plans or activities could be not put into practice, which affects the business environment. As he said:

“On the one hand, there is a need to help the enterprises to become more competitive but, on the other hand, the national investments were reduced because we have budgetary limitations required by the Convergence Pact”.

In the same vein of thought, the remaining 3 respondents said that changes in government investment policies will affect their activities. As result some of their priorities needed to be reviewed, or even cancelled, adding that this could negatively affect their performance and, consequently, the business environment and competitiveness.

It should be noted that, even though two respondents mentioned that EMU could cause some limitations. For them, the national policies undertaken by the Economic and Finance Ministries were acceptable and understood, since EMU requires efficiency and action. When asked whether their authority had changed policy with respect to the tourism sector, the data revealed that six respondents responded ‘yes’ in a positive sense. As said by one respondent:

“Now, more than ever, the quality factor in the tourism sector is essential to achieve competitiveness. As result, the term ‘quality’ replaced the term ‘quantity’ whenever a policy is created”.

Moreover, all of the respondents believed that ‘*EMU pushed the national authorities in general to increase their interest in the tourism sector*’, since tourism represents an important component in the development of the economy in Portugal. One of the respondents added that:

“The tourism sector appears now as one of the most important factors in stimulating economic development and national policies”.

Another authority respondent mentioned that:

“Within a new macroeconomic environment, it is necessary to be conscious of the great importance of the sector, and this is what is happening. The current government programme recognises the importance of the tourism within the national policies”.

5.3.1.2. The views of representatives of the industry associations towards changes in the national policies

As shown in Table 5.33, three of the five industry associations believed that national policies had not changed significantly as a result of the introduction of EMU. But, within this group, two of the respondents argued that this should happen, blaming the Portuguese Government for being unable to reorganise itself and to adapt the budgetary policy to the new macroeconomic conditions consequent on Portugal's participation in EMU. As a consequence, they asked for changes in the national policies concerning employment (with a view to improve productivity and labour force flexibility) and also economic matters (e.g. control of public deficit, in order to meet the requirements of SGP).

In terms of the policies for the tourism sector, all the industry associations indicated that tourism national policies had not changed significantly as result of the introduction of EMU. As result, two respondents suggested that government should, as soon as possible, change its tax policy under the new macroeconomic environment. They considered that the fact that VAT in Portugal was higher than in the other countries of the Euro zone prevented Portuguese enterprises better exploring the opportunities brought about by EMU. However, they believed that EMU in, the medium or long term, would have positive implications for tax policies.

Table 5. 33 Summary of the industry perceptions of the effects of EMU on national priorities and activities

Aggregate description of the perceived effects of EMU on national priorities (<i>italics</i>) and specific answers combined to form aggregate description (<i>normal text</i>)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts the national priorities in the medium and long term</i>	2	
The new macroeconomic context requires new responses		2
<i>EMU has no significant impact in the national priorities, but should have</i>	3	
National polices should be adapted to the new context (e.g. tax policy)		2
At short term, Portuguese government was unable to be adapted itself to the new macroeconomic effect		2

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

Two of the industry association respondents also believed that the investment by Portugal in tourism infrastructure, such as external accessibility, would increase in the medium or long term, as a result of the positive effects of EMU and SGP upon the economic development of the Euro countries. In the short term, they believed that the SGP could have an opposite effect at the tourism level since, as one associations mentioned, *“Portugal was not ready to face such rigorous requirements, implying that Portugal could need an additional effort through, for example, budgetary cuts”*.

There were two associations that mentioned the fact that, in the context of the changes resulting from the deepening of economic integration, the creation of a Ministry of Tourism becomes all the more necessary in order for the tourism sector to be better organised and adapted to the new macroeconomic environment.

5.3.1.3. The views of the hotel business respondents towards changes on the national policies

The data from the business survey (Table 5.34) shows that the majority of business respondents (76%) considered that the introduction of EMU had not significantly changed government policies in any sector of the national economy.

Table 5. 34. Perceptions of the hotel business respondents on the effects of EMU upon national policies

Effects of EMU on national policies	Total	
	N	%
Positive effects	21	20
No effects	79	76
Negative effects	0	0
Do not know	4	4
Total	104	100

5.4.6. The supranational power of the EU

As mentioned before, the implementation of EMU transferred decision making from the national to the EU level. The most significant example was monetary policy which was now set by the European Central Bank, meaning that each individual country within the Euro zone no longer had the ability to use exchange rates as a tool of economic management: such as increasing the attractiveness of exports or making national products more competitive. Moreover, the strict rules imposed by the SGP on national economies were also evidence of the supranational power of the EU.

Bearing in mind that the literature pointed out that monetary and exchange rates policies have been used sporadically in the past by Portugal as a central tool with considerable success, the respondents from the three study groups were asked if they believed that a single monetary policy, defined by the European Central Bank, would cause problems for the national economy and competitiveness. Then, they were asked about their views of the main implications of the Stability and Growth Pact for Portugal and the effect of the SGP on Portuguese competitiveness. The results are discussed as follows.

5.4.6.1. The role of the European Central Bank: a single monetary policy

It is evident that, since the launch of the Euro, the EU has increased its power through the ECB. The views of the three study groups on the effects of the single monetary policy defined by the ECB are now discussed.

5.4.6.1.1 The views of the national authorities towards a single monetary policy

As shown in Table 5.35. all the national authorities thought that a single monetary policy would benefit the Portuguese economy, arguing that the competitive advantage of an economy should not be based on changes in exchange rates.

Table 5. 35. The national perceptions of the effects of a single monetary policy for the economy in Portugal

Aggregate description of the perceived effects of a single monetary policy (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>Single monetary policy impacts positively the Portuguese economy</i>	10	
National competitiveness is not affected in a negative way		4
A single monetary policy compensate the loss of the use of variable exchange rates		10
It brings the chance to annex the national currency to a stronger reality		2
A national monetary policy does not make sense any more		1

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response).

From their answers, it was evident that they believed that other factors were more relevant for Portuguese competitiveness for example, *'the control of inflation'*, *'the opportunity to annex the national currency to stronger reality'*, *'exchange rate stability'* *'economic rigor'* and *'productivity'*. Thus, they believed that the end results of a single monetary policy would compensate for the loss of the use of variable exchange rates. Two of the respondents stressed, however, that Portugal would feel the difference, because governments were accustomed to using successive devaluations to improve the economy but, as they argued, this would not be a problem since the final results of a single monetary policy would be better. One of the respondents added that monetary policy was an important government tool in particular periods in the past, but as he said:

"Nowadays monetary policy does not make sense, because economic development is dependent on several other factors", arguing that 'from this point of view a reinforcement of the conditions for higher productivity and growth is necessary'".

5.4.6.1.2. The views of the industry associations

In terms of the industry survey, it was found that for four industry associations the effects of a single policy were also thought to be positive for the Portuguese economy and competitiveness. They shared the idea that competitiveness obtained by way of devaluation was always an artificial and ephemeral profit. The following two quotations from two of the respondents revealed the logic behind their answers:

“The end of exchange risk would be favourable for the national economies’ and that ‘the competitiveness of the countries or enterprises based on the national monetary policy, as a tool to valorise or devalue a currency, did not make sense any more’.

“The single monetary policy implies economic rigour for countries like Portugal (...).”

5.4.6.1.3. The views of the business respondents

From the perspective of the businesses, the data (Table 5.36) shows that 48 percent of the respondents thought that there were no negative effects of a single monetary policy on the Portuguese economy, which contradicts several expectations found in the literature (e.g. Barbosa et al. 1999). However, some business respondents (13% of the total) indicated that a single currency could cause specific costs. Moreover, the percentage of respondents saying that they had no view was relatively higher, 39 percent in total.

Table 5.36 Perceptions of the hotel business respondents on whether the Single Monetary Policy had an effect on the Portuguese economy

Single Monetary Policy is key force in the Portuguese economy	Total	
	N	%
Disagree	50	48
Neutral	41	39
Agree	13	13
Total	104	100

5.4.6.2. The Stability and Growth Pact (SGP)

The need of the Euro countries to fulfil the SGP was commonly cited in the literature on the potential impact of EMU as one of the main factors of EU supranational power, since the Pact sets tough limits on national deficit spending (Barbosa et al, 1999).

5.4.6.2.1 The views of the national authorities on the relationship between SGP and national environment

The national authority survey revealed that, with the exception of one authority respondent, who preferred not to answer this question, in general the responses from the national authorities mentioned that the SGP had increased EU power and was playing an important and positive role in the development and competitiveness of Portugal, since *“it requires rigor and discipline”*, *“it aims at economic convergence”* and *“it is part of the EU integration process”*. Within his answer, one respondent argued further that:

“the economy of Portugal was worse before the Pact, because at that time Portugal was spending money without any control and today there is a budgetary control which will allow Portugal to develop itself and will help to improve the economic situation, saying that inflation became controlled”, adding that: “we have observed a decrease in interest rates with positive implications on enterprise financing and competitiveness.”

Nonetheless, as shown in Table 5.37, it was also underlined in two responses that Portugal had to take several risks to fulfil the requirements of the Pact, and this had implications for current national policies in terms of budgetary cuts. As result, the respondents expected that economic development would be delayed in the short term. However, in the medium and long term, they expected it would have a positive effect on the National economy as a result of the *“economic convergence and rigor required by the Pact”*. They stressed, however, that the other countries within the Euro Zone also felt the difficulties felt by Portugal.

Table 5.37 Perceptions of the national authorities on the relationship between SGP and the national economy

Aggregate description of the perceived effects of SGP (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>The SGP impacts positively the Portuguese economy</i>	7	
SGP is positive for EU competitiveness		9
SGP requires rigor and discipline		4
SGP aims at economic convergence		5
SGP is part of the EU integration process		3
SGP needs to be adjusted to the new macroeconomic environment		3
<i>The SGP implies cost at short term</i>	2	
SGP needs to be adjusted to the new macroeconomic environment		2
SGP may represent some limitations in terms of national decision-making (e.g. budget restrictions)		1
<i>Do not have a view</i>	1	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Table 5.37 also shows that, within three of the responses, it was commented that there was a need to adjust SGP to the new environment. As mentioned in one of these responses “*the SGP must be discussed in a new round of negotiations and needed to be more flexible. This was adopted during a period of economic expansion and that now the Pact should take into account the period of recession*”. One of the responses also revealed that there were concerns about the effects of SGP on Portugal, because, as its respondent argued, “*Portugal is a small country without the ability to drive the EU locomotive and consequently, this limits the Portuguese position in European discussions and decision-making*”.

5.4.6.2.2. The views of the industry associations on the relationship between SGP and national environment

The views of the industry associations revealed that all of these stakeholders have recognised that the requirements of the EU, and in particular of the SGP, would delay the economic development of Portugal in the short term since it had implications in terms of national budgetary cuts and tax policies. It should be noted that this suggests a certain consistency with the findings from economic research published into Portuguese official data (Banco de

Portugal, 2004). Four out of five associations recognised that the SGP plays a positive role for the development of Portugal, attributing three main positive effects to the SGP: “*the requirement of rigor and discipline*”, “*increasing economic convergence*” and “*the deepening of EU integration process*” (also found by Barbosa et al., 1999).

5.4.6.2.3. The views of the business respondents on the relationship between SGP and national environment

The results from the business survey (Table 5.38) show that the majority of the business respondents (77%) believed that the SGP had positive effects on the Portuguese economy. The majority demonstrated the same views as the respondents from the other two groups: that is, that the SGP had positive effects for the participating countries.

Table 5.38 Perceptions of the hotel business whether there were effects of the SGP for Portuguese economy

Effects of the SGP for Portuguese economy	Total	
	N	%
Negative	9	9
Positive	80	77
No effects	15	14
Total	104	100

5.5. ACTIONS AND SUGGESTIONS PRESENTED BY THE STUDY GROUPS FOR OVERCOMING BARRIERS AND STRENGTHENING THE POSITIVE OUTCOMES OF EMU FOR THE NATIONAL ENVIRONMENT

The forgoing analysis reinforces the observation that the majority of the hotel stakeholders identified positive outcomes from EMU, but that they also recognised the existence of some costs or challenges. First, it was suggested by the majority of the respondents in each study-

group that, because of EMU and the subsequent SGP, the EU has effectively increased its intervention in national issues, requiring additional efforts by participating countries and specifically having effects on national expenditure. As a result, there were suggestions as to the importance of the Euro countries re-negotiating the terms of SGP, which they considered must be more flexible. The logic behind this was to exclude certain investment from inclusion as a government expense and, as a consequence, avoiding government cuts in specific investment. The aim of this would be to prevent the requirement to reduce public deficit and therefore increase the public sector ability to invest. It should be noticed that, meanwhile, the SGP was reviewed. Secondly, a concern was expressed about the lack of productivity and lack of strategies by enterprises in Portugal. As a result, the majority of the national authorities (8 out of 10) and the industry associations (5 out of 5) asked for higher productivity and for proactive reactions by the enterprises, drawing attention to the need for Portuguese enterprises to become more competitive in a more and more demanding market. They suggested that these enterprises should focus on quality services/products (instead of low prices), innovation a skilled workforce and management.

The importance of creating alliances or partnerships was also suggested by six national authorities and four of the industry associations. According to these organisations, Portuguese competitiveness is strongly related to the performance of the enterprises, reinforcing the idea that the enterprises' strategies, actions and investments have a central role to play in Portuguese development. On the other hand, many of the business respondents called for the end of bureaucracies (e.g. the use of cheques in the Euro zone), which according to them contradicted the advantage of using a single currency. Simultaneously, they complained about the lack of Portuguese policies to overcome changes caused by EMU, suggesting that the Portuguese government should adjust the tax, namely VAT, to be similar to the tax in the other Euro countries. As they argued, this would make a difference in a more competitive environment, which prevents tourism enterprises to take advantage of the opportunities brought about by EMU (see section 5.4.5).

As concerns the role of the Portuguese government, the industry associations suggested the adoption of structural reforms at the political level in order to improve the productivity of qualified workers and flexibility of the labour market. They called for economic reforms (e.g.

control of public deficit) in order to face the requirements of SGP, which according to them would imply rigor and economic stability. Some concerns were expressed relating the risk of the Euro becoming a very strong currency and Portugal not being allowed to use its own monetary policy to respond to possible asymmetric shocks. The main figures associated to these findings are given in Table 5.39.

Table 5.39 Frequency of the respondents' proposal actions and suggestions

Proposal and actions suggested	National authorities	Industry associations	Hotel business
➤ Euro countries need to have more flexible budgetary rules	2 out of 10 respondents		
Enterprises should:	9 out of 10 respondents	2 out of 5 respondents	
➤ Increase productivity and have proactive reactions	All respondents	4 out of 5 respondents	
➤ Enterprises should focus on the quality services/products (instead of low prices), innovation a skilled workforce and management.			
➤ Enterprises should create alliances or partnerships	6 out of 10 respondents	All respondents	
Government should:		2 out of 5 respondents	
➤ Develop economic reforms (e.g. control of deficit public)			44 out of 104 respondents
➤ End with remaining bureaucracies (e.g. use of cheques within the Euro area)			76 out of 104 respondents
➤ Adjust taxes, namely VAT within the Euro countries			57 out of 104 respondents
➤ Provide better infrastructures, facilities and services in order to attract more tourists to Portugal.			

From the above table, created on the basis of the results presented over this chapter, a final observations can be made: there is still a need to upgrade productivity and efficiency in Portugal. Within this context, EMU may be considered as one tool for economic growth.

5.6. CONCLUSION

Using the responses from questionnaires gathered with 104 out of 112 hotels in the North of Portugal and interviews conducted with 10 senior representatives of the national authorities and 5 industry associations, this Chapter explored the effects of EMU on the national business environment and found that EMU has been generally perceived as a positive force on the

Portuguese economy. The findings indicated that the Euro is generally favoured due to reductions in exchange risk and transactions costs, which according to the majority of the respondents in each group will improve the medium and long term the efficiency of the single market and the Portuguese macroeconomic climate. Also, the Euro should ensure price transparency, as price differences in different countries will be more apparent to consumers and business, which may encourage competition, rigour and trade. The findings revealed that for a large number the respondents EMU was considered to be more of an economic force than a political or social force. Nonetheless, other main related benefits have been suggested from the participation in EMU including: administration savings and an improvement of the international image of Portugal. For some respondents within the national authorities, the Euro will also encourage work mobility. It was found however that for a large proportion of respondents in each group, the potential benefits for the Portuguese economy depended upon the ability of national enterprises to respond with efficiency to the additional competition and rigour, and also on the ability to converge with the other economies in the Euro zone. This research also demonstrated that few respondents from the national authorities had recognised that their activities and priorities had changed due to Portugal's participation in EMU, and for the majority of the respondents the national policies and priorities have remained unchanged since the launch of the single currency.

In terms of the tourism sector environment, the findings revealed that the majority of the respondents believed that EMU may contribute positively to the improvement of the competitiveness of Portugal as a tourism destination. This was confirmed by reviewing a model of the Portuguese Tourism Diamond based on the findings from the surveys. Nonetheless, there were a large number of respondents saying that EMU should be seen as an 'instrument' to improve competitiveness in the tourism sector and the potential benefits depended on several factors. The quality of the services, for example, plays a relevant role in the tourism development. '*EMU is just a relevant tool*', as several respondents stated.

6. THE INDUSTRY BUSINESS ENVIRONMENT AFTER THE INTRODUCTION OF EMU

6.1 INTRODUCTION

As demonstrated in the introductory Chapter, the hotel industry is of significant importance to Portugal's economy and is an essential and dynamic component of the tourism sector. In fact, for many years hotels have been the most visible component of the accommodation sector, providing the greatest amount of employment in general terms and accounting for the highest level of receipts (DGT, 2005a). The Tourism General Directorate (*Direção Geral de Turismo*) of the Portuguese government, indicated that in 2003 the total of stock of beds in Portugal's hotels was 109.529, representing 57 percent of the total overnight accommodation and the major source of revenue in the accommodation sector. Furthermore, according to the same source, there is a continuous trend for an increase in the hotel industry (INE, 2005).

Hence, taking into account the importance of the hotel industry, questions arose after Portugal's EMU membership as to whether the hotel industry was prepared for EMU membership and the Euro, and what the impacts of any changes arising would be on the competitiveness of Portugal's hotel industry.

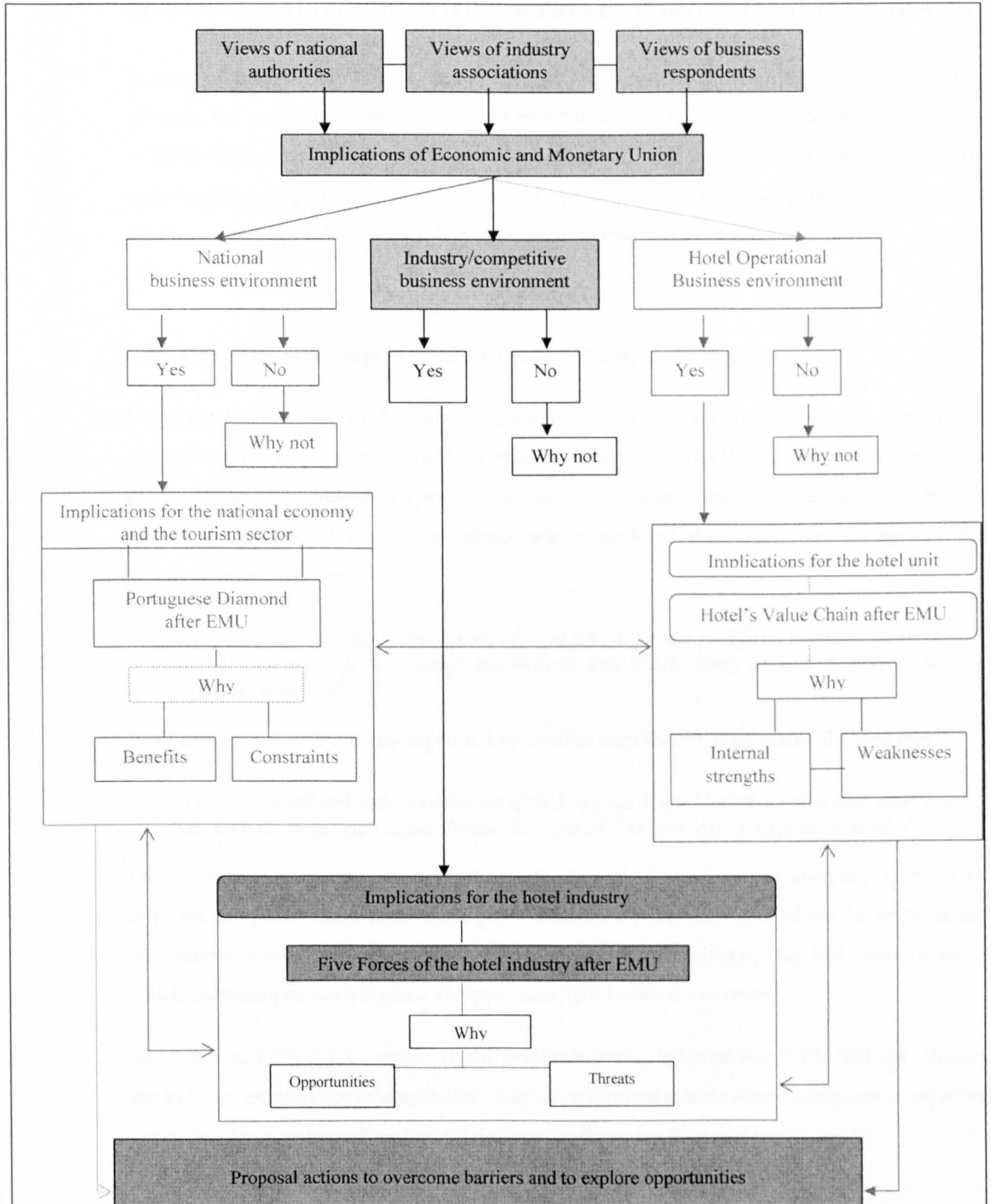
Therefore, the objective of this Chapter is to evaluate the hotel stakeholders' views on the key areas of change affecting the hotel industry and the extent to which in their opinion EMU affected the competitiveness of Portugal's hotel industry. For this purpose, the perceptions of the representatives of the national authorities, as statements about the views of the authority, the industry associations and the business respondents are presented and related to the premises of Porter's Five Forces model: the power of suppliers, the power of buyers, the rivalry among competitors, the entry of new competitors and the existence of substitutes products. These were suggested by Porter as determinants of the competitiveness of an

industry (Porter, 1980). The perceived opportunities and threats brought about by EMU for the hotel industry in Portugal are also presented. In addition, the actions suggested by the study groups, to overcome the barriers and to take advantage of the opportunities are reviewed.

The Chapter is structured as follows: section 6.2 presents the overall views of the three study groups towards the effects of EMU on the Portuguese hotel industry. Section 6.3 assesses the competitiveness of the hotel industry using Porter's Five Forces Model. Section 6.4 discusses the views of the opportunities and threats that EMU poses to the hotel industry. Section 6.5 describes the actions proposed for overcoming barriers and exploring opportunities. Concluding remarks appears in section 6.6.

Notice that in this Chapter each section starts by the analysis of the data from the industry association survey, since the respondents from the industry associations are highly involved within the context of the industry business environment. This is followed by an analysis of the data obtained from the national authorities and the business surveys. The following figure helps to visualise the main topics analysed in this section.

Figure 6. 1. Main stages of the data analysis of Chapter Six



6.2. OVERALL VIEWS OF THE THREE STUDY GROUPS TOWARDS THE EFFECTS OF EMU ON THE COMPETITIVE POSITION OF PORTUGAL'S HOTEL INDUSTRY

In view of the possible effects caused by EMU in terms of the competitive climate of the industry, the respondents were initially asked what they thought were the general implications of EMU for the competitive position of the Portuguese hotel industry. This was important for understanding the general view of respondents, as well as allowing a comparison of the data to the literature. The findings are explained in the following sub-sections.

6.2.1 The views of the representatives of the industry associations

Using the responses from the industry association survey, it was found that, apart from one respondent, the respondents considered that EMU was affecting the competitive environment of the hotels. The following quote from one of the respondents reflects the main reason presented by three of these respondents who considered that there were changes in the competitive environment:

“The Euro could encourage business competition, as price disparities in different European countries would be more apparent to consumers and business’ and ‘EMU brings economic stability to the competitive environment’.

Furthermore, using the words expressed by another respondent, they shared the idea that:

“EMU has contributed to the consolidation of the European Single Market, which in turn, could have effects upon the competitive position of hotels due to the reinforcement of the European free market”.

Finally, two respondents said that the end of ‘artificial ways’, used sometimes as tools to improve competitiveness, such as ‘changes in exchange rates’ was the logic behind the implications on competitiveness. Three respondents added that *foreign exchange risks* had been reduced, which according to them became an opportunity for business operation.

As shown in Table 6.1, according to the respondent who believed that EMU had not affected the industry environment thought that “*competition is related with the intense rivalry among competitors and the number of competitors*” and EMU did not significantly affect that this.

Table 6. 1. Industry associations' perceptions of the general outcomes of EMU for the competitive position of the hotel industry

Aggregate description of the general implications of EMU for the hotel industry competitive position (<i>italics</i>) and specific answers combined to form the aggregate constraint outcome description (normal text)	Number of respondents	Number of responses forming the general implications
<i>Positive implications</i>	3	
EMU encourage business competitiveness		4
EMU brings economic stability for the competitive environment		4
The consolidation of the European integration affects positively the competitive position of hotels		3
EMU brings exchange rate stability		3
Hotels would be ready to take the opportunity to benefit from EMU		3
<i>Negative implications</i>	1	
Hoteliers were not be ready to fully operate in a more competitive environment		1
<i>There are no implications</i>	1	
Competition is related to other issues rather than EMU		
Total number of respondents = 5		

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Furthermore, the general attitudes of the industry associations towards the effects of EMU on the industry business environment, as expressed by four respondents, revealed that they had more positive views than negative ones (one respondent) of the implications of EMU for the competitive environment. For them, the '*end of the risk of exchange rate fluctuation*', '*the single currency, increased competition*' and the '*general positive impact on macroeconomic stability*' were the most important opportunities brought about by EMU. These effects, together with the ability of enterprises and the owners/managers to overcome possible obstacles caused by EMU (e.g. strong value of the currency), would benefit the hotel industry. Conversely, one respondent believed that the increase in competition was threatening the Portuguese hotel industry because "*managers are still thinking in a very individual way, thinking locally. They need to have proactive reactions and see the market as a global one*".

6.2.2. The views of the representatives of the national authorities

The answers from the survey of national authorities, given in Table 6.2, indicate that all respondents agreed that EMU was changing the industry environment.

Table 6.2 National associations' perceptions of the general outcomes of EMU for the competitive position of the hotel industry

Aggregate description of the general implications of EMU for the hotel industry competitive position (<i>italics</i>) and specific answers combined to form the aggregate constraint outcome descriptions (<i>normal text</i>)	Number of respondents	Number of responses forming the general implications
<i>Positive implications</i>	10	
EMU as other factors encourages hotel industry competitiveness		3
EMU reinforces the European market and consequently competitiveness (e.g. market has benefits from the use of a single currency, well informed consumers and better economic conditions)		7
<i>(Potential) negative implications</i>	7	
Degradation of the competitive position as a result of the incapacity of hotels to respond well to the new challenges such as a more demanding, transparent and rigorous market		5
Degradation of the competitive position as result of the lack of organisation of the hotel industry		2
Total number of respondents = 10		

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Nonetheless, as shown in Table 6.2, in the view of three of these respondents, EMU was not the only force increasing the competition. As they said, factors such as '*increasing consumer demand*' (mentioned by 1 respondents) and '*the need to offer services with better and better quality*' (mentioned by 2 respondents) were also factors contributing to changes in the industry environment. The remaining seven respondents agreed that the increased number of competitors under a '*more powerful European market*' (reinforced by EMU) was the main reason for changes in the competitive environment. In their view, EMU brought positive changes to the industry environment such as: '*more demanding and informed consumers*' (mentioned by 4 respondents), '*simplicity*' (mentioned by 5 respondents), '*increased competition*' (mentioned by 4

respondents) and *'better economic indicators'* (mentioned by 7 respondents). Nonetheless, they believed that some hotels could face some obstacles to benefiting from these changes. The *'small size of some hotels'* (mentioned by 2 respondents) and *'the way they were run as a business'* (mentioned by 3 respondents), together with the *'lack of organisation existing in the tourism sector'* (mentioned by 2 respondents), were the reasons behind that. They argued that under the more *'dynamic', 'rigorous', 'transparent'* and *'demanding'* environment brought about by EMU only the competitive enterprises would continue successfully in the market. Thus, according to these national authority respondents the risks of EMU for the hotel industry only occurred if the managers did not know how to react to the new challenges of EMU.

6.2.3. The views of the business respondents

The data from the business survey, summarised in Table 6.3, revealed that half of the total number of respondents believed that EMU had brought about changes in the competitive position of the hotel industry, whilst 43 percent thought that EMU had not affected the competitive climate. The remaining 7 percent said that they did not have an opinion about this question, showing uncertainty about this subject.

Table 6.3 Hotel businesses' overall views on the nature of the changes in the industry competitive environment

Perceived effects of the general implications of EMU for the hotel industry competitive position		Total	
		N	%
Yes,	Positively	46	44
	Negatively	6	6
No		45	43
Do not know		7	7
Total		104	100

Furthermore, from Table 6.3, it is evident that the majority of the business respondents believed that EMU was a positive driving force in the industry environment.

Table 6.4 Reasons for the existence/lack of changes in the industry competitive environment (business survey)

Single reason (normal text) for each perceived outcome (bold and italics)	Total	
	N	%
<i>Reasons for changes</i>	<i>(n=52)</i>	
Increasing number of competitors in the area	19	37
Increasing rivalry between the existing competitors	5	10
Price exposure and simplicity after the launch of EMU brought new competitors	23	44
End of exchange rates	5	10
<i>Reasons for no changes</i>	<i>(n=45)</i>	
EMU is not a sufficient reason	18	40
Competitiveness depends on factors such as quality of services	27	60

Note: the number in brackets corresponds to the total number of respondents identifying each outcome

Moreover, the data (Table 6.4.) revealed that the majority of the respondents pointed out that *higher price exposure* and *simplicity* were the reasons for positive changes in the industry competitive environment. Changes, either in the number of competitors or the level of rivalry between the existing competitors were mentioned by only few respondents (10%), suggesting that, factors such as '*simplicity*' played a more important role in the industry environment than changes in competition. In addition, it was also evident that the major concern of the respondents, who perceived negative implications, was the '*end of exchange rates*' within the Euro zone as a national tool to improve competitiveness and a source of the hotel profits through the application of commissions for currency exchanges. There were also few respondents expressing concerns over the increase in competition as a result of the price exposure or, simply, by the entry of new competitors after the introduction of EMU.

For those respondents who believed that EMU had no impact on the industry competitive environment, 40 percent of them argued that EMU was not a sufficient reason for changes in the industry's competitive environment. The remaining respondents explained that factors such as "*service quality*" or the "*type of services offered by hotels*" were more important for competition than EMU.

6.3. COMPETITIVENESS ASSESSED USING PORTER'S FIVE FORCES MODEL

In order to further assess the views of the study groups about the effects of EMU in the context of the hotel industry, the respondents were asked to explain their views about different topics, organised according to the premises of Porter's Five Forces model, i.e. the *power of buyers*, the *power of suppliers*, the *rivalry among competitors*, the *entry of new competitors* and the *existence of substitute products*. The aim was to assess whether or not EMU affected each of the five forces in the view of the study groups and, if so, to understand the effects of EMU upon the competitiveness of Portugal's hotel industry according to the Five Forces model. This model is widely recognised in the literature as a relevant model for competitiveness analysis because, as Porter suggested, it identifies the determinants of the nature and intensity of competition within a market. The results obtained in each study-group are presented as follow. The similarities and differences between the three study-groups are explored in Chapter 8 (subsection 8.3.2).

6.3.1. Force 1: The *power of buyers*

The impact of EMU in terms of the '*power of buyers*' focuses on the ability of negotiation by those individuals or organisations who purchase the hotels products or services. As mentioned in the literature review authors, such as Gill and Duncan (2001), expected that the '*power of the buyer*' would increase after EMU as a consequence of a greater facility to compare prices and decide what provides the best value. In addition, as already mentioned in the previous chapter some authors, such as Costa (1999) and Lepecq (1999), argued that the number of tourists in Portugal would increase after the introduction of EMU, which could have an effect on the number of hotel customers and, consequently, on customers' ability to negotiate with the hotel. Conversely, there were authors who expected that EMU would not affect tourist movements significantly or the number of hotel customers and, as a result, there would no be effects on negotiations with customers (Blevins, 2000). Moreover, literature published in 2000 (EC, 2000b) argued that the level of customers' education and understanding of the value of

Euro would remain low in the first years of the Euro, suggesting that EMU could have a negative effect on the *'power of buyers'* in the short term.

Therefore, the respondents were asked about the potential effects of EMU on hotel demand, namely, in terms of the ability of negotiation of potential hotel customers. The effect of EMU upon the numbers of customers was also considered in order to understand if the study groups would recognise that potential changes in tourist flows would have effects upon the ability of customers to negotiate.

6.3.1.1. The views of the representatives of the industry associations on the power of hotel tourists

An examination of the answers from the representatives of the industry associations (Table 6.5) revealed that all of the respondents recognised the possible effects of EMU on the *power of buyers*, as suggested by Gill and Duncan (2001). Namely, the respondents recognised those effects that result in a greater facility to compare prices and assist in decisions as to what provides best value. In this sense, they believed that the ability of buyers to negotiate could increase. The specific reasons presented in the next Table (6.5) were based on findings from the literature in order to better compare the results.

Table 6.5. Industry associations' perceptions of the effects of EMU on the *'power of buyers'*

Aggregate description of the perceived effects of EMU on the <i>'power of buyers'</i> (italics) and specific answers combined to form the aggregate description (normal text)	Number of respondents agreeing
<i>EMU impacts positively hotel customers 'ability to negotiate'</i>	5
Well informed citizens find it is easier to compare prices and decide what provide the best value	5
Changes in the number of customers increase their ability to negotiate	0
Total number of respondents = 5	

In terms of the effects of EMU on the number of hotel customers, as already mentioned in Chapter 5 (subsection 5.4.2), in general, the industry respondents believed that “*the simplicity of the single currency*”, together with “*an improvement in the macroeconomic environment*”, would encourage people from the other Euro countries to travel and look for accommodation. Nonetheless, they considered that these factors were not the main reasons for an increase the number of the hotel customers. As one respondent mentioned, “*the reasons for tourists travelling were much more related to factors such as the tourist interests or the quality of the services than a single currency or the simplicity caused by this*”. As a result, all of the respondents from the industry associations shared the idea that potential changes in the number of customers would not have a significant effect upon the ability of customers to negotiate. Only the fact that the Euro may afford facilities to compare prices and to decide the best value would have effects on the customer’s ability to negotiate prices or services.

6.3.1.2. The views of the representatives of the national authorities on the power of hotel tourists

The data from the national authorities (Table 6.6) showed that all the national authorities believed that EMU, and namely the single currency, would contribute to tourists (or/and hotel customers) being more informed about the market, price and services, which in turn could increase the customers’ ability to negotiate.

Table 6.6. National authorities’ perceptions of the effects of EMU on the ‘power of buyers’

Aggregate description of the perceived effects of EMU on the ‘power of buyers’ (italics) and specific answers combined to form the aggregate description (normal text)	Number of respondents agreeing
<i>EMU has impacts on the hotel customers ability to negotiate</i>	10
Well informed citizens find it easier to compare prices and decide best value	10
Changes in the number of customers increase their ability to negotiate	0
Total number of respondents = 10	

When they were asked about the potential effects on the number of hotel customers, 8 respondents mentioned that '*simplicity*' and '*a new macroeconomic environment*' brought about by EMU would encourage people to travel. In addition, 2 respondents said that '*future investment in the supply side*' would occur with the view to cope the main challenges resulting from EMU. As consequence, they believed that tourism would increase. However, for all of the national authorities an increase number of customers would have no effect on customer ability to negotiate. The customer's ability power is result of how well informed the customers are and not from the number of customers. Nonetheless, all of them thought that customers are well informed, suggesting that they support the views found in the literature.

6.3.1.3. The views of business respondents on the power of hotel tourists

As reflected in Table 6.7., the majority of the business respondents did not expect changes in the number of hotel customers due the launch of EMU. In fact, 87 percent of respondents argued that these effects were, or will be, nil.

Table 6.7. Hotel businesses' overall views on changes in the number of hotel customers

Views on the effects of EMU on the number of hotel customers	Total	
	N	%
Changes	14	13
No changes	90	87
Total	104	100

According to the majority of the business respondents, hotel rates did not have too much influence on the choices made by customers (Table 6.8.). Thus, the effects of a single currency and the consequent price exposure would not make a significant difference to hotel demand. They believed that the customer's ability to negotiate would not increase after the introduction of EMU. The majority of the respondents (86%) believed that EMU was not a factor in peoples' choice of accommodation. Based on the experience of the hotel they were

representing, they believed that the factors behind customer choices, or potential customer choices, were related to the particular characteristics of the hotel, such as location or services offered by the hotel. As result, the ability of customers for negotiation might be limited.

Table 6.8. Reasons for the hotel businesses identifying change/no change in the number of hotel customers

Single reason (normal text) for each perceived effect (<i>italics</i>)	Total	
	N	%
<i>Changes</i>	<i>(n=14)</i>	
Reduction of hotel rates as a result of more competition	7	50
Macroeconomic environment	7	50
<i>No changes</i>	<i>(n=90)</i>	
People's choices are dependent on other factors (e.g. hotel location and services)	90	100

Note: the number in brackets corresponds to the total number of respondents identifying each effect

6.3.2. Force 2: *The power of suppliers*

As mentioned in Chapter 3 authors, such as Gill and Duncan (2001), forecast that EMU could increase the sources of supply, because low cost sourcing opportunities would become readily apparent after the launch of the single currency. Furthermore, according to these authors, there would be a whole new range of suppliers available to European companies which may not have been considered in past. In addition authors, such as Marques (1999), were expecting that the single currency would reinforce the importance of international suppliers, as a consequence of price transparency and the simplicity brought about by the Euro. In contrast, Blevins (2000) pointed out that it would be extremely difficult to know how much difference the Euro would make in terms of the replacement of national by international suppliers as a consequence of price transparency. He argued that converting prices into a single currency had never been particularly difficult, adding that factors such as, after sales support, quality of

guarantee and legal concerns or even language, were some reasons to continue buying from domestic suppliers even given price transparency.

Within this research, the examination of the impact of EMU on suppliers' power was made through a direct question related to the possible effects of EMU on those individuals or organisations from whom the hotels purchased items that were needed to carry out business activities.

6.3.2.1. The views of the representatives of industry associations

Analysing the viewpoints of the industry study group, it was found that the views expressed in the literature concerning lower cost sourcing opportunities and easier comparison of suppliers' prices were not perceived by the representative of the industry associations. For these respondents EMU and the Euro did not bring changes with respect to suppliers.

The explanation behind this, in the opinion of three of the respondents, and using the words of one respondent, was that:

"(...) the intensification of competition would not permit significant market fluctuations, although a new range of suppliers would be noticed".

Furthermore, it was evident that they shared the idea that: *"the majority of the Portuguese hotels made their purchases in Portugal"* and, using the words of one respondent, this led them to say that *"there would be no relevant advantages of a single currency in terms of suppliers"*.

This contradicts what some proponents of EMU had argued, namely that the single currency would change the relationship between hotels and suppliers as a consequence of price transparency and the simplicity brought about by the Euro. The remaining two respondents said that they did not perceive changes in relation to suppliers but, as they said, they did not have a clear opinion on it. The following Table 6.9 summarises the patterns found in the answers.

Table 6.9. Summary of the industry perceptions of the effects of EMU on the hotel suppliers relationship

Aggregate description of the perceived effect of EMU on the hotel suppliers (<i>italics</i>) and specific answers combined to form the aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU has no impacts on hotel suppliers</i>	5	
The use of the Euro does not make difference because purchases are made essentially in Portugal		2
The relationship between hotels and suppliers remains exactly the same		3
Market forces limit potential changes		3
Not have a clear opinion		2

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

6.3.2.2. The views of the representatives of the national authorities

As shown in Table 6.10., only five of the national authorities presented views on this topic. In fact, the remaining five respondents preferred not to reply, stating that it was very specific and they were not able to answer and/or did not have an opinion about this.

From the answers obtained, there was a clear view that these respondents believed that there had been effects of EMU on hotel suppliers.

Table 6.10 Summary of the national authority perceptions of the effects of EMU on hotel suppliers relationship

Aggregate description of the perceived effect of EMU on hotel suppliers (<i>italics</i>) and the specific answers combined to form the aggregate description (<i>normal text</i>)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU has impacts on hotel suppliers</i>	5	
Due to an increasing of competition		3
Due to a favourable macroeconomic environment		3
Simplification by the use of the Euro		
<i>Do not have a view</i>	5	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Table 6.10 also shows that three of the respondents shared the idea that EMU brought increased competition and a favourable macroeconomic environment, which will have positive implications on suppliers. In addition, one respondent mentioned that there were new opportunities to identify more competitive suppliers and also easier access to other markets and suppliers.

Conversely, for two respondents there were some concerns that needed to be taken into account. One of these respondents explained that: *“It would be possible to witness a negative effect on the supplier’s prices as consequence of the rounding up.”* The other respondent said that: *“(…) the consolidation of the single market affects the hotel suppliers due the increased number of competitors in the market.”*

6.3.2.3. The views of the business respondents

The data from the business survey (Table 6.11.) showed that the great majority of the business respondents did not perceive any effect on suppliers, giving the example of their own hotels and suppliers.

Table 6.11. Hotel businesses' perceptions of changes in location of hotel suppliers relationship

Views on the EMU effects in location of hotel suppliers	Total	
	N	%
Changes	9	9
No changes	95	91
Total	104	100

However, almost 6 percent of the respondents said that there had been an effect on the hotel suppliers arguing that after EMU the suppliers, in order to become more competitive, had provided cheaper prices and also that it had become simpler to deal with international suppliers due to the use of the single currency which, according to them, was positive (Table 6.12). In contrast, 3 percent of the total respondents revealed concerns about the implications of EMU on suppliers, accusing suppliers of rounding prices up in the changeover period, contradicting the most likely trend in a more competitive environment.

Table 6.12. Main reason given by hotel business respondents for their answers regarding changes in the hotel suppliers

Single reason (normal text) for each perceived effect (<i>italics</i>)	Total	
	N	%
<i>Changes</i>	<i>(n=9)</i>	
More competition and simplicity due the use of single currency	7	78
Rounding up prices	2	22
<i>No changes</i>	<i>(n=95)</i>	
EMU is not a reason for change	95	100

Note: the number in brackets corresponds to the total number of respondents identifying each effect

When the business respondents were asked about their intentions of looking for new suppliers (Table 6.12), their answers showed that the majority of respondents had no intention of looking for new suppliers in the short or medium term, suggesting that ‘price transparency’ had not affected their relations with their suppliers and their plans to purchase. As a result, the degree of supplier concentration seems not to be changed after EMU, even given the additional simplicity of dealing with international suppliers. The supplier’s market position seems little affected. These findings may reinforce the fact that in Portugal, the relative importance to the buyer of the product or services being purchased from national suppliers is quite evident. Moreover, the fact that the majority of the respondents had experienced no change in their suppliers reveals that, in contrast with what was expected in the literature, and by some respondents, the effects in practice were not noticeable.

Table 6. 13 Intention of the hotel respondents to look for new suppliers

Intention to look for new suppliers	Total	
	N	%
Change	9	9
No change	95	91
Total	104	100

6.3.3. Force 3: *Rivalry among competitors*

According to the literature (James, 2001) the intensity of rivalry between existing competitors would become stronger following the introduction of EMU as result of a more demand and opening market, ‘price transparency’ and the single currency. This in turn, could stimulate price competition or investment in product/service differentiation.

Therefore, the respondents from each study group were asked about their views on the effects of EMU on the ‘rivalry among the competitors’ operating within the hotel industry.

Additionally, they were asked about the effects of EMU on hotel rates and investment, as tools to become competitive. The results are reported in the following text and compared in chapter 8.

6.3.3.1. The views of the representatives of the industry associations on rivalry among competitors

From the answers of the industry survey (Table 6.14), it was evident that, whilst recognising some effects on the degree of rivalry between existing competitors, all the respondents, apart from one, believed that the effects on rivalry between competitors were limited to the relationship between national and international competitors. As one respondent mentioned:

“The single currency allowed potential customers to compare prices across the Euro countries all the more readily, increasing competition and requiring potential changes in prices or in the type of services offered”.

In addition, these respondents believed that a more competitive environment would require high quality services, which could motivate the degree of rivalry between Portuguese hotels and hotels from the other Euro countries.

Table 6.14. Summary of the industry perceptions of the effects of EMU on the degree of rivalry between existing competitors

Aggregate description of the perceived effect of EMU on the rivalry between existing competitors (<i>italics</i>) and the specific answers combined to form the aggregate description (<i>normal text</i>)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts the rivalry between existing competitors</i>	4	
Prices are more exposed		4
Competition has increased		4
Need for better services		2
<i>EMU has no impact in the rivalry between existing competitors</i>	1	
Hotel competitors are located in the national market which is not affected		1

Note: 1. The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

When the respondents were asked their perceptions about the likely effects of the Euro on hotel rates in Portugal, the responses were mixed. Three of the respondents said that no changes in hotel rates would be expected as a result of the introduction of EMU, while two respondents believed that hotel rates would increase, arguing that the changeover period was used by some hoteliers to increase prices through rounding up.

In terms of investment, the majority of the respondents (four) thought that EMU could contribute to an increase in investment by hotels, since more and more customers were well informed and demanding and there was a new macroeconomic environment. However, as they stated, and put in the words of one of the respondents, “*EMU should be faced as one of the various factors that are contributing for investment*”.

6.3.3.2. The views of the representatives of the national authorities on rivalry among competitors

As shown in Table 6.15, not all of the respondents from the national authorities answered this question. Due to the activities performed by the authority that they represented, they did not feel confident in how to answer. As a consequence, three of the respondents did not answer about the effects of EMU on the degree of rivalry among competitors and on investment.

Table 6.15. Summary of the national authority perceptions of the effects of EMU on the degree of rivalry between existing competitors

Aggregate description of the perceived effect of EMU on the rivalry between existing competitors (<i>italics</i>) and the specific answers combined to form the aggregate description (<i>normal text</i>)	Number of respondents answering	Number of responses forming the aggregate description
<i>EMU impacts the rivalry between existing competitors</i>	7	
<i>EMU is one of the forces affecting the internal rivalry but there are others (e.g. increasing consumer)</i>		6
Requires new actions and investments		4
Need for more efficient services		6
<i>Do not have a view</i>	3	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Of those who did answer this question (7), the data revealed that they had similar views. They believed that the degree of rivalry among competitors would increase as consequence of EMU. As they said, EMU would require more efficiency, actions and investments by the enterprises. Nonetheless, they said that the increase in rivalry, and also investment, were also caused by other factors not related to EMU, such as *“increasing consumer demand”* and *“the general need to offer services with better and better quality”*.

In terms of the effects on hotel rates caused by a potential increase in price competition, the results showed that seven of the respondents said that they did not have official statistical data but, from their perspective, since the introduction of the single currency it was possible to observe an increase in prices due to the rounding up of the prices and opportunism by some people. According to them, this effect was, however, more evident in restaurants and cafes. But, even in this case, they thought that the effect was not very significant and that the tendency would be to witness a price decrease in the short and medium term.

One respondent explained that his authority did not blame EMU for changes in the prices of products or services. He said that:

“Probably if we did not witness factors such as the 11 of September or economic recession, the enterprises would increase prices. But as those things happened, it did not happen.”

6.3.3.3. The views of the business respondents on the rivalry among competitors

As already mentioned, the results from business survey on the effects of EMU upon the industry competition (see subsection 6.2.3, Table 6.3 for a review of the data) revealed that the proportion of responses saying that there were effects on competition were slightly different. Nonetheless, when these respondents were asked about the potential effects of EMU on hotel rates and investments, as factors influencing the rivalry among competitors, the answers revealed there was a general view that EMU would not require further investment nor affect hotel rates (see chapter 7, subsection 7.3.3.5. for details on the effects on the hotel rates and 7.3.7 for details on the effects on investments). In fact, for approximately 83 percent of the

total respondents, EMU did not push either hoteliers or potential investors to significantly invest in the sector, showing that the majority of the respondents did not believe that there were effects on rivalry among competitors resulting in a high level of investment. Giving their own example, 37 percent of the respondents said that EMU had not increased the level of their investment. Only 13 percent of the respondents admitted that EMU had influenced their investment as result of a new macroeconomic environment and not due rivalry among competitors or price exposure. A very small percentage (less than 2% in total) stated that, following the introduction of EMU, investment became more difficult, blaming EMU for causing problems for the Portuguese economy.

6.3.4 Force 4: *The entry of new competitors (threat of entry)*

The impact of EMU in terms of the '*entry of new competitors*', focused on the views of the three study groups on the ease of firms entering and competing in the industry market after the launch of EMU. Under this topic, the respondents were asked about the effects caused by EMU on those factors commonly found in the literature as contributors for easier entry into a market or an industry (e.g. Harris, 2001 and Barr et al., 2003). Namely, the effects on the cost of capital as result of changes in interest rates and the effects on the number of mergers and acquisitions. In fact, it was suggested in the literature (e.g. Harris, 2001 and Barr et al., 2003) that a rise in competition caused by EMU would bring new competitors through an increase in the number of mergers and acquisitions in a large variety of industries, and particularly in the hotel industry which is characterised by small and medium enterprises. Thus, EMU could indirectly change the structure of the hotel industry (e.g. Torres, 1999). In addition, theoretical findings (see, for example Barr et al., 2003), indicated that that the economic conditions brought about by EMU would pave the way for entry into a market or an industry through a fall in the interest rates.

6.3.4.1. The views of the representatives of the industry associations on the entry of new competitors

The data from the industry associations, summarised in Table 6.16, reveals that according to three of the representatives of the hotel industry, the effects of EMU on the ‘*cost of capital*’, together with ‘*the consolidation of the economic integration process*’ and ‘*the economic stability in the medium and long term*’, could attract new competitors in to the hotel industry. However, according to these respondents, the development of tourism over the last decade, and events such as the European Football Championship - Euro 2004, were more important in attracting new investors than the introduction of EMU. Therefore, as was mentioned by these respondents that: “*EMU could be seen as one of the various factors that would attract new competitors.*” A different opinion was presented by one of the respondents who said that:

“EMU would not influence the entry of new competitors, because the changes caused by EMU were not strong enough to change the investment scenario.”

Table 6.16. Summary of the industry perceptions of the effects of EMU on the entry of new competitors

Aggregate description of the perceived effect of EMU on the entry of new competitors (<i>italics</i>) and the specific answers combined to form the aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>Potential new competitors</i>	3	
Cost of capital may encourage new competitors		2
Business environment became more attractive for new investment		3
EMU, together with other issues, may encourage new competitors to enter the hotel industry		3
<i>No effects</i>		
EMU plays no role	1	1
<i>Do not have a view</i>	1	
Not have enough information		1

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

As noticed in Table 6.16, there was one respondent saying that he would prefer not to reply because he did not have an informed view.

When the respondents were asked about the effects of EMU on the number of mergers and acquisitions over next three years, there was a consensus among the respondents that “*EMU would push the enterprises to merge in order to become more competitive*”. But all of them considered that there were several contributing factors to this, reinforcing the idea that EMU would be just a small part of these factors. They believed that factors such as *globalisation* or *market trends* were much more important, arguing that the mergers and acquisitions became a trend even before the introduction of EMU.

One of the respondents emphasised further effects of EMU in respect of this issue in the medium term, saying that:

“The positive effects of EMU on the macroeconomic environment, together with the increasing importance of tourism in Portugal, would attract national and international investors to the sector and encourage mergers and acquisitions within the hotel industry”.

This respondent added that he was confident about the positive effects of EMU on mergers and acquisitions, believing that these effects would contribute to a more efficient reorganisation of the sector and to an increase in the number of competitors.

6.3.4.2. The views of the representatives of the national authorities on the entry of new competitors

Examination of the answers in the national authority survey, summarised in Table 6.17, shows that for the majority of the respondents (seven out of ten), the main sources of barriers to entry to a market were: *the capital requirements* and *the exploration of economies of scale* (both pointed out by Porter, 1980) considering that these source would be positively affected by the introduction of EMU.

Table 6.17. Summary of the national perceptions of the effects of EMU on the entry of new competitors

Aggregate description of the perceived effect of EMU on the entry of new competitors (<i>italics</i>) and the specific answers combined to form the aggregate description (normal text)	Number of respondents answering	Number of responses forming the aggregate description
<i>Potential new competitors</i>	7	
Cost of capital may encourage new competitors		5
European Single Market became more attractive for new investments		6
Macroeconomic environment has improved		7
<i>There are no potential changes</i>	1	
EMU plays no role at this topic		
<i>Do not have a view</i>	2	
They work in different areas		2

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

In accordance with the literature, they believed that falling interest rates and the consolidation of the single market could increase the number of current and new investors over the next few years, which would represent new competitors. Four of the respondents said that this would happen in the hotel industry and, four others, particularly those not working directly with the tourism sector, said that they were not sure about the hotel industry, although they believed that perhaps this could happen. Conversely, there was one respondent who believed that EMU did not have any effect at this level. There were two respondents who did not reply because of the reason already mentioned – no competence to do so.

When they were asked about the effects of EMU on the number of mergers and acquisitions over next three years, six respondents said that they were not so sure about the positive effects of EMU at this level. They argued that the increase in the number of mergers and acquisitions was normally linked with other factors, such as globalisation. Nonetheless, the point of view of three authorities was that EMU would push investors to merge and acquire enterprises, changing the number of competitors and the industry structure.

6.3.4.3. The views of business respondents on the entry of new competitors

Using the analysis of the data provided in Chapter 5 (sub-section 5.4.1.) regarding to the business' perceptions on the cost of capital, two observations emerged. Firstly, as shown in Table 5.17 (Chapter 5), only 6 percent of the business respondents believed that the *cost of capital* had decreased after the introduction of EMU. As result, one of the main arguments found in the literature to explain why EMU would reduce some of the main barriers to entry in the industry (i.e. capital requirements) was not perceived by the majority of the business respondents (94%). Secondly, the business respondents (69%) did not think that EMU impacted on access to capital, which was cited in the literature (e.g. Harris, 2001 and Barr et al., 2003) as a potential effect of EMU that will encourage entrants to enter the market and compete with the incumbents (see, Chapter 5, sub-section 5.4.1.1., for detailed tables).

In order to obtain the view of the business respondents towards the potential effects on merger and acquisitions as potential new entrants, the survey included a closed question on this topic with five options for change: decrease considerably; decrease; neutral; increase and increase considerably. The answers, expressed in Table 6.18, reveal that 62 percent of respondents believed that, within the hotel industry EMU had had a no effect on the level of mergers and acquisitions.

Table 6.18. The hotel businesses' perceptions of the effects caused by EMU in the number of mergers and acquisitions

Effects of EMU on mergers and acquisitions	Total	
	N	%
Decrease considerably	-	-
Decrease	2	2
Neutral	65	63
Increase	35	33
Increase considerably	2	2
Total	104	100

These results also demonstrate that 36 percent of all the respondents believed that the number of mergers and acquisitions could ‘increase’ (34%) or ‘increase considerably’ (2%), following the introduction of EMU. These data seem to contradict the results found in the literature that EMU could change the structure of the industry, creating new competitors through its effect on merger and acquisitions.

The main reason pointed out by the respondents for the perceived effects of EMU in the number of mergers and acquisitions are presented in the following table (Table 6.19).

Table 6.19. Reasons provided by hotel businesses for the perceived effects of EMU in the number of mergers and acquisitions

Single reason (normal text) for each perceived effect (<i>italics</i>)	Total	
	N	%
<i>Decrease</i>	<i>(n=2)</i>	
Change of economic situation	2	100
<i>Neutral</i>	<i>(n=65)</i>	
Mergers and acquisitions are a trend	49	75
EMU does not affect it	16	25
<i>Increase</i>	<i>(n=35)</i>	
Positive changes of economic situation	18	51
Business simplicity	14	40
Higher interest of international investors	4	9
<i>Increase considerably</i>	<i>(n=2)</i>	
Changes of economic situation	2	100

Note: the number in brackets corresponds to the total number of respondents in each view

In fact, the above table (6.19) shows that a large number of the respondents believed that mergers are a trend and not a result of the introduction of EMU. In addition, changes on the macroeconomic environment and the simplicity through the use of a single currency were the main reasons cited for those respondents who believed that mergers and acquisitions would increase.

6.3.5. Force 5: *The existence of substitutes products* (Threat of substitution)

According to some literature on EMU, the loss of Portugal's ability to devalue its currency could result in the emergence of potential substitute products and services in the tourism sector (e.g. James, 2001; Mussweiler and Strack, 2004). The logic behind this was that in several years the devaluation of the Portuguese currency had been used as a way to improve the competitiveness of Portugal (Abreu, 2005). However, after the introduction of EMU, this possibility was not available any more for Portuguese products and services, which according to some literature (James, 2001) would push people to prefer other countries with similar products/services and low prices due to a weak currency. In addition, as already mentioned, some authors (Ratz and Hinek, 2005) had expected that easier comparison in prices brought about by EMU would imply changes in hotel customers' choices, namely in those customers from whom price had an important role in their choice. Therefore, the respondents from the three study groups were asked if they believed that EMU could result in a *threat of substitution* in hotel services by its effect on exchange rates (one currency only) and in price exposure. In contrast with some views found in the literature, the answers from the surveys revealed that for the study groups the effects on substitute products or services were not perceived as likely. These results are presented in the following paragraphs.

6.3.5.1. The views of the representatives of the industry associations on the existence of substitutes products

The responses from the representatives of the hotel industry associations revealed that Portugal's loss of the ability to use exchange rate policy was not a concern for the majority of the respondents (4). Using the words of one of the respondents, they believed that: "*the price of the currency had not been so important for tourist choices and should not been seen as a threat*", contradicting some views found in the literature. Only one respondent was worried about it.

Nonetheless, when they were asked about the possible effects of the easier comparison of prices for existing products/services, the answers showed that four representatives of the industry associations recognised there would be effects. However, according to three of these respondents, "*the easier comparison of prices benefited the Portuguese enterprises*" because they thought

prices were cheaper in Portugal. Nonetheless, this opinion was not shared by one of the respondents, who argued that: *“hotels in Spain offered better rates than Portugal”*. As result, he argued that, under a context of clear presentation of prices, there was a need for additional efforts by Portuguese enterprises to become more competitive. Otherwise, as he added: *“Potential hotel customers would choose Spanish hotels, substituting the Portuguese services/products with the Spanish ones”*.

6.3.5.2. The views of the representatives of the national authorities on the existence of substitutes products

From the comments made by the representatives of the national authorities, it was evident that they readily acknowledged that Portuguese products and services were facing, more and more, a consolidation of a single market, without internal frontiers and with a common currency with fixed rates. According to 8 out of 10 respondents, these effects of EMU may increase the number of ‘substitute products or services’, but in a limited way.

As found in the literature, one of the respondents further argued that:

“the single monetary and rates policies may cause a threat of substitution, because now the Portuguese services and products cannot benefit from the effects of currency devaluation”.

This concern was also mentioned by another respondent. Nonetheless, it should be noticed that none of these respondents exclusively blamed EMU for this. They thought that EMU could have an effect on product/services substitution, but the threat of substitutes would persist even without EMU, due to factors such the globalisation, the use of new technologies and the fact that the consumers were more and more demanding and informed about alternative products and services.

6.3.5.3. The views of business respondents on the existence of substitutes products

The data from business survey (Table 6.20.) showed that the majority of respondents (72%) believed that the loss of exchange rate flexibility after the introduction of EMU had no effects on the hotel industry, suggesting that they were not expecting significant changes in the

existence of the substitute products as result of a single monetary policy. In addition, the data also revealed that there were respondents who mentioned positive effects and others negative effects.

Table 6.20 Hotel businesses' overall perceptions of the effects caused by 'loss of exchange rate policy'

Effects of 'lost of exchange rate policy'	Total	
	N	%
Positive effects	15	18
Negative effects	15	14
No effects	74	72
Total	104	100

The reasons the respondents presented for their answers (Table 6.21) provided a better understanding of their answers.

Table 6. 21 Reasons provided by hotel businesses for effects/no effects, resulting from the 'loss of exchange rate policy' on the hotel industry

Single reason (normal text) for each perceived effect (<i>italics</i>)	Total	
	%	N
<i>Positive effects</i>	<i>(n=15)</i>	
Price exposure	6	40
Portugal offers cheaper prices and services	9	60
<i>Negative effects</i>	<i>(n=15)</i>	
Consolidation of a single market and competition	3	20
Fixed exchange rates	7	46
Spain offers cheaper prices	3	20
Easier comparison of prices	2	14
<i>No effects</i>	<i>(n=74)</i>	
Tourist choices are not based on the currency devaluation	64	86
Price exposure is not a reason for substitute services	10	14

For the majority of respondents currency devaluation was not a significant reason for tourists changing their options to travel. This confirmed what they had already said in the previous questions, since they explained that factors such as the quality and type of services offered were behind the choices of tourists, minimising the potential effects of EMU on product substitution. For the same reasons, the majority of the respondents did not believe that price exposure would have effects on this. However, it was evident that some respondents believed that there were effects caused by the loss of exchange rate policy. In addition, as they explained, there were concerns about the possibility of the Spanish services and products becoming ‘substitute products or services’, in part as a consequence of the end of exchange rates and their higher ability to compete offering better quality and prices.

6.4. THE PROPOSED ACTIONS TO OVERCOME BARRIERS AND TO EXPLORE OPPORTUNITIES

Bearing in mind that this research was undertaken not only to identify the views of the study groups on the impacts of EMU, but also to use their views to contribute to the solution of the problems, and the strengthening of positive outcomes, the respondents from each group were asked to provide suggestions for hotel industry development in the context of EMU.

6.4.1. The views of the representatives of the industry associations

From the industry survey it was found that the majority of the respondents (4) believed that the sector was well structured and able to face any change in the competitive environment. However, using the words of one respondent, they called for:

“better provision, rigour and efficiency of hotel services in the attempt to increase the competitiveness of the industry, in a market that became more competitive”

Table 6.22. Summary of the industry association's proposals for the hotel industry

Proposals suggested	Number of proposals cited
<i>To keep working with efficiency and rigour</i>	4
<i>Hotel industry needs to have proactive actions</i>	2
<i>Need of to implement national structural reforms (e.g. avoiding unnecessary expenses)</i>	1
Total of respondents = 5	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Within the responses, there were also concerns (2) that the industry could be not ready to fully operate in an increasingly competitive environment, due the inability of the hotel managers to think in a global way and be proactive. As result, there were common calls for: *'proactive actions/ strategies and a global management'* (Table 6.22).

One respondent expressed a concern over the behaviour of the public sector, namely the excessive public expenditure during the last decade. He believed that this would affect the performance of different industries of the national economy and make difficult the exploitation of some of the opportunities brought by EMU. As a result, the implementation of some national structural reforms was suggested to help the different industries and, namely, the hotel industry. In this way, he suggested that:

"it would be necessary to encourage changes that permit a completely free labour market in Europe and also avoid unnecessary public expenses".

6.4.2. The views of the representatives of the national authorities

In terms of the responses collected from the national authority survey, the main findings showed that, firstly, the respondents shared the idea that EMU should be considered by the hotel industry as a 'mean and not as an end'. As one respondent said:

'EMU should be seen as a tool, which may help economic development and improve the way the enterprises operate, but not as an opportunity which does not require any action'.

Secondly, there were six calls for proactive actions from the supply side, as already mentioned, and also referred to by respondents from the industry associations. To reinforce this idea, one respondent said that

“the opportunities are not expected to be realised by default or without a major effort on behalf of the enterprises of the Euro countries.”

Thirdly, six of respondents suggested that *‘hotels should offer high quality services to face a more demanding market’* (cited by 3 respondents), *‘hotels need to rethinking about the services they are offering and in particular their future strategies’* (cited by 2 respondents) or *‘hotels’ strategies need to be adapted to the context of EMU’* (cited by 3 respondents).

Table 6.23. Summary of the national authority proposals for the hotel industry

Proposals suggested	Number of proposals cited
<i>EMU should be seen as a tool not an end</i>	8
<i>Hotel industry needs to have proactive actions</i>	6
<i>Hotels industry needs to offer more and higher quality services</i>	3
<i>New strategies are needed</i>	5
Total of respondents = 10	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

Part of these views was also evident in the industry survey findings. However, among the answers provided by the national authorities there were more references regarding their concerns about the current quality and diversity of services/products than in the responses of the industry associations. Finally, as was mentioned, the national authorities suggested:

“Some measures for the hotel industry in order to re-organise the sector, which in their view was highly characterised by fragmentation and heterogeneity, especially in the North of Portugal”.

They indicated that in the North there was still high entrepreneurial fragmentation, which could cause some difficulties in dealing with the driving forces of the business environment, such as EMU. However, they also believed that there was a high potential to develop tourism

in the North, arguing that the North had the greatest diversity of tourist resources which, together with a new business environment brought by EMU, could represent an opportunity to develop the region.

One respondent said that there were a lot of factors that needed to be improved in the North, which were already explored in regions such as Lisbon or the Algarve. These factors were both internal and external, such as an increase in partnerships, cooperation and associations between tourism enterprises but also the external infrastructures and promotion of the Region. As a result of these needs, the hotels in the North could have more difficulties in benefiting from some of the potential changes in the business environment than the hotels located in regions where infrastructure and promotion were more developed.

The answers showed, however, that half of the respondents had an optimistic view of the ability of hotels located in the North of Portugal to face the challenges of EMU, because they believed that the people responsible for the hotel industry and managers were conscious of the need to change. Five respondents added that this, together with the potential of tourism in the North, could give hoteliers the ability to respond to the new challenges. Nonetheless, three respondents complained about the type of management followed by some managers in the North, suggesting “*more innovation and creativity was needed to run a successful business.*”

6.4.3. The views of the business’s respondents

With the aim of understanding the perceptions of the business respondents on the ability of the hotel industry to cope with the EMU challenges, respondents were asked to indicate their level of confidence on this. This was measured using a 5 point Likert-scale (*fully confident, confident, neutral, not confident and no confident at all*). As Table 6.24 shows, the majority of the respondents was *confident* (62%) on the hotels ability to succeed in the context of EMU.

Table 6.24. Hotel businesses' overall views on the ability of hotel industry to succeed in the context of EMU

View about the hotel ability to succeed	Total	
	N	%
Fully confident	6	6
Confident	64	62
Neutral	5	5
Not confident	25	24
Not confident at all	4	5
Total	104	104

The factors used by respondents to explain their answers (Table 6.25) confirmed that the majority of the respondents believed that EMU had little effect on the hotel industry. In fact this was an argument found among the diverse answers.

Table 6.25. Reasons provided by hotel businesses for their perceptions of the ability of the hotel industry to succeed in the context of EMU

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Fully confident</i>	(n=6)	
Little effect of EMU on the hotel industry	6	100
<i>Confident</i>	(n=64)	
Ability to adapt easily to new situations	23	36
Little effect of EMU	31	64
<i>Neutral</i>	(n=5)	
Little/no effect of EMU on the hotel industry	5	100
<i>Not confident</i>	(n=25)	
Lack of national policies and support	14	56
Lack of strategies	3	12
Decreasing economic stability	6	24
Small size of enterprises	2	8
<i>Not confident at all</i>	(n=4)	
Changes of economic situation	4	100

Note: the number in brackets corresponds to the total number of respondents in each view

As Table 6.25 shows, in general, the respondents were fully confident, confident or neutral, essentially, because they believed that the effects of EMU were not relevant for the hotel industry. However, as this table (6.25) also demonstrates, almost one third of the respondents considered that the hotels have a great facility to be adapted to market and competition challenges. As result, the potential effects of EMU would not represent a problem for the hotel business.

In respect of the main explanations given by those respondents who had negative perceptions (28% in total) about the industry's ability to succeed in the context of EMU, the data (Table 6.25) shows that '*lack of national policies and support*' was the most important reason cited, followed by the '*lack of business strategies*', '*decreasing economic stability*' and the '*size of enterprises*' in the hotel industry.

The respondents' reference to a lack of support by the national authorities seems to contradict the answers given by the business respondents when asked to indicate if their hotel had received support from the national and the industry associations (see chapter 7 subsection 7.3.7 for details on these views). As will be reported in Chapter 7, almost half of the respondents (49%) indicated that the national authorities and the industry associations were doing enough to help their hotels to face the possible implications of EMU. In fact, in their view, the national authorities and the industry associations had provided them with enough information about EMU.

6.5 CONCLUSION

This chapter has provided a detailed analysis of the perspectives of the three study groups on the impact of EMU on the competitive business environment of the hotel industry. As a result, a range of conclusions emerged. First, despite different perceptions on specific subjects, the three study groups recognised either positive or negative outcomes for the competitive environment. Second, it was evident that the representatives of the national authorities and the industry associations were more certain about the consequences of the effects of EMU on the

competitive environment than the business respondents. In fact for the national authorities and industry associations, EMU plays an important role in the competitive environment, while for more than half of the business respondents, EMU was perceived as having limited or nil effects on competition in the industry. Third, it was found that the main arguments for an increase of competition were factors such as a larger exposition of prices as result of the '*price transparency*', a more demanding market and '*the entry of new competitors*' in the sector. By contrast, for those who did not expect significant changes in the competitive environment, the fact that the hotels in the North of Portugal had unique characteristics, which enable them to distinguish themselves from their competitors, together with the limited role of EMU in this, were the main arguments. This was an idea particularly argued by the business respondents. Fourth, when the respondents were confronted with the effects of EMU on Porter's Five Forces Model, it was evident that, although the three study groups perceived effects on these Forces, the national authorities and the industry associations were again more confident about the potential effects than the business respondents. In fact, both institutions identified more effects of EMU on the competitive environment than the business respondents. According to the business respondents the effects were quite moderate, whilst for the other two groups there were positive effects. Finally, in spite of the respondents being fairly optimistic about the ability of the industry to face changes in the competitive environment, they suggested proactive actions, which included measures that would permit a conjugation of multiple efforts among the various industry stakeholders, such as partnerships, cooperation and associations, and also a greater emphasis in the quality services, promotion and infrastructures (e.g. access, safety and improving of cityscapes).

7. THE OPERATIONAL BUSINESS ENVIRONMENT AFTER THE INTRODUCTION OF EMU

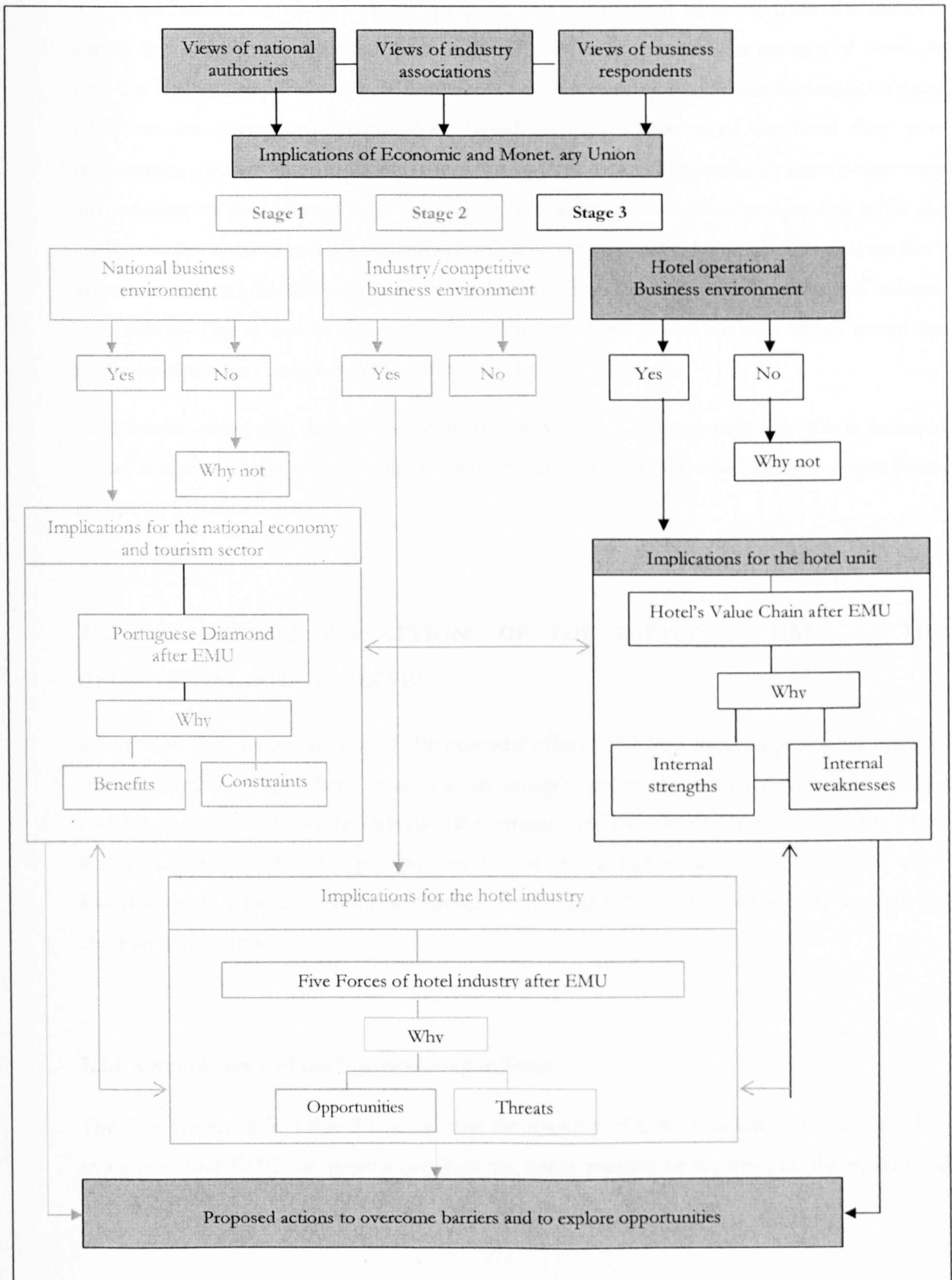
7.1. INTRODUCTION

There was a broad consensus (e.g. Branco, 1997; Deloitte and Touche Consulting, 1998, Costa, 1999; Shackelford, 1998 and Ratz and Hinek, 2005) that the operational business environment would change following the introduction of EMU. In the literature, prior to the inception of EMU, there were arguments that the Euro was more than simply another currency because, its implementation would affect, in a variety of ways, the ways in which enterprises operate, plan and invest. However, the effects on each individual business could be different and would depend on a wide range of factors (Deloitte and Touche Consulting, 1998).

The aim of this chapter is to evaluate the impact of EMU at the operational level of the hotels selected for this study by assessing the hotel stakeholders' perceptions on how EMU impacts these units. The chapter includes an evaluation of the perceived changes in the hotels' activities, using Porter's Value Chain model as a measure of reference against which the impacts of EMU upon business activities could be identified and evaluated. The chapter also offers an analysis as to how EMU could contribute to changing hotel business plans or investments. The chapter concludes by identifying the hotel businesses' perceptions of their strengths and weaknesses and the suggested actions to overcome the barriers and explore the opportunities created by the introduction of EMU.

The following figure helps to visualise the main topics analysed in this section.

Figure 7.2 Main stages of the data analysis of chapter seven



As can be observed in the Figure 7.1 above, the focus in this Chapter is on the operation of individual hotel enterprises. For this purpose, the information gathered from the business survey forms the most significant part of the discussion in terms of the amount of detail. In fact, the business respondents were in the best position to present views on the implications of EMU on the operational environment, based on the experience of the hotel they were representing. Moreover, even though the views of both national and industry associations were also relevant to the analysis, in general, these respondents had a *macro* perspective, while the analysis in this chapter is more concerned with a *micro* perspective. Hence, in this chapter there are some sub-sections in which there are no findings from the national authorities and industry associations. This is due to the specificity of the questions in the analysis, which meant the subject area was not included in the national and industry surveys.

Each section starts with the analysis of the business survey. When appropriate, this is followed by an analysis of the data arising from both the industry and the national respondents, according to their relevance.

7.2 THE OVERALL PERCEPTIONS OF THE IMPACT OF EMU AT THE OPERATIONAL BUSINESS LEVEL

In order to gain a general view of the potential effects of EMU on the operational business environment, the respondents in each study group were asked whether or not they thought EMU had an influence on the operational environment. If so, they were then asked to classify the overall effects of EMU as positive, negative or neutral and explain why. The overall figures found under this topic in each study group are summarised in the following sub-sections and compared in Chapter 8.

7.2.1. Overall views of the business respondents

The data presented in Table 7.1 reveal that the majority of hotel business respondents (61%) recognised that EMU had general implications, either positive or negative, on the operational

business environment, with its having positive effects (59%) being the most frequent answer. Nonetheless, it was found that 38 percent of the respondents thought EMU had no effect on the operational environment.

Table 7. 1. Overall perceptions of the outcomes of EMU for the hotel operational environment (business survey)

EMU outcomes for the hotel operational environment	Total	
	N	%
Positive	62	59
Neutral	39	38
Negative	2	2
Do not know	1	1
Total	104	104

Most frequently the changes brought about by EMU at the national and competitive environment levels were put forward as the reasons for perceived effects, as Table 7.2 indicates. The majority of the respondents believed that EMU brought about a new external and competitive environment which, in turn, had implications for the operational environment. In addition, these respondents said that, since the hotels were dealing with a new currency, either changes in the internal organisation of the enterprises (e.g. IT, training and accounting) or changes in the relationship between the enterprises and their suppliers, distributors or clients were needed.

Table 7. 2 Reasons provided by hotel businesses for changes in the hotel operational environment

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Positive</i>	(n=62)	
Macroeconomic improvements	35	56
Adoption of Euro	19	31
Increase in market competition	8	13
<i>Neutral</i>	(n=39)	
Effects depend on the size of enterprises	29	74
Effects of EMU are limited	10	26
<i>Negative</i>	(n=2)	
Decrease in economic welfare	2	100
<i>Do not know</i>	(n=1)	
Too early to know	1	100

Note: the number in brackets corresponds to the total number of respondents in each view

As shown in Table 7.2, some respondents (38% of total) believed that the implications of EMU were neutral as regards their operating environment. This was seen to be a result of the size of the enterprises with the implications of EMU only being evident in larger enterprises, such as banks and multinational companies. In addition, the limited effects of EMU for the hotel industry were also mentioned as a reason for no changes.

Finally, Table 7.2 also demonstrates that only a few proportion of the respondents identified negative outcomes for the operational environment. On the basis of the economic situation, they expressed concerns about the potential effects of EMU, indicating that since the introduction of EMU the economic situation of Portugal had become more difficult.

7.2.2. National authorities' overall views

During the national authority survey there were difficulties in obtaining answers from all the respondents on this topic as half of the national authorities stated that they were not able to reply to this general question because it would require a micro perspective and they were macro analysts. From the five responses obtained (see Table 7.3), it was evident that within

this group, there was a general positive feeling about the implications of EMU for the operational environment. Through their answers, the respondents explained that since the Portuguese economy would become more stable, credible and rigorous in order to fulfil the requirements asked by the EU, and in particular the SGP, enterprises would need to change the way they operate, by improving their services and strategies. The following quotation obtained from one of the respondents summarises these views:

“Since EMU has favourably changed the macro environment of the Portuguese economy, through the adoption of precise economic rules and aims imposed by the national authorities and European Institutions, the enterprises’ operational environment had to change in order to be adapted to the new challenges brought about by EMU”.

Table 7.3 National authorities’ perceptions of the outcomes of EMU for the hotel operational environment

Aggregate description of positive outcomes (<i>italics</i>) and specific answers combined to form aggregate positive outcomes description (normal text)	Number of respondents giving the positive outcome	Number of responses forming the positive outcome
<i>Positive outcomes</i>	5	
as a result of changes in the national macroeconomic environment		5
due to the adoption of the Euro, since this simplifies and encourage international relationships		2
due to the favourable competitive environment		3
<i>Do not have a view</i>	5	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

As demonstrated in Table 7.3, the use of a common currency within the Euro area was also found as an additional reason for changes in the operational environment, as a result of international relationships among business being simplified and encouraged.

A note should be made of the fact that, within the answers, the respondents gave, several times, the term ‘*enterprise*’ business environment was used instead of ‘*hotel*’ business environment (cited only once in all the responses). In fact, although they were asked about the operational environment of the hotel units, it was evident that they preferred to use a general

term in their answers. During the interview, they were asked if there was any reason for that, and the answers were unanimous. They thought that the effects of EMU for the operational environment were common to the majority of businesses and, as a result, they used the word ‘enterprise’ instead of ‘hotel’.

7.2.3 Industry associations’ overall views

From the industry association survey, only positive implications in terms of operational changes were identified. In fact, all the respondents (5 out of 5) mentioned that changes caused by the introduction of a new currency, together with the implications that EMU brought about for the Portuguese economy and in the accommodation industry sector, would certainly influence the way the hotels were operating. Sentences such as the following one, cited by one industry association respondent, were commonly found in the responses to demonstrate the feeling that they had about the implications of EMU for the operational environment:

“This association considers that the Euro simplifies the way how to do business and brings a favourable macro and competitive environment for business operations”.

A summary of the industry perceptions of the outcomes of EMU for the hotel operational environment is provided in the following table (7.4).

Table 7. 4. Industry associations’ perceptions of the outcomes of EMU for the hotel operational environment

Aggregate description of positive outcomes (<i>italics</i>) and specific answers combined to form aggregate positive outcomes description (<i>normal text</i>)	Number of respondents giving the positive outcome	Number of responses forming the positive outcome
<i>Positive outcomes</i>	5	
due to macroeconomic improvements		5
as result of the simplification brought about by the Euro		5
due to the favourable competitive environment		4

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

7.3. ANALYSIS OF THE PERCEIVED CHANGES IN THE MAIN ACTIVITIES OF HOTELS, USING PORTER'S VALUE CHAIN MODEL AS THE ANALYTICAL FRAMEWORK

This phase of the analysis explores the perceptions of the effects of EMU on the operational business environment, by assessing the perceived implications of EMU for the main activities of the hotel units operating in the North of Portugal. In doing so, as already mentioned, Porter's Value Chain model is used as the framework. As mentioned in the research methodology chapter (Chapter 4 subsection 4.2), the purpose for using this model was to better organise the data and, simultaneously, explore each of the main activities of the hotel units.

It should be borne in mind that, in his model, Porter (Porter, 1985) distinguished the firm's activities as both primary or support activities in order to explain all the various activities a firm performs and how they interact. The primary activities were identified as being directly involved in the flow of products to the customer, and include: *inbound logistics, operations, outbound logistics, marketing and sales, and services*. The support activities include: *procurement, human resource management, technological development and infrastructure* and facilitate the functioning of the primary activities. In this research the model was adapted, to take into account the type of enterprise in this study, service enterprises, and, occasionally, some of the activities defined by Porter (1985) were not directly applicable to the hotel industry. For instance, as widely recognised in the literature on tourism, services have specific characteristics, such as *intangibility* and *perishability*, which distinguish them from many other products (Middleton, 2001 and Kotler et al., 2005). Therefore, three main adaptations were introduced to the Value Chain Model. These are:

a) ***Procurement and inbound Logistics***. For the purpose of this analysis, emphasis was given to *procurement* rather than to *inbound logistics*, since procurement includes all purchasing of goods, services and materials while inbound logistics refers to the goods/raw materials received from suppliers and how they are moved around the organisation.

For the hotel industry, the relationship between hotels and suppliers suggested by procurement is more relevant than is inbound logistics, which would however be relevant if the research was

dealing with products and not services. For this reason, inbound logistics were not included in this analysis.

b) **Outbound logistics.** Another adjustment related to *outbound logistics*, which includes the sending of products along the supply chain to wholesalers, retailers or to the final consumer. They also would be more applicable to physical products than to services. As mentioned by Buhalis (2002), for a hotel, *outbound logistics* involves housekeeping, announcing to the front office that the room is ready to be rented, as well as preparations for the room to be put on the market. Therefore, bearing in mind that the aim of the research was to analyse the implications of EMU, outbound logistics was also excluded. Topics related to the distribution chain in tourism/hotels, which may be affected by EMU, such as the sale of rooms, are analysed in the marketing and sales sub-sections.

c) **Services Category.** The factors in the *services* category of Porter's Value Chain include installation, after-sales service and complaints. Nonetheless, due to the *inseparability* characteristic of hotel services, where the delivery and consumption of services are simultaneous, only the complaint factors were considered in this category.

Therefore, this section analyses the impacts of EMU on hotel units by looking at:

- Impacts of EMU on *procurement*, (7.3.1)
- Impacts of EMU on *operations*, (7.3.2.)
- Impacts of EMU on *marketing and sales*; (7.3.3.)
- Impacts of EMU on *services*; (7.3.4.)
- Impacts of EMU on *human resource management*, (7.3.5.)
- Impacts of EMU on *technological development*; (7.3.6.)
- Impacts of EMU on hotel *administration and infrastructure*, (7.3.7.)

7.3.1. Impacts of EMU upon procurement

In order to evaluate the effects of EMU on *Procurement*, which embraces the relationships with suppliers that are developed in order to secure the lowest possible price for purchases of the

highest possible quality, the hotel respondents were asked whether or not EMU had affected the relationship of the hotel with its suppliers and, if there were changes, to explain why. The same question was asked to the other two groups, but because the findings have already been presented in the previous chapter when dealing with the 'power of suppliers' issues (Chapter 6, sub-section 6.3.2.), the findings from these two groups are not repeated here.

7.3.1.1 The views of the business respondents on the impacts in relation to hotel suppliers

The results from the business survey are presented in Table 7.5 and reveal that over 91 percent of the total respondents reported that EMU did not affect their relations with their suppliers. Only a small percentage (9%) said that the interrelationship of the hotel and its suppliers had changed following EMU.

Table 7.5. Perceptions of the hotel business respondents of the impacts of EMU on their relationship with suppliers

Perceptions of business respondents	Total	
	N	%
EMU has impacts for hotel' suppliers	9	9
EMU has no impact for hotel' suppliers	95	91
Total	104	100

Table 7.6 presents the main reasons provided by the respondents.

Table 7. 6. Reasons provided by hotel businesses for impacts or no impacts in relation to the hotel's suppliers

Single reason (normal text) for each perceived effect (<i>italics</i>)	Total	
	N	%
<i>Reasons for impacts</i>	<i>(n=9)</i>	
More rigour and better prices which was positive	6	66
Suppliers had increased or rounded prices up which implied additional negotiations to avoid significant price changes	3	34
<i>Reasons for no impacts</i>	<i>(n=95)</i>	
EMU plays no role in relation to suppliers	95	100

Note: the number in brackets corresponds to the total number of respondents in each view

As shown in the above table (7.6), the data also reveal that those respondents who perceived changes in relation to suppliers believed that, after the introduction of EMU, suppliers had provided cheaper prices in order to be more competitive and that the relationship had become simpler due to the use of the single currency. Therefore, as they said, there were positive effects on suppliers. However, there were also negative views on the implications of EMU on suppliers. According to 34 percent of the respondent who identified changes, the suppliers had increased or rounded prices up, which implied additional negotiations and invoice control to ensure that no significant price changes would occur in order to avoid negative effects.

7.3.2. Impacts of EMU on hotel operations

In order to identify the effects of EMU on hotel *operations*, in particular, in the services offered by hotels, a question about the hotel stakeholders' perceptions of the effects of EMU on the hotel services, such as accommodation and other supporting facilities and services was included in each survey. In order to understand the logic behind their answers the hotel

businesses, the national authorities and the industry associations were asked to explain their answers. The results obtained for each group are reported below.

7.3.2.1 The views of the business respondents on hotel operations

Within the business survey, the question about the business respondents perceptions of the effects of EMU on hotel *operations* was asked using a closed-question where the respondents had the option to choose *yes*, *no* or *do not know*. This was followed by an open question: *why*. Tables 7.7 and 7.8 present these results. As there were no ‘*do not know*’ answers this item was excluded from these tables.

Table 7. 7. Perceptions of the hotel business respondents of the impacts of EMU on hotel *operations*

Perceptions of the hotel business respondents	Total	
	N	%
Yes, there are changes	15	14
No, there are no changes	89	86
Total	104	100

The frequencies shown in Table 7.7 demonstrate that the majority of the respondents (86% in total), thought that EMU had no effect on the services offered by their hotels. As indicated in Table 7.8, the main reason for this was the fact that they believed that the introduction of EMU had had no impact on hotel operations.

Table 7. 8. Main reason provided by the business respondents to explain their views on the impacts of EMU on hotel' operations

Single reason (normal text) for each perceived effect (<i>italics</i>)	Total	
	N	%
<i>Reasons for changes</i>	(<i>n=15</i>)	
Simplification of external relations	8	61
Improvement of services as a result of more intense competition	5	33
<i>Reasons for no changes</i>	(<i>n=89</i>)	
Services are not affected by EMU	65	73
Services are dependent of other factors (e.g. staff, quality, prices)	26	29

Note: the number in brackets correspond to the total number of respondents in each view

The data, summarised in Table 7.8, revealed that the respondents, who identified changes, referred that the services offered by their hotels improved in order to face additional competition brought about by EMU in the national and competitive environment, in particular. For the majority of these respondents, the simplification after the Euro in the external relations would also lead them to improve the quality of the services offered by their hotels. On the other side, those respondents who did not identified changes believed that their services were not affected by EMU.

7.3.2.2. The views of the national authorities on hotel' operations

In order to obtain the national views of the effects of EMU on hotel *operations* the national survey, using an open question, asked the national authorities to express their views. The results (Table 7.9) revealed that in general the national authorities who had a view (8 out of 10) recognised the relationship between EMU and hotel *operations* in indicating that the implications of EMU on hotel industry competition would require changes in hotel services. This was suggested through sentences such as '*in our view, services will improve as result of the more intense competition brought about by EMU*' or '*as competition is now stronger, services have to change*' which were cited in different responses.

Table 7. 9. National authorities' perceptions of the impacts of EMU on hotel' operations

Aggregate description of the perceived effects if EMU on hotel' operations (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents	Number of responses forming the aggregate description
<i>EMU impacts the hotel' operations</i>	8	
Services are affected due changes on the hotel competitiveness		3
Competition requires better services		5
There is a risk of positive impacts be nor realised		3
<i>Do not have an opinion</i>	2	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

The answers also highlighted a concern, shared by three respondents, that in practice some hotels would not react to the possibility of increased competition and therefore the positive effects may be not noticed. In their view, the fact that the hoteliers did not realise there was an increase in competition was the main reason given to explain these last feelings. This can be demonstrated by the following quotation:

“We have doubts about the fact that all the hotels will improve their services under the context of EMU, as they should, because some of them did not realise yet the potential effects of EMU, namely in terms of competition”.

7.3.2.3. The views of the industry associations on hotel' operations

When the industry associations were asked about their views on this topic, their answers revealed that all of these respondents focused on the positive effects of EMU on the quality of services (Table 7.10). As with the national authorities, the explanations provided for the potential changes in hotel operations were in great part related to the fact that the new competitive environment brought about by EMU required better services, but also due the fact that, in their view, EMU had simplified the process of payment for the services offered by the hotels through the use of a single currency within the Euro zone.

Table 7. 10. Industry associations' perceptions of the impacts of EMU on hotel operations

Aggregate description of the perceived effects if EMU on hotel' operations (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents	Number of responses forming the aggregate description
<i>EMU impacts the hotel' operations</i>	5	
Services are positively affected due changes in hotel competitiveness		5
Services will became more simplified by the use of the single currency (e.g. international payments, promotion)		2

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

7.3.3. Impact of EMU on *marketing and sales*

Within the three surveys there were included different questions focusing on the perceived impact of EMU on hotel marketing and sales activities. They covered varied topics, such as the studies undertaken by the hotel to evaluate the implications of EMU and the competitive position of the hotel, pricing policies, promotion and sales activities.

These topics were chosen not only because they were part of the hotel value chain, but also because they were frequently mentioned in the literature as areas where significant changes in the operational environment were expected. Among an extensive list, authors such as Bieger and Laesser (1999) and Bywater (1997) expected that EMU could cause changes in such factors. As mentioned in Chapter 3, these authors drew attention to the fact that a single currency required a re-thinking of marketing plans, since Europe would become a 'single market'. In addition, the literature suggested an increase in the number of tourists as one of the most likely effects of the introduction of the single currency, which would have positive implications for hotel sales.

i) Studies undertaken by hotels to evaluate the impact of EMU

In order to explore if EMU was seen as a significant enough change to warrant the hotel needing to find out about the changing environment, the hotel' stakeholders were asked about the effects of EMU on the studies carried out by hotels. Within the business survey, the business respondents were asked if their hotel had carried out, or had the intention to develop, a study of the implications of EMU. In the national and industry survey, they were asked about their general perceptions.

7.3.3.1. Views of the hotel business respondents on the impacts of EMU on hotel' studies

As shown in Table 7.11, the majority of the business respondents (69%) had not carried out such a study, arguing that they had other priorities or that the effects of EMU on their business were too small to merit a study (Table 7.12). Conversely, 30 percent of respondents said that, on basis of the information available, they had analysed the potential implications of EMU in terms of competitiveness and operational level.

Table 7. 11. Hotel businesses studies evaluating the implications of EMU (business survey)

Answers from business respondents in regarding the hotel studies	Total	
	N	%
Yes, studies were undertaken	31	30
No, studies were not undertaken and there is no intention to do so	72	69
No, studies were not undertaken but there is intention to do so	1	1
Total	104	100

There was only one respondent saying that they did not carry out a study, but had the intention to study the implications of EMU. As Table 7.12 indicates, he expressed aims to evaluate the implications of EMU on market competitiveness.

Table 7. 12. Main reasons provided by the hotel businesses for the implementation/or not of studies

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Carrying out studies</i>	<i>(n=31)</i>	
To understand market and competitive changes	17	48
To understand the operational implications of EMU for the hotel	16	52
<i>Not carrying out studies</i>	<i>(n=72)</i>	
There were other priorities	33	46
Hotel is too small to merit a study	39	54
<i>Intention to carry out studies</i>	<i>(n=1)</i>	
To understand the market and competitive changes	1	100

Note: the number in brackets correspond to the total number of respondents in each view

7.3.3.2 Views of the national authorities on the impacts of EMU on hotel studies

Using very short answers, the respondents from national survey demonstrated that in their view the impact of EMU would be studied by all, or at least most, businesses (Table 7.13). The use of direct responses, saying that the enterprises would carry out studies, may suggest that they were very sure that this would happen.

ii) Competitive position and hotel reactions

With a view to evaluate the perceived effects of EMU on marketing and sales, the respondents were also asked about the potential effects of EMU on the competitive position of the hotels. A great part of these results, namely those regarding the national and industry surveys, was reported on in Chapter 6 (subsection 6.2). In the case of the business survey, the respondents were additionally asked about what happens in their own hotel and how they had responded to potential changes, if any. Therefore a further analysis regarding the data from business survey is presented in the following sub-section.

7.3.3.4. Views of the hotel businesses on the implications of EMU for their competitive position

As can be observed in Table 7.15, the majority of business respondents (76%) believed that EMU had not affected the competitive position of their businesses. These results demonstrate that in this case, where they were expressing their own experience, they perceived fewer effects than when they were answering about the effects on the hotels competitive position in general (see chapter 6 sub-section 6.2.3).

Table 7. 15. Hotel business' perceptions of changes on hotel unit competitive position

Answers of business respondents	Total	
	N	%
Yes	25	24
No	79	76
Total	104	100

An analysis of the reasons provided by the respondents (Table 7.16) reveals that for the majority of the respondents, who believed that there were no effects, they thought that this was because their hotel offered better services than their competitors and had specific characteristics, for example, location, price and/or service quality, which distinguished them

from the others hotels and made the introduction of EMU irrelevant. For other respondents, the fact that their competitors were domestic made the effects of EMU nil because EMU only affected external competition. Others simply said that EMU was not an issue for the competitive position of their businesses.

Table 7. 16. Main reason for hotel business perceptions of the impacts of EMU on their competitive position

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Perceived changes</i>	<i>(n=25)</i>	
Entry of new competitors	16	64
Easier to compare prices within Euro zone	9	36
<i>Perceived no changes</i>	<i>(n=79)</i>	
Competitiveness depends on other factors (e.g. quality of services) they have	48	61
EMU has no effect on national competitors	5	6
EMU is not an issue for their competitive position	26	33

Note: the number in brackets correspond to the total number of respondents in each view

On the other hand, the most common reasons given by those respondents, who identified changes in the competitive position of the hotel unit, were the increase in the number of new competitors in the market and the fact that there was a higher exposure of hotel rates following the introduction of the Euro. In order to identify the reactions of these respondents towards increasing competition, the respondents who identified changes were asked in an open question, to identify the ways they had reacted to those changes. Table 7.17 sets out the four different types of answer found by ranking: *'To improve services'* *'To hold the hotel rates for next year'*; *'Confidential'* and *'To explore new markets'*.

Table 7. 17. Hotel attempts to overcome the increasing competition

Measures to overcome competition	Total	
	N	%
To improve services	13	52
To hold the hotel rates for next year to face increasing competitiveness	5	20
Confidential	4	16
To explore new markets	3	12
Total	25	100

The data presented in the table (7.17) suggests that the respondents, for whom competition was perceived to have changed, were more concerned with improving the services they offered rather than in developing new markets. Moreover, 20 percent of the respondents said that to face the increasing competition, they would hold hotel rates. This may suggest that these respondents associated the price of services as one of the most important competitive issues which is, however, in contrast with the views of 41% of business respondents when referring to the relationship between hotel rates and competition. For these respondents price was not a competitive issue (see Chapter 6 subsection 6.2.3 for details on these views).

iii) Hotel pricing policy

Prior to the launch of the Euro, some authors (e.g. O'Boyle, 1997 and Rosenfeld and Wilson, 1999) predicted that the introduction of the Euro would imply a fall in prices within the Euro zone. Conversely, at the same time, others authors and, the sections of the press (FT, 5, September, 2001) foresaw that after the monetary changeover prices would rise significantly. Moreover, after the introduction of the Euro and, in particular in 2002, most of the Euro countries faced a number of internal consumer protests at the increasing prices of goods and services following the introduction of the Euro (Schwartz, 2004). For example, in Portugal, although there has not as yet been an academic study to evaluate the effects of the single

currency on prices, an article published in 2002 in *Expresso*, one of the most reliable newspapers in Portugal, pointed to restaurants and hospitality as the two sectors which had contributed the most to increasing prices (*Expresso*, October, 5 2002).

7.3.3.5. Views of the hotel business respondents on the hotel rates

Therefore, given that the price of the product or service offered might be an important factor in customer choice, the hotelier respondents were asked about their views on the impact of the Euro on the price of the products and services offered by the hotel. In the case of the national and the industry surveys the research used an open question. In the business survey, the researcher used a closed question in order to easily compare the results. In this question the respondents had to choose one option from a range of five. They were: *'decrease considerably prices'*; *'decrease'*; *'negligible effects'*; *'slight rounding up'*, *'significant increase in prices'*.

The results from the business survey (Table 7.18) revealed that only a very small percentage of the respondents reduced their hotel rates after the launch of the Euro. In fact, the majority of the respondents confirmed that hotel rates had increased slightly due rounding up of prices during price conversion.

Table 7. 18. Perceptions of the hotel business respondents of the effects of the Euro on the hotel rates

Effects of EMU on the hotel rates	Total	
	N	%
Decrease considerably	0	0
Decrease	2	2
Negligible effects	41	39
Slight increase (rounding up)	57	55
Increase considerably	4	4
Total	104	100

A note should be made concerning the fact that, when asked to explain the main reason for change or no change in the hotel rates (Table 7.19), some respondents during the interview indicated that, despite of having increased their prices since the Euro launch, they answered this question with a 'no' because EMU had no role in these changes. In most of the cases, they explained, the reason for change was due to recent investment done to improve the hotel services. This suggests that, occasionally, a superficial study comparing prices before and after the EMU may give an incorrect view of the effects of EMU on hotel rates. Moreover, from their explanations it was also evident that, in contrast with some of the expectations in the literature, reductions in rates were not due a higher visibility of the prices after the introduction of a single currency, but because they believed that EMU brought some macroeconomic problems, which required lower prices to cope with a national economic situation.

Table 7. 19. Main reason for the impacts of EMU on hotel rates

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Decreasing of rates</i>	(n=2)	
Worsening of national economic situation	2	100
<i>Negligible effects</i>	(n=41)	
EMU plays no role in the hotel rates	41	100
<i>Increasing rates</i>	(n=61)	
Slight rounding up	59	97
Improvement of infrastructures	2	3

Note: the number in brackets correspond to the total number of respondents in each view

Bearing in mind the argument of the proponents of EMU that the prices of services would become easily and directly comparable from one country to another and, consequently, customer choices will change, the business respondents were also asked about their perceptions of the prices charged by similar hotels located in the other Euro countries and also to explain their answers. The results, presented in Table 7.20, revealed that the majority of the respondents (56% in total) believed that the prices charged by their hotel were, on average,

lower than the prices charged by similar hotels located in other Euro countries. However, 25 percent of the respondents had an opposite view stating, for example, that similar hotels in Spain offered lower hotel rates because of a more advantageous national policy in terms of tax (see, Table 7.21). There were also views (10%) saying that there were no significant differences between hotel rates in the Euro zone. The remaining 9 percent of the respondents said that they did not know much about hotels in the other countries essentially because it was not important to them or that there were no differences since the services were similar.

Table 7. 20. The hotel business views on prices offered by other hotels located in the Euro' countries

Perceptions of the hotel rates within the Euro zone	Total	
	N	%
Prices are higher in Portugal	60	56
Prices are lower in Portugal	26	25
Prices within the Euro area are similar	10	10
Do not have an opinion	8	9
Total	104	100

An analysis of these results may suggest, in this way, that a higher prices exposure after the introduction of the Euro would not have negative implications for the hotels in the North of Portugal. In fact, only 25 percent of the respondents believed that prices were higher in Portugal than other countries. This did not mean, however, that they thought that *price transparency* would threaten their businesses (Table 7.21). In fact, keeping in mind that the large majority of the hotel businesses believed that the hotel customers' choices were dependent on quality and services (see Chapter 6 sub-section 6.3.1) rather than prices, the *price transparency* may not be a concern for these respondents.

Table 7. 21. The main reason for differences or no differences between hotel rates in the Euro Area

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Higher prices in Portugal</i>	(n=60)	
Different economic realities	53	88
Popularity of the destination	7	12
<i>Lower prices in Portugal</i>	(n=26)	
Different tax (VAT) in Spain	21	81
Different economic realities	5	19
<i>Similar prices in the Euro countries</i>	(n=10)	
Services are similar	10	100
<i>No opinion</i>	(n=8)	
Little or null information about hotel' rates in other countries	2	25
It depends on the countries in question	5	64
This topic did not deserve too much attention	1	13

Note: the number in brackets corresponds to the total number of respondents in each view

7.3.3.6. Views of the national authorities on hotel rates after the introduction of the Euro

The views obtained from the national surveys revealed that only six national authorities had views on the impacts of EMU on hotel rates and four respondents said that because they did not have official data or a precise view on a specific sector they would prefer not reply this question. From the answers obtained (Table 7.22), there were 4 respondents saying that, since the introduction of the single currency it had been possible to observe an increase in the prices in the service industry (including hotels) due to 'the rounding up of prices' and 'opportunism' by some people. However, there were also two respondents saying that the prices remained stable after the introduction of EMU.

Table 7. 22. National authority perceptions of the impacts of EMU on hotel rates

Aggregate description of the perceived effects if EMU on hotel' rates (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents	Number of responses forming the aggregate description
<i>EMU impacts the hotel' rates</i>	4	
Prices have increased		4
<i>EMU has no significant impact in the hotel' rates</i>	2	
Prices remained stable		2
<i>Do not have enough information to reply</i>	4	

7.3.3.7. Views of the industry associations after the introduction of the Euro

Similar views were found in the answers obtained in the industry survey. As within the national survey, the '*opportunism*' and '*rounding up*' were identified as reasons for perceived changes in the prices of hotel services after the introduction of the Euro (Table. 7.23).

Table 7. 23. Industry association perceptions of the impacts of EMU on hotel rates

Aggregate description of the perceived effects if EMU on hotel' rates (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents	Number of responses forming the aggregate description
<i>EMU impacts the hotel' rates</i>	3	
Prices have increased due to some managers ' <i>opportunism</i> '		1
Prices have slightly increased due ' <i>rounding up</i> '		2
<i>EMU has no significant impact in the hotel' rates</i>	2	
Prices remained stable		1
Hotel rates have increased but for different reasons than EMU or the Euro		1

Nonetheless, as shown in Table 7.23, not all the respondents perceived changes in the prices in the hotel sector. One of the respondents explained that, even though he recognised an increase in prices in the service industries, namely in the restaurant sector, in his view hotel rates were not altered after the introduction of the Euro. Moreover, another respondent explained that over the last few years there was a tendency towards an increase in prices in the hotel sector. However, as he explained *“this tendency is not related to the implementation of EMU or the Euro, but related to an increase in the quality of services over the last years, which is a good strategy adopted by the hoteliers”*.

iv) Businesses’ promotion

Some authors, such as Torres (1998), stated that the image of businesses could improve as a consequence of Portugal’s participation in EMU, since EMU would bring more credibility to the Portuguese market in Europe or even in world. As result, they believed that the way the businesses would be promoted would change. There were also some authors who argued that the potential size of the ‘domestic’ market would increase following the introduction of EMU, and that the single currency would make it easier and less costly to reach customers in other Euro countries (Abraham et al. 2000; Borghijs and VanPoecks, 2000). As a consequence, they thought that EMU would affect promotional activities. Finally, in the literature there were suggestions that businesses could emphasise the idea of a European market instead of a Portuguese market. Therefore, the respondents from the business survey were asked if EMU had affected the way their business was promoted. The respondents from the national and the industry surveys were also asked about their perceptions of the implications of EMU on the way firms promote their business. The results are presented as follows.

7.3.3.8. Views of the hotel business respondents on changes in hotel promotional activities

Table 7.24 demonstrates that almost 90 percent of the respondents did not change their promotional strategy or promotional plans as result of EMU.

Table 7. 24. Changes to the hotel promotional activities and plans (business survey)

Hotel business perceptions on changes in the promotional activities	Total	
	N	%
Yes, there are changes	13	13
No, there are no changes	91	87
Total	104	100

7.3.3.9. Views of the national authorities on changes at the hotel promotional activities

From the responses obtained within the national authority survey (Table 7.25) it was evident that there were different views on this issue. On the one hand, three respondents thought that EMU had positive effects on the promotional activities of businesses. As was found in the literature, they believed that the use of a common currency would help to promote business in the Euro market and also that the Portuguese market gained more visibility in Europe and world. On the other hand, in the view of one respondent, EMU did not affect the way businesses would be promoted. In his view, the promotional activities of hotels, as for other enterprises, were related to the general strategy and specific aims defined by the hotel and, as he believed, EMU played no role in this. The remaining respondents said that they had no views on the relationship between EMU and hotel promotional activities.

Table 7. 25. National authorities' perceptions of the impacts of EMU on hotel promotional activities

Aggregate description of the perceived effects if EMU on hotel' promotional activities (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents	Number of responses forming the aggregate description
<i>EMU impacts the hotel' promotional activities</i>	3	
The Euro helps to promote businesses in the Euro countries through the simplicity of a single currency		3
The Euro increases Portuguese visibility, which is positive for promotional activities		2
<i>EMU plays no role in hotel promotional activities</i>	1	
Promotional activities are linked to general strategy of the hotel		1
<i>Do not have view</i>	6	

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

7.3.3.10. Views of the industry associations on changes in hotel promotional activities

As Table 7.26 reveals, the industry associations, through multiple responses, suggested that EMU would affect hotel promotional activities, namely in terms of the international market, as result of new opportunities brought about by a single currency and also the consolidation of the European market. Nonetheless, there were concerns, cited four times, that the hotels would not take advantage of the Euro in terms of promotional activities. As was explained 'a lack of proactive actions and strategic vision may limit the potential benefits of the use of a single currency'.

Table 7. 26. Industry associations' perceptions of the impacts of EMU on hotel promotional activities

Aggregate description of the perceived effects if EMU on hotel promotional activities (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents	Number of responses forming the aggregate description
<i>EMU impacts the hotel promotional activities</i>	5	
There is a positive relationship between EMU and promotional activities		2
The Euro simplifies the promotional activities in other countries		1
Portuguese market becomes more visible in the world market		1
Lack of hotel actions may limit positive effects		4

v) Sales

In order to investigate if EMU had affected hotel sales, the three surveys carried out in this research included questions on this topic. Within the business survey, the respondents were asked to indicate how they thought their sales would be affected by EMU, namely in terms of the number of clients. Within the other two surveys, respondents were asked about their general views towards the implications of EMU for hotel sales.

7.3.3.11. Views of the hotel businesses on the implications of EMU on the hotel sales

The business respondents had six options to choose from in terms of their view on sales: '*decrease considerably*', '*decrease*', '*no change*', '*increase*', '*increase considerably*' and '*do not know*' and had to indicate the potential effects on Portuguese client numbers, the Euro country client numbers and non-Euro country client numbers. The results are presented in the Table 7.27 and reviewed below. The table excludes '*decrease considerably*' or '*increase considerably*', because no respondent chose these items.

Table 7. 27. Perceptions of the hotel business respondents of the effects of the Euro on the number of hotel clients

Effects of EMU on the hotel clients (normal text) for each type of client (italics)	Total	
	N	%
<i>Portuguese Clients</i>	(n=104)	
Decrease	3	3
No change	79	76
Increase	17	16
Do not know	5	5
<i>Euro Clients</i>	(n=104)	
Decrease	2	1
No change	63	61
Increase	31	30
Do not know	7	8
<i>Non Euro Clients</i>	(n=104)	
Decrease	3	3
No change	68	63
Increase	26	25
Do not know	7	8

Note: the number in brackets corresponds to the total number of respondents in each group of clients

Table 7.27 shows that the majority of respondents, ranging from 61% to 76% depending on the type of clients, said that EMU would not affect the number of their clients explaining that EMU *per se* did not influence the choices of their clients (see Table 7.28 for explanations). It also shows that for 3 percent (or less) of the respondents the number of clients had decreased, while for an average of 25 percent (ranging from 16% to 30%, depending on the type of clients) the number of clients had increased following the introduction of EMU.

For those respondents who expressed positive views, an increase in sales, the simplicity brought about by EMU, linked with the characteristics of the hotel, accounted for this (Table 7.28). Conversely those respondents, who said that the number of clients had decrease after the launch of the Euro, expressed concerns about the economic situation caused, according to them, by the introduction of EMU.

Table 7. 28. Main reasons for the effects of the Euro on the number of hotel clients

Reason (<i>single response</i>)	Total	
	N	%
<i>Positive effects</i>	(<i>n=31</i>)	
Simplicity of the use of a single currency	29	
Euro and services offered	2	
<i>Negative effects</i>	(<i>n=3</i>)	
Worsening of the economic situation	3	100
<i>No effects</i>		
Tourist choices are influenced by other issues such as quality of services	69	100

Note: the number in brackets corresponds to the total number of respondents in each view

When comparing these results with the answers given by the business respondents when they were asked about the potential effects of EMU on tourist flows in general, already analysed in the Chapter 6, it is noticeable that, in the case of their own clients, the business respondents were less sure about the effects of EMU. Nonetheless, similar responses were given in terms of the effects by the nationality of clients. Here, those respondents who said that the number of tourists would increase reported that they were expecting more changes regarding the possible effect of EMU on tourists/clients from the other Euro countries than on the tourist/clients from Portugal or the non-Euro countries (Table 7.27).

Frequently the literature on tourism and the Euro has pointed out that the Euro could affect the method of payment by clients since by using a single currency the clients from the Euro Zone did not need to change money or that following the introduction of EMU the Banks located in the Euro Zone would apply a similar bank commission to debit cards. Thus, the business respondents were also asked if their clients had changed their method of payment following the introduction of EMU. Due the very specification of this question the national authorities and the industry associations were not asked about this. Table 7.29 summarises these results.

Table 7. 29. The effects of EMU and the single currency on the method of payment

Answers from business respondents	Total	
	N	%
Yes	36	35
No	67	65
Total	104	100

The analysis of the business survey showed that the answers the majority of the respondents (65% of the total) said that they had not noticed any difference in the method of payment by hotel clients following the introduction of EMU. Hence, these results suggest that the business respondents did not experience the potential changes in the method of payment expected in the literature, resulting from a simplification of transaction as result of the use of a single currency.

7.3.3.12. Views of the national authorities on the implications of EMU on hotel sales

The results from the national survey on the implications for hotel customers have already been presented in Chapter 6, when the impacts of EMU on the hotel demand were reported (section 6.3.1). Hence, here is presented just a brief summary of the results already reported.

In general, the national authorities believed that tourist flows would increase and, consequently, there would be a greater demand for accommodation provided by hotels in the North of Portugal. In fact, the majority of the respondents from the national authorities identified positive changes in the number of tourists, mainly from the Euro Zone.

7.3.3.13. Views of the industry associations on the implications of EMU on the hotel' sales

The data from the industry associations were also described previously (Chapter 6 section 6.3.1). These results showed that the industry associations participating in the survey had various perceptions. Shifts in hotel demand caused by a more intense flow of tourists within the Euro area and no changes were both mentioned, by 4 and 1 respondent respectively. The respondent, who said that the industry association did not perceive any change, explained that the choices of the hotel customers were more influenced by factors, such as customer needs, rather than EMU or the Euro.

7.3.4. Impacts of EMU on 'Services' (e.g. after sales services)

Within the value chain, the concept of *services* focuses on factors such installation, warranty and after sales services. As mentioned before, this activity is more applicable to those enterprises that sell products instead of services. Therefore, this research did not explore these topics. This does not signify, that hotels have no after sales activities dealing with dissatisfied customers. However, no business respondents from the study identified effects on after sales services.

7.3.5. Impacts of EMU on human resources

In the literature on the Euro, two major effects on human resources were frequently expected after the launch of the Euro. They were the need for training and an increase in labour mobility in the Euro Zone as result of the easier comparison of salaries and the cost of living across Europe (Trichet, 2004). Therefore, these two potential effects were included in the analysis.

7.3.5.1. Views of hotel business respondents on the impacts of EMU on human resources

In terms of *training*, the results from the business survey (Table 7.30) did not confirm a general perception of a need for training due to the introduction of EMU and the Euro. In fact, the business respondents who had experienced a need for training as a result of EMU were just under one third of the respondents (31%).

Table 7. 30. Effects of EMU on training activities (business survey)

Changes on training activities as result of EMU	Total	
	N	%
Yes	32	31
No	72	69
Total	104	100

In addition, as shown in Table 7.31 below, the majority of the respondents thought that EMU and the Euro did not require training, while the remainder believed that in order to explain to their staff how to deal with the new currency and new software there was a need for training.

Table 7. 31. Reasons for changes/no changes on training activities (business survey)

Single reason (normal text) for each perceived effect (italics)	Total	
	N	%
<i>Changes on training</i>	<i>(n=32)</i>	
Need of IT training	23	22
Training to use the new currency	6	6
Training regarding the likely effects of EMU on the hotel	3	3
<i>No changes on training</i>	<i>(n=72)</i>	
EMU does not require training	64	62
There were other priorities	8	8

In respect of *free labour mobility*, also in contrast with literature, the majority of the business respondents did not perceive an increase in the free movement of labour (Table 7.32). Only a small proportion of business respondents (11%) said that the single currency, through the comparison of salaries and the search for alternative jobs, could encourage labour mobility. Nonetheless, in their views, this effect was not noticeable so far. In addition, as shown in Table 7.32, most of the respondents did not perceive potential effects on labour mobility, thinking that the single currency *per se* was not a sufficient reason to bring about more labour mobility. Most of these respondents added that such mobility had always existed.

Table 7. 32. Effects of EMU on labour mobility (business survey)

Training activities as result of EMU	Total	
	N (N=104)	%
<i>Effects on labour mobility</i>	<i>(n=11)</i>	
Consolidation of European market through the Euro	8	6
Differences in salaries	3	3
<i>No effects on labour mobility</i>	<i>(n=93)</i>	
EMU does not play a role in labour mobility	57	55
Labour mobility already existed	36	35

When comparing these findings with findings from the national and the industry surveys reported in Chapter 5 (subsection 5.4.1.3), evident differences were found. For instance, in contrast with the findings of the business survey, the national authorities and industry associations had suggested that changes in labour mobility were to be expected. On the other hand, as the respondents from the national and the industry surveys thought, there was a need for additional qualified workers to face a new external and competitive environment the enterprises were expected to be looking for more suitably qualified workers, encouraging labour mobility.

7.3.6. Impacts of EMU on technology development

The review of the literature on the implications of EMU on technological factors revealed that technological capacity and innovation ability could result from the introduction of EMU (Pike and Barlow, 1998).

7.3.6.1. Views of the hotel business respondents on the impacts of EMU on technological developments

In contrast with the literature, the data from the business survey revealed that the hotel units studied did not experience any significant changes in technological capacity or innovation ability due to EMU and the Euro (Table 7.33). It was found that 89 percent of the hotels just upgraded their software and, in some cases, the hardware (8%), suggesting limited effects on innovation and technology development. Moreover, the remaining 6 percent of respondents said they did not upgrade or change software or even hardware, because their hotel was very new. One respondent stated that they did not change the software because they had a rudimentary hotel, and did not work with computers at all.

Table 7. 33. Effects of EMU on technology development (business survey)

Effects of EMU on technology development	Total	
	N	%
Software upgrade	89	86
Software and hardware upgrade	8	8
No IT changes	6	6
Total	104	100

7.3.6.2. Views of the national authorities on the impacts of EMU on technology development

A closer examination of the views of the national authorities revealed that these respondents (10 out of 10), in very short answers, mentioned that in their view the use of the single currency affects technological capacity through changes in software and hardware, but they were not expecting additional changes for IT departments.

7.3.6.3. Views of the industry associations on the impacts of EMU on technology development

In terms of the results from the industry survey on this subject, the data revealed that all the associations believed that changes in software and hardware would occur as result of the introduction of a new currency. In addition, there were three associations that indicated that these changes must be seen as an opportunity for enterprises to innovate and improve their technological capacity.

7.3.7. Impacts of EMU on the enterprises infrastructures, plans and strategies

In accordance with Porter's Value Chain concept, the hotel's infrastructure includes the functions of the support departments of the enterprises such as accounting, legal, finance, planning, relationships with external agencies and general management. In these contexts, the impacts of EMU were analysed by looking at: (i) the financial cost of the changeover (accounting and finances); (ii) the support given by the national authorities and the industry associations; (iii) current and future implications for the hotel's investment behaviour and (iv) hotel plans and strategies. Due the specificity of these topics, only the business survey included questions on these subjects. The results are presented in the following sub-sections.

(i) The financial cost of changeover

With the intention of evaluating the total cost of the changeover, and to explore changes in accounting and financing departments, the business survey asked respondents how much they had spent on the changeover. A range of five options was presented to the respondents. They were: 'nil cost', 'less than 5000 Euros'; '5001-12500 Euros'; '12501-25000 Euros'; 'more than 25000 Euros'. This question due its nature was not asked in the other two surveys.

The data, presented in Table 7.34., shows that the majority of the business respondents (73%) identified the second option - 'less than 5.000 Euros', followed by '5001-12500 Euros', while less than 5 percent of the respondents said that they had spent more than 12500 Euros on the changeover. In addition, 3 percent said that they did not have any costs because they had very recently started the business.

Table 7. 34. Cost of changeover (business survey)

Cost of changeover	Total	
	N	%
Nil costs	3	3
less than 5000 €	75	72
5001-12500 €	20	20
12501-25000 €	4	4
More than 25000 €	2	1
Total	104	100

A closer analysis revealed that the greatest part of costs were associated with IT (Table 7.34). This was followed by costs relating to the dual pricing during the changeover period, namely costs in changing brochures and other printed materials such as price lists, which represented an average of 11 percent of the total costs. The values presented in the following table (7.35) are based on the average of the values obtained from the total answers for each item.

Table 7. 35. Descriptive statistics of the distribution of the changeover costs (business survey)

Distribution of the changeover costs	Total	
	Mean (%)	Std. Deviation
	(n=98)	
Software	71.60	27.7
	(n=51)	
Dual pricing	10.80	16.20
	(n=44)	
Staff training	7.48	10.43
	(n=10)	
Communication with suppliers	2.94	7.85
	(n=17)	
Other costs	3.82	12.30

Note: the number in brackets correspond to the total number of respondents citing each cost

As the above Table 7.35 shows, on average, less than 8 percent of the total costs were spent on training and almost 3 percent of the costs were related to communication with their suppliers. Notice, that the low percentage of costs on training and communication with suppliers matches the earlier views on no need for training or improvement of communication with the hotel suppliers.

(ii) Respondent's views of the support and actions given by the national authorities and industry associations

With the intention of evaluating the support given by the national and industry associations to the hotel businesses, the business respondents were asked to identify the support they had received, in connection with training, information provision, finance, or other topics. Table 7.36 presents the results.

Table 7. 36. Support received by hotels (business survey)

Hotel business responses	Total	
	N	%
Yes	51	49
No	52	50
Do not know	1	1
Total	104	100

The data reveals that the responses were almost equally divided, meaning that 49 percent said that they received some support and 50 percent said that they had not received any support. When the respondents were asked about who had provided them with support, the data presented in Table 7.37 shows that their hotels received support from the industry associations and other institutions, namely from the bank that the hotels usually worked with.

Table 7. 37. Organisations that helped the hotels to be ready for EMU (business survey)

Supporters of hotels	Total	
	N	%
National authorities	14	27
Industry associations	12	24
Others (e.g. bank)	17	33
Mix	8	16
Total	51	100

When the respondents, who had received support, were asked which type of support they had received, all of them said that they had received information about the single currency and

training support. Moreover, when they were asked about how useful this support was, the large majority of the hotel business (94 % of total) considered the support received useful or very useful.

A comparison of these findings with those obtained from the industry the associations and the national authorities when they were asked about the support that they had given to businesses, showed similar results. Both groups confirmed that they had supported hotel businesses by making available information and in some cases providing training.

(iii) Implications for hotel investment behaviour

Bearing in mind that EMU could influence plans for investment, the business respondents were asked if EMU had affected their plans to invest. The results are presented in Table 7.38 as follows.

Table 7. 38. The implications of EMU for hotel investment behaviour (business survey)

Perceptions whether EMU had affected investment	Total	
	N	%
Yes	13	13
No	83	80
Do not know	8	8
Total	104	100

As table 7.38 indicates, in contrast with expectations found in the literature (e.g. Viljerel, 2000), the answers from the business respondents demonstrated that a minority of the respondents (13%) said that EMU had affected their plans to invest, while most of the respondents (80%) did not experience changes in investment.

The main explanation given by each respondent for no changes in investment plans was that EMU had little or no effect on their business and, consequently, on their investments (Table

7.39). Factors such as *'it is not a good time to invest'*, *'the hotel has undertaken recent investments'*; *'recent administration'*; *'other priorities'* and *'the hotel characteristics'* were also expressed by the respondents, but not so often.

Table 7. 39. Main reason for views on hotel investment behaviour after the introduction of EMU (business survey)

Single reason (normal text) for each perceived effect (bold italics)	Total	
	N	%
<i>Positive effects</i>	<i>(n=13)</i>	
Increasing promotion	5	46
Increasing the quality of services	4	31
Improving the infrastructures (e.g. repairs)	3	24
<i>Neutral effects</i>	<i>(n=83)</i>	
Little or no effects of EMU	47	57
'Other priorities'	15	18
'Hotel characteristics'	7	8
'Recent investments'	9	11
'It is not time to invest'	7	9
<i>No opinion</i>	<i>(n=8)</i>	
'The investments are decided by the hotel chain'	5	62
'Too early to know'	3	38

On the other hand, among those respondents who said that they had plans to invest, the majority intended to invest especially in repairs, but also in service quality and hotel promotion in other Euro countries.

(iv) Implications for the hotels' plans and strategies

In order to evaluate changes in the hotel plans/strategies brought about by EMU, the business respondents were asked if they had a plan or strategy to deal with the challenges of EMU. In the case of a 'yes' answer, they were then asked to identify which plans or strategies they had or, conversely, in the case of a 'no' answer, why they did not have a plan or strategy.

As shown in Table 7.40, the results reveal that the answers varied. Approximately 14 percent of the all the respondents answered yes, whilst 87 percent stated they had no plans or strategies

to deal with the challenges of EMU, suggesting that EMU and the Euro were considered as an operational factor rather than as a strategic factor.

Table 7. 40. The implications of EMU for hotel plans and strategies (business survey)

Hotel business responses	Total	
	N	%
Yes	14	13
No	90	87
Total	104	100

The plans/strategies mentioned by those respondents who identified changes are presented in the following Table 7.41.

Table 7. 41. The hotel plans and strategies after the launch of EMU (business survey)

Plans and strategies	Total	
	N	%
To improve services	9	64
Starting a new related business as a complement to their main business	3	21
Confidential	2	14
Total	14	100

From this table (7.41), is noticeable that the majority of these respondents (64%) planned to improve the services offered by their hotels. The intensity of competition brought about by EMU was the main reason presented by these respondents. It is also found that 14 percent of the respondents said that they would prefer to keep secret their plans or strategies and that the

‘starting a new related business as a complement to their main business’ was a plan/strategy mentioned by 21 percent of the respondents. For those respondents who said that they did not have plans or strategies, the main reasons for their answers are presented in Table 7.42.

Table 7. 42. Reasons for not having plans or strategies to face EMU challenges (business survey)

Reasons (single response)	Total	
	N	%
Little or no effect of EMU	42	47
Small size of the hotel	20	22
Little/no preparation	12	13
Do not know what to do	7	8
Other priorities	5	6
Others	4	4
Total	90	100

Table 7.42 reveals that, almost half of the total respondents (47%) indicated that they did not have plans to face EMU because the effect of EMU was very little or negligible. The fact that they believed they were a very small business and EMU would affect larger enterprises (was also pointed out by 22 percent of the respondents).

In order to evaluate the priorities of business respondents under the context of EMU and, at same time, to evaluate how important they thought EMU was for their business, the survey asked the business respondents to rank the importance of the following objectives for their business (the ranking went from 1 to 5, where 1 was the most important and 5 the least important): ‘To ensure that your enterprise continues operating within the Euro’; ‘To explore the EMU opportunities’; ‘To avoid the threats of EMU’; ‘To improve the hotel’s current weaknesses’ and ‘To explore the current strengths of the enterprise’. The results are presented in the table below (7.43) using the mean value of the answers obtained with the view to simplify the demonstration of the results.

Table 7. 43. Ranking of objectives under the context of EMU (Mean) (business survey)

Objectives under the EMU context	Mean
To improve the current weaknesses of the enterprise	1.63
To explore the hotel's current strengths	1.67
To explore EMU opportunities	3.19
To avoid the threats of EMU	4.00
To ensure that your enterprise continues operating within the Euro	4.38

The results presented in Table 7.43 reveal that *'To improve the hotel's current weaknesses'* was the item that obtained the closest value to 1 (most important item), while *'To ensure that your enterprise continues operating'* were ranked as the least important item (with a mean value of 4.38). Moreover, the results reveal that *'to avoid threats caused by EMU'* was not so relevant for the respondents, with a mean value of 4.

When asked about the main reason behind their ranking, as Table 7.44 demonstrates, the explanations most cited by the business respondents were related to the fact that in their opinion EMU did not bring relevant threats for their business and ensuring that the hotel will continue to operate was an unquestionable factor. On the other hand, a large number of respondents thought that by improving the current weaknesses they would improve their competitive position and benefit from the new opportunities brought about by EMU.

Table 7. 44. Most common explanations behind the hotel objectives (business survey)

Reasons behind the hotel objectives	Total	
	N	%
EMU did not bring relevant threats for their business	25	24
Ensuring that the hotel will continue to operate is an unquestionable factor	11	11
Improving the current weaknesses benefits the hotel competitiveness and highlights EMU opportunities	59	57
By exploring the hotel strengths, hotels become more competitive	9	9
Total	104	100

7.4. BUSINESS PERCEPTIONS OF THE OPPORTUNITIES AND THREATS TO THE DEVELOPMENT OF THE HOTEL

Bearing in mind the implications of EMU, the respondents from the business survey were asked to identify two main opportunities for, and threats to, their business, resulting from the introduction of EMU. Hence, the respondents could identify two answers for each of the two cases (opportunities and threats). The results are summarised in Table 7.45 and discussed below.

Table 7. 45 Existence of opportunities and threats to business development (business survey)

Recognition of opportunities and threats	Total	
	N	%
Opportunities	49	47
Threats	1	1
Opportunities & Threats	15	14
Neither	37	36
Do not know	2	2
Total	104	100

As Table 7.45 shows, 61 percent of the respondents were sure there would be opportunities brought about by EMU for their business. However among these, some of the respondents (14 percent) also identified threats for their business due the implementation of EMU. Only a very insignificant percentage of respondents (1%) identified only threats. By contrast, 36 percent of respondents said that EMU did not represent either an opportunity or a threat to their business. In addition, the number of respondents saying that they 'do not know' was very small (2%), suggesting that, on the one hand, the effects were negligible, otherwise they could be noticed or, on the other hand, the hotels were not well enough informed about the topic in order to recognise them.

7.4.1 Opportunities for business development

The respondents, who were asked to identify two main opportunities in a multiple choice question, identified common opportunities as result of the introduction of EMU. A general overview of the data demonstrated that the most cited opportunities were similar to those opportunities found in the literature. As result their answers were coded into the same categories as in the literature (Table 7.46).

Table 7. 46. Distribution of the opportunities to business development (business survey)

Opportunities for businesses	Total	
	N (n=64)	%
Simplicity	54	59
Improvement of economic stability	15	21
Price transparency	11	12
Increase in demand	4	4
Increase in investment	3	3
Total	91*	100

* 91 instead 128, because only 27 of the 64 respondents who had identified opportunities, mentioned two opportunities, as was required. The remainder identified 1 opportunity each.

Table 7.46. shows that *'simplicity'* of a single currency was the most significant opportunity expressed by the respondents (59% of the total answers). They believed that a single currency would simplify their business with the other countries. Conversely, an implication for hotel investment was the least cited opportunity (3% of the total answers). In addition, 21 percent of the total answers were focused on the improvement of the economic indicators, in terms of monetary policy and the reduction of public expenditure in Portugal after the launch of EMU, since for some respondents EMU would bring economic stability and better conditions to invest. With less frequency (12% of the total), there were answers related to the easier comparison of prices across Europe, signifying the fact that a common currency throughout the Euro Zone would give to some hotels in Portugal the opportunity to show clearly that they offered lower prices than in other countries. Finally, 4 percent of the answers focused on changes in hotel demand as an opportunity, because in the view of some respondents the main implications of EMU in the participating countries would be the creation of better conditions to travel.

7.4.2. Threats to business development

In respect of the threats, the results previously presented (Table 7.45) revealed that 15 percent of respondents identified threats as a result of EMU, although none of the respondents identified two threats as they were asked. Moreover, as already mentioned, almost all of the respondents believed that there were also opportunities. Only 1 percent of the total respondents said that there were just threats.

Table 7.47 presents the main threats identified from the answers. As for opportunities, these answers were coded into the same categories as in the literature because of the similarities between the literature and the data survey. They were: *'loss of commission on exchange rates'*; *'increase in competition'*; *'not knowing how to relate and manage the currency'*; *'bank bureaucracies'* (e.g. *cheques*); *'decrease of tourists'*.

Table 7. 47. Distribution of responses of threats to business development (business survey)

Threats for businesses	Total	
	N	%
Loss of commission on exchange rates	5	31
Increase in competition	4	25
Not knowing of the currency	3	19
Bank bureaucracies (e.g. cheques)	2	13
Decrease of tourists	2	13
Total	16	100

As shown in Table 7.47, the main concern expressed by the respondents in total was the ‘*loss of commission on exchange rates*’ within the Euro zone. They believed that their hotel had lost the possibility to earn commission from the exchange desk at the hotel reception as a consequence of the single currency and this affected hotel profits. The respondents also presented concerns about increasing competition as result of easier comparison of prices and the entry of new competitors

From this analysis, it was also noticeable that some of the main threats identified here were similar to those some of the respondents had identified before as opportunities. In fact, while for some respondents, a new currency was an opportunity, since it would bring simplicity, for others the Euro was a threat, because it would confuse people who did not know how to relate and manage the currency. Moreover, for some respondents EMU would affect positively tourist flows, while for other this would affect in a negative way tourist flows. Finally, ‘*price transparency*’ for some respondents had threatened their business due to higher price exposure within the Euro countries, whilst for others this represented an opportunity to evidence that they offer better prices than the others.

7.5. THE HOTEL BUSINESS PERCEPTIONS OF THE BUSINESS'S STRENGTHS AND WEAKNESSES IN THE CONTEXT OF EMU

In order to perceive how the hotel would deal with the introduction of EMU, the business respondents were asked whether their hotel had either strengths or weaknesses in the context of EMU and if so, which were the most relevant. The results are presented in Table 7.48.

Table 7. 48. Existence of business strengths and weaknesses under the context of EMU (business survey)

Recognition of strengths and weaknesses	Total	
	N	%
Strengths	23	22
Weaknesses	5	5
Strengths and weaknesses	44	42
Neither	32	31
Total	104	100

As Table 7.48 shows 44 percent of the respondents believed that there were both strengths and weaknesses for their hotel. Almost one quarter of the respondents thought there only strengths, while 5 percent believed that there were only weaknesses. An analysis of the main strengths and weaknesses identified by the business respondents is presented below.

7.5.1 Business's strengths

A closer analysis of the varied strengths identified by the respondents showed that responses can be clustered into three main categories. They were: *'hotel rates'*, *'services offered'* and *'the characteristics of the hotel'*. Table 7.49 shows the three key strengths identified as well as the number of responses given and their distribution.

Table 7. 49. Business' strengths under the EMU context and the distribution of responses (business survey)

Business' strengths	Total	
	N	%
Particular characteristics of the hotel	30	35
Type of services offered	38	44
Competitive hotel rates	18	21
Total	86*	100

* 86 instead 114, because only 43 of the 57 respondents who had identified strengths, mentioned two strengths, as was required. The remainder identified 1 opportunity each.

The survey clarified several aspects related to the main reasons given by respondents (Table 7.50). The data demonstrated, for example, that the respondents had different thoughts when they referred to the 'hotel characteristics' as strengths. In fact, the respondents gave four different types of hotel characteristic to justify their answer: location, ownership, size and the number of years that the hotel had been in business.

Table 7. 50. Reasons for the strengths identified (business survey)

Single reason (normal text) for each perceived strength (italics)	Total	
	N	%
<i>Particular characteristics of the hotel</i>	<i>(n=30)</i>	
Ownership	13	43
Location	11	37
Size	4	13
Years in business of the hotel	2	7
<i>Type of services offered</i>	<i>(n=38)</i>	
Service quality	38	100
<i>Competitive hotel rates</i>	<i>(n=18)</i>	
Cheaper prices when compared to the other Euro countries	18	100

Note: the number in brackets corresponds to the total number of respondents citing each cost

The '*type of ownership*' was the reason most cited by respondents (43% of respondents), although with different perspectives. For example, on the one hand, for some respondents the fact that their hotel was a part of an international chain signified that they had a structure that was more organised than the other hotels and, consequently, better performance. In addition, some of the respondents argued that they were in a better position to benefit from the implications of EMU, because they had branches located in different countries. There was also one respondent who belonged to a national group who said that one of its strengths was 'ownership', arguing that the hotel was better structured than others located in the North of Portugal.

On the other hand, some respondents (4), who represented an individual business, argued that their businesses were more flexible than other hotels because their decisions could be taken independently of chain policy. Also, as they were smaller, they had better performance. The fact that the hotel was a family enterprise was also mentioned by some of these respondents to explain the speed of their decisions.

'*Location*' was the second reason most cited by respondents (37% of total). They argued that their hotel's location, together with the single currency, had improved their competitive position.

As shown in the table above (7.50) the *size* of the hotel was also considered to justify the answer of some respondents (13%). They argued that the medium or small size of their hotel helped in making decisions in response to changes in the business environment.

Finally, 7 percent of the respondents believed that the *number of years* the hotel had been operating, linked with their experience, would help them to better face the challenges brought about by EMU.

In respect of the types of services offered, it was found that 39 percent of the respondents thought that the type of services they offered was their main strength in the context of EMU because, as they mentioned, within an increasingly competitive environment the quality of the services that they provided (e.g. accommodation) would make the difference.

Finally, in terms of competitive prices, according to 20 percent of respondents, the *price* of services offered by the hotels that they were managing was the main strength of the hotel. They argued that because the single currency increased the ability to compare prices, they would become more competitive since they had the lowest rates in the market.

7.5.2. Business's weaknesses

The research paid attention to the major weaknesses the hotels faced in the context of EMU. Therefore, respondents from the three study groups were asked to identify the obstacles that hotels face most.

As presented previously (see Table 7.48), within the business survey 47 percent of the total respondents identified weaknesses, demonstrating that approximately half of the respondents considered they had weak points in relation to EMU. Nonetheless when they were asked to identify the two most important factors that that needed to be addressed to improve their hotel performance, only one fifth of these respondents identified two factors. These results are presented in table 7.51.

Table 7. 51. Main factors that needed to be addressed to improve hotel performance under the new environment (business survey)

Factors that need to be addressed	Total	
	N	%
Lack of qualified workers	18	37
Lack of infrastructures around the hotel	16	33
Lack of government support	7	14
Weak hotel infrastructures	6	12
Confidential	2	4
Total	49	100

7.6 PROPOSAL ACTIONS TO OVERCOME BARRIERS AND TO EXPLORE OPPORTUNITIES

From the answers by the businesses, previously reported, it is evident that the majority of respondents thought that the ability of the hotel to overcome barriers and explore opportunities depended on exogenous factors (see, for example, Chapter 6 subsection 6.4.3). They believed that government support would be important and called for a powerful national tourism policy without so much bureaucracy and national incentives in terms of taxation.

7.6.1 Actions proposed by the national authorities to help hotels cope with EMU challenges

When the respondents from the national authority survey were asked about their suggestions for hotels in the North cope with the new challenges presented by EMU, they answered that their suggestions were quite similar to those they had identified when they were asked about the proposals for actions in the hotel industry (see Chapter 6 subsection 6.4.2, for details). The most common proposals are reported in Table 7.52.

Table 7. 52. National authority proposals regarding how hotels could overcome barriers and explore opportunities brought about by EMU

Aggregate description of proposals made (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents giving the referred proposal	Number of responses forming the aggregate description
<i>EMU should be understood as a mean and not an end</i>	3	
EMU is just a tool		2
Hotels need to have proactive actions to have advantages from the benefits brought about by EMU		1
Hotel strategies and actions need to be reviewed	7	
Hoteliers should enter into a partnership with other tourism enterprises and with other hotels		5
Hoteliers should offer new and higher quality services to face a more and more market demanding		3
There is a high entrepreneurial fragmentation in the north that need to end		5
Within the context of EMU it is important to explore the high potential of North as tourism destination		2
Hotels need to be prepared for new challenges		3

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

As their answers suggest, five of the national authorities believed that in the North there was high entrepreneurial fragmentation, which could cause some difficulties in dealing with the driving forces of the business environment, such as EMU. However, as it was mentioned by three of these respondents, there was a high potential to develop tourism in the North, arguing that the North had the greatest diversity of tourist resources, which together with the new business environment brought by EMU, could represent an opportunity to develop the hotel business. One of these respondents said that there were a lot of factors that needing to be improved in the North, which were already explored in regions such as Lisbon or Algarve. These factors were both internal and external, such as partnerships, cooperation and associations between tourism enterprises but also infrastructure development and promotion of the region. According to him, “*the lack of these factors in the North did not permit the exploration of the potential changes in the business environment in the same way as the South of Portugal*”. This idea was in part shared by another two respondents, who believed the implications of EMU could be different in the North bearing in mind the particular characteristics of the hotels, the ability of

the management of the hotels, how prepared the enterprises were and the degree of international relations the hotel had. As result they called for proactive actions and strategies of *differentiate*, such as new services and higher quality. There were also three calls for understanding “*EMU as a mean and not as an end*”.

7.6.2 Actions proposed by the industry associations to help hotels cope with EMU challenges

With respect to the proposals presented by the representatives of the industry associations, the results revealed similar views between the proposals for the hotel industry in general and for hotel in the north, in particular (see, Chapter 6 subsection 6.4.1, for details on the proposals for the hotel industry). Hence, 4 industry associations concluded by warning business that key forces in the business environment could increase the vulnerability of businesses (Table 7.53).

Table 7. 53. Industry associations’ perceptions of how hotels could overcome barriers and explore opportunities brought about by EMU

Aggregate description of proposals made (<i>italics</i>) and specific answers combined to form aggregate description (normal text)	Number of respondents citing the referred proposal	Number of responses forming the aggregate description
<i>Hoteliers need to be proactive</i>	4	
Hoteliers need proactive actions		4
New challenges brought about by EMU should incite hoteliers to innovate		2
<i>The effects of EMU need to be recognised</i>	1	
<i>Challenges brought about by EMU need to be recognised by enterprises</i>		1

Note: The fact that the total number of responses is larger than the number of respondents means that some respondents gave more than one response (multiple response)

As one of the respondents quoted:

“enterprises should pay attention to changes in the business environment and be ready to operate in a changing environment”, thinking that ‘the managers should be proactive and think globally’.”

In the view of the industry associations, this held true for EMU, and also for the other possible driving forces, such as customer requirements and needs, as mentioned by different respondents. With information and good sense, they believed that each enterprise would find the most adequate solution for its dimension, organisational resources and plans.

Specifically, one of respondents suggested that:

“the operational costs required by EMU in terms of IT could be used by managers to improve the information system’. As well the need to change the hotel brochures, due the introduction of a different currency, could be used to improve the image of the hotel.”

Another idea underlined by one of the respondents was that the hotels needed to ensure high levels of competitiveness under a more and more competitive environment. For this,

“the Euro must be faced as an important instrument to face environment changes, since it simplified international relations, consolidated economic integration and could imply a stable macroenvironment.”

7.7. CONCLUSION

This chapter has analysed the major changes in the operational environment for hotels in the North of Portugal due to Portugal joining the EMU, using the experience of business respondents and the views of the representatives of the national authorities and the representatives of the industry associations.

Judging by the answers gathered from business survey, it was found that the hotels in the North of Portugal had experienced more benefits than problems due to the introduction of EMU. However, benefits within the business survey were less perceived than expected by the national and industry surveys or even in earlier literature. There were a large number of respondents saying that EMU had little effect on their business essentially because they were a small business, suggesting that the possible effects of EMU could be noticed in bigger hotels. Moreover, the majority of them recognised that they had to undertake IT changes (e.g. changing software), which required some financial costs, but said that EMU did not affect significantly their competitive position, sales, hotel rates or promotional activity. This suggests that the Euro was considered essentially an operational factor.

A different perspective was, however, presented by the majority of the respondents from the national authorities and industry associations, who believed that EMU and the Euro were really strategic issues as opposed to just affecting operational matters. In their view EMU had increased competition and hotels had to respond by offering competitive rates and increasing service quality. They believed that under EMU the hotels would benefit through a new macroeconomic and competitive environment and suggested that the hotel managers must be attentive to changes in the business environment.

The findings reported in this chapter are discussed in the following chapter where, together with the findings presented in Chapters 5 and 6, they are discussed and compared in relation to the differences and similarities between the hotel stakeholders' perceptions. Before this discussion, where findings from Chapters 5, 6 and 7, are also compared with previous published results and theoretical expectations, the next chapter evaluates the theoretical, methodological and analytical approaches of the research.

8. RESEARCH EVALUATION AND DISCUSSION

8.1. INTRODUCTION

As a catalyst for a closer economic integration through a single currency, Economic and Monetary Union held out the promise of welfare gains for the participating countries and their respective industries. Among the potential benefits of monetary union, EMU was expected to enhance business competition through a stability-oriented macroeconomic policy framework, including greater transparency, reduced exchange rate uncertainty, greater credibility to the policy regime and lower transactions costs, among others. Whether the stakeholders of hotels perceived, or did not perceive, significant changes brought about by EMU for Portugal, and the hotel business environment in the north of Portugal in particular, was the central subject of this study. Perceptions of both positive and negative effects were considered.

Assessment of the perceived effects of EMU was by no means an easy task. EMU is without precedent in terms of its scale and complexity and, as mentioned in a study by the European Commission's Directorate General for Economic and Financial Affairs (EC, 2004a), sometimes it is difficult to separate the impact of EMU from the effects of other relevant issues such as globalisation, technological change or the single market programme (EC, 2004a). Moreover, as discussed in Chapter 4, depending on the outputs required from the research, measuring the perceived impacts of EMU can involve a range of different theories and methodologies, which in their turn are fundamental to producing reliable and valid research.

The main aim of this chapter is to evaluate the research undertaken and discuss its results. The chapter starts by undertaking the evaluation of the theoretical, methodological and analytical approaches (section 8.2). This is followed by a discussion of the results emerging from the

analysis of the perceived implications of EMU (section 8.3). At the end of the chapter (section 8.3), a brief conclusion is presented.

8.2. EVALUATION OF THEORETICAL, METHODOLOGICAL AND ANALYTICAL APPROACHES

This section evaluates the theoretical, methodological and analytical approaches used in this research. The main purpose is to demonstrate the worth or merit of the reported research, using as the reference three widely accepted criteria of evaluation: *validity*, *credibility* and *reliability* (Finn et al., 2000; Jennings, 2001; Punch, 2005 and Saunders et al., 2007). *Validity* refers to whether a measuring instrument measures what it is supposed to measure to meet the objectives of research (Finn et al., 2000). *Credibility* refers to the standards emerging from outside the research that allow others to judge for themselves whether the research is believable or trustworthy. Finally, *reliability* refers to the extent to which a measurement instrument could reveal similar results if applied more than once to the same people under standard circumstances (Saunders et al., 2007).

8.2.1. Evaluation of the theoretical approach adopted

The theoretical approach adopted in this research was that of business management and competitiveness theories. In particular, this research focused on the perceptions of the hotel stakeholders towards the implications of EMU using and adapting three of Porter's models: the Diamond, Five Forces, and Value Chain models. A review of these theories is presented in Chapter 3 and the reasons for using these specific models are discussed in Chapter 4. In this section, the contribution of the theoretical choices to the perceived implications of EMU on the hotel business environment is evaluated.

8.2.1.1. Economic integration theory versus business management and competitiveness theories

In searching for an appropriate theory through which to study the implications of EMU on the hotel's business environment, two main theoretical areas emerged: the economics of integration and business management and competitiveness theories. As mentioned before, this research opted for the second theoretical area to study the perceived impacts of EMU on the business environment of hotels in the North of Portugal. This approach recognises some of the existing gaps in the literature such as: (i) an over concentration of research based on the traditional trade theories and/or applied economic models, as demonstrated in Chapter 2 (subsection 2.3), (ii) the lack of studies applying business management and competitiveness theories to the study of the implications of EMU at different levels of the hotel's business environment and (iii) the non-existence of studies based on the hotel stakeholders' perspectives.

The fact that there were previous studies in the business field analysing changes in the business environment, although in different contexts and sectors, also offered benefits from opting for the business approach. Notably, there was a real opportunity to use Porter's models as a framework in the context of the implications of EMU. In addition, a new path for the study of the implications of EMU comprising the three distinct levels of business environment (national, industry and operational), and those variables involved at each level (see Chapter 4 for details), offer new perspectives on the impacts of economic integration for participating countries and their businesses.

8.2.1.2. The choice of Porter's models

Each of the three Porter models used in this research has been used numerous times by authors to study the environmental influences on businesses and revealed to be useful in various contexts (e.g. Porter, 1990; Tribe, 1997; Campbell et al, 1999; Finlay, 2000; Lynch, 2003; Wortheaston and Britton, 2003; Moon and Lee, 2004). The Diamond model has been commonly linked to studies on the competitive advantage of a nation (e.g. Porter, 1990 and

Moon and Lee, 2004). The Five Forces model has been regularly used as a framework for assessing the nature of competition in an industry (e.g. Porter, 1989; Tribe, 1997). Finally, the Value Chain model has been commonly used as a tool for defining a firm's core competences and activities and relating them to an analysis of the competitive strengths of the business (e.g. Freire, 1999; Poon, 1998).

Nonetheless, the findings from the literature review revealed that little research using these models, if any, had been undertaken in regards to the implications of EMU on tourism businesses. Even though, as demonstrated in the literature review (chapters 2 and 3), the impact of EMU on the overall business environment has been widely recognised, both prior to the commencement of this research and subsequently (e.g. Barbosa et al., 1999; Johnson and Turner, 2000, 2006; Whyman, 2002; DeGrauwe, 2005; Ratz and Hinek, 2005 and Baimbridge and Whyman, 2005), there was a real opportunity to use the business models as a framework for the analysis of the implications of EMU. Porter's models merged a set of variables (macro and micro), which have been demonstrated as suitable for this study. Each of these models and variables are, now, evaluated in the light of their contribution to the analysis of the perceived implications of EMU.

Porter's Diamond

As mentioned in chapter 3 (sub-section 3.3.3.2.) Porter (1980) identified various variables influencing the national business environment, which together he called the 'Diamond' of competitive advantage. They are: *factor conditions, home demand, related and supporting industries, firm strategies, structure and rivalry, government and chance*. These multiple components (i.e. variables) contributed to the richness of the model and the choice of the Diamond as a guideline to study the perceived implications of EMU on the national business environment (see chapter 4, sub-section 4.2 for details). Using the Diamond model, offered this study macro (in terms national level) and micro (in terms of business level) perspectives from which the perceptions of the implications of EMU on the competitiveness of the national environment could be analysed. As a result this study demonstrated that the factor conditions affected by EMU (e.g. labour costs, interest rates and exchange rates) were important determinants of the competitiveness of

the national hotel environment. But, the study also underlined the importance of considering the capacity of the enterprise to innovate and upgrade when studying the perceptions of the implications of EMU on the national business environment. In addition, the study confirmed that the Diamond model is versatile (regarding the context of study) and may be adjusted to new contexts and variables, countering one of the main criticisms of the model. Within the study of the perceptions of EMU, it was found that it would be beneficial to include a new variable to the Diamond model - *the supranational power of the EU* - and that to explore *chance* as a variable to the study of the perceptions of the implications of EMU would not be very useful, for the reasons already mentioned in the Chapter 4. In fact, by including the *supranational power of EU* as a variable, the hotel stakeholders' views towards one of the most significant implications of EMU at the national environment (i.e. the transfer of the decision-making from the national to the EU level) was studied at the national and EU levels (see, chapter 5 sub-section 5.4.6 for details). In a context where the process of the national decision-making is highly dependant on EU decisions, the inclusion of this variable in future studies seems particularly important.

Porter's Five Forces

Porter's Five Forces model emphasises the main aspects that are relevant for judging the perceived implications resulting from EMU for the industry business environment. The richness of the variables included in this model (i.e. the risk of *new competitors* entering the industry, the threat of *potential substitutes*, the bargaining power of *buyers*, the bargaining power of *suppliers*, and degree of rivalry between the *existing competitors*) proved to be a useful guide for studying the perceived implications of EMU. By using each of these variables when explaining perceived changes brought by EMU on the hotel industry environment, relevant factors for hotel competitiveness, such as supply, demand, complementary products and substitutes and market structures, were included. Moreover, as reflected in Chapter 6, it appears that in general each of these variables was affected by EMU. Therefore, the results of this research highlighted the importance of looking directly at industry structure when explaining changes in the hotel business environment.

Porter's Value Chain

In this research Porter's Value Chain (described in Chapter 3, sub-section 3.5.2) was used as a framework to analyse the perceived impact of EMU on the operational environment, breaking down the business's operation into the hotel's different activities. The Value Chain provided a simple but, nonetheless, powerful organisational tool for gaining a comprehensive picture of the organisation's operational environment and the perceived effects of EMU in each of the particular activities that hotels are required to undertake (see Chapter 7 for details). Analysing the academic and managerial literature using the Value Chain also permitted a better organisation of the academic and managerial literature analysed, as demonstrated in Chapter 3 (sub-section 3.5.2).

The use of the Value Chain model within this study could be criticised on the grounds that Porter (1985) elaborated the model in a way that made it more suited to manufacturing than hotel services industry. The inclusion in the original model of variables such as *inbound logistics* (to refer the goods/raw materials received from suppliers and the way they move around the organisation) could be an example of this. However, what this research did was to use the model as a tool for analysing the perceptions of the hotel' stakeholders on the activities identified by Porter as part of business operation (see chapter 3 subsection 3.5.2, for details about the variables), but adapting the model to the context of this research. For this purpose, as explained in the previous chapter (Chapter 7 section 7.3), emphasis was given to *procurement* rather than to *inbound logistics* and *outbound logistics* and *services* (i.e. installation, after-sales service and complaints). Therefore, the perceived impact of EMU on the hotel units were reviewed by looking at the impacts on: *procurement; operations; marketing and sales; services* (only complaint factors); *human resource management; technological development* and *administration* and *infrastructure of the hotel*. As the findings discussed in Chapter 7 suggested, the inclusion of only those variables that could be applied to the hotel environment have given an overview of the perceived effects of EMU on all hotel activities. Moreover, this confirmed that the Value Chain is a model that can be used in different context and sectors.

8.2.1.3. Analysis of different levels of business environment by combining Porter's models

By combining Porter's models together in an all-encompassing framework, the pioneering nature of the research aim was reinforced, since the three models used helped to confirm that there are advantages in merging more than one business environment level into an integrated study procedure. In fact, each of Porter's models emphasised certain variables that are relevant for judging the perceived implications, resulting from EMU, for the business environment. For example, as mentioned before, the Diamond model focuses on the national context from a macro and micro perspective, the Five Forces model relates to the industry context, and finally, the Value Chain model embraces the strengths and weakness of the hotel's activities. Keeping in mind that one of the main conclusions found from the business and competitiveness literature discussed in Chapter 2 was that under the threefold levels of the business environment the concept of competitiveness has a multifaceted nature and there are multiple indicators for its evaluation, this was particularly relevant and contributed to a better understanding of the implications of EMU at the three levels of business environment identified, confirming the benefits of the conceptual model adopted.

One of the criticisms that can be made of using several variables to analyse the perceptions of EMU on the business environment is that the *parsimony criterion*, defined by Fawcett and Downs (1992) as the adoption of as few concepts and propositions as possible to explain a phenomena, is not fulfilled. However, the results of this research suggest that the use of three models with several variables explained why the hotel stakeholders thought the hotels might/might not gain competitive advantage in all its forms as a result of the introduction of EMU. This would not be possible if only one level of the business environment was studied or fewer variables were included in the study.

In addition, the use of three models from the same author (i.e. Porter) may suggest some limitations in terms of the diversity of the theories. Nonetheless, as reviewed in Chapter 3, it does not mean that there are no other approaches which could be used. However, for the reasons already discussed, and the results obtained, Porter's models proved to be helpful for this research. In addition, the set of models used do not repeat variables, making the research process flow logically.

8.2.2. Evaluation of the methodological approach adopted

Data collection is an essential aspect of any type of research study. Inaccurate data collection can impact on the results of a study and ultimately lead to invalid results. Furthermore, the reasons why the data were collected and the authenticity, quality and accuracy of the methodological research process are vital issues to confirm the credibility of the study. Therefore, based on these criteria, this sub-section evaluates the methodology adopted in this research. For that, the outcome of each step in the research process is discussed and the unexpected factors that arose during the research are identified and considered in terms of the quality of the findings obtained.

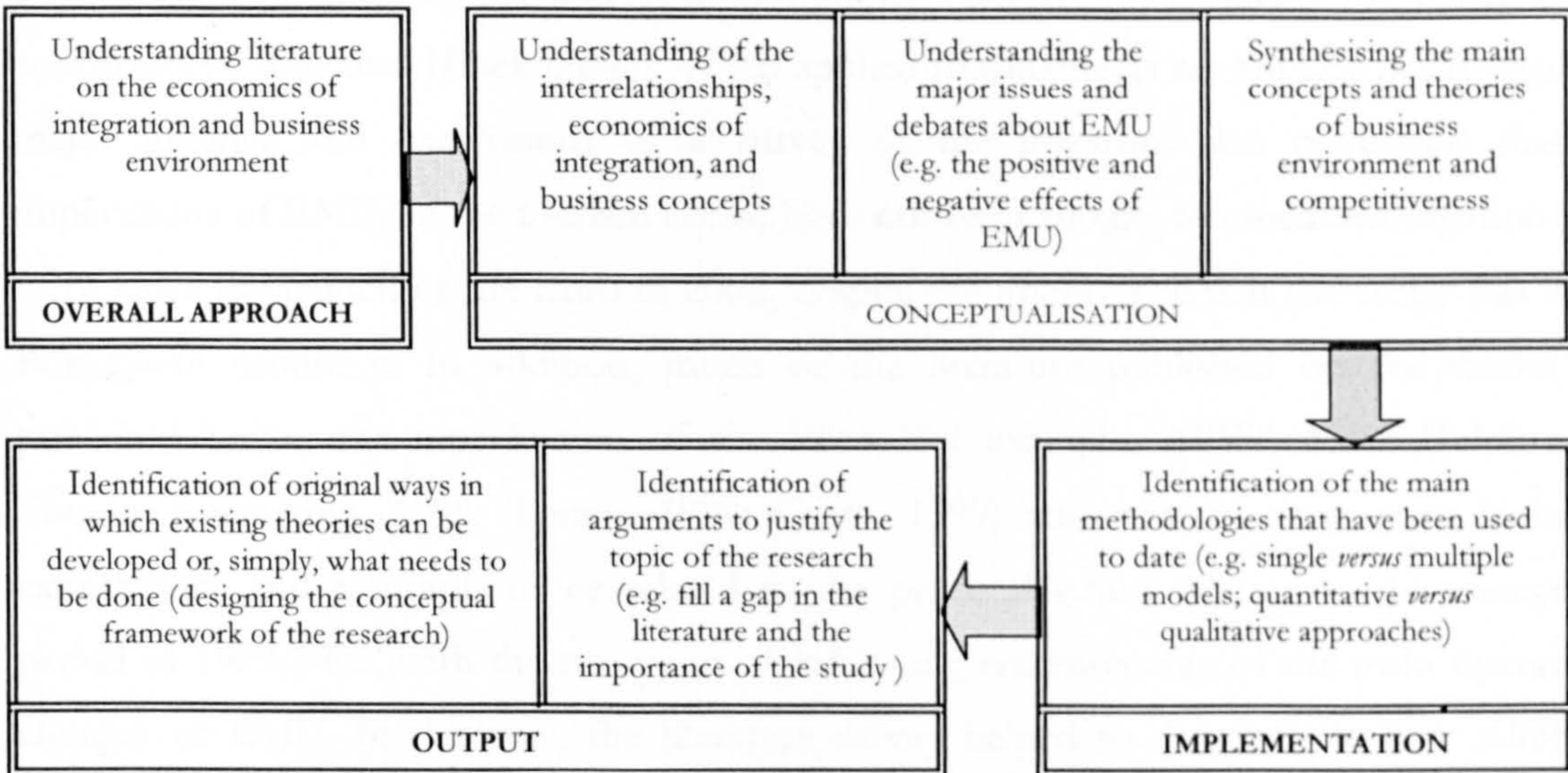
8.2.2.1 Data collection techniques

This research used three main techniques to collect data: literature review, secondary data collection and primary data collection. They are evaluated as follows.

Literature review

After the formulation of the research problem, a literature review and interpretation was carried out. Figure 8.1 shows the main purposes of the literature review.

Figure 8.1. The main purposes of the literature review in research: an evaluation



At first sight, the process of a literature review seems fairly simple. However, since the literature review plays a vital role in the justification of the research topic and methodology, as documented by Hart (1998), it requires appropriate depth, rigour and consistency, and effective analysis and synthesis in relation to the issues. Moreover, although the literature process was selective, at an early stage the researcher was confronted with a range of literature that, even if it did not refer directly to the study, offered valuable information regarding the wider context of the research. For instance, at an initial stage, it was evident that studying the perceived implications of the European integration on the hotel business environment could be approached from different perspectives (social, political and economic or a combination of these).

After exploring the theories, methodologies, secondary research findings and the research gaps in the field of the study, it became evident that there was an opportunity to study the implications of EMU at three different levels of the hotel businesses environment. For example, the literature review revealed that although EMU has increasingly been viewed as a key driving force in the business environment of firms within the Euro Zone, as Johnson and

Turner (2000) and Pelkmans (2001) have documented, within the tourism sector, only a few studies focussing on tourism and economic and monetary union have been published, as confirmed by Rátz and Hinek (2005). When applied to the effects on SMTEs in Portugal, the major findings and conclusions of a survey of the literature also confirmed that the implications of EMU on the tourism sector have not been subject to much investigation prior to or since the launch of the Euro in 2002, despite the importance that the sector has in the Portuguese economy. In addition, much of the literature published on the theme was published before the introduction of the Euro (for example, APVT, 1997; Deloitte and Touche Consulting, 1998; Torres, 1998; Costa, 1999) and was, in great part, based on expectations and assumptions or related to the practical issues relating to the changeover period of 1999-2002, with the main aim of informing entrepreneurs of the main operational changes of EMU. In this way, the literature survey helped to demonstrate how additional research could contribute to the body of knowledge on economic integration that already exists and supports the argument that led to the research questions and hypotheses. This review was central to the clarification and understanding of the major issues, debates, theories and methodologies surrounding the subject by identifying significant limitations, contradictions and contributions of previous studies. It also guided the selection of the main subject areas for primary data collection. As was found in the literature, there was a gap in the knowledge of the perceptions of tourism stakeholders towards the implications of EMU in the Northern hotel's business environment.

To conclude, two final notes should be made. One concerns the process of writing a literature review. By convention, although many studies adopted the present tense, the references to these studies are in the past tense, because these articles have already been written and their conclusions have already been developed. The other one is related to the sources used to review the literature. When searching for literature in the research domain of this study, there was a concern to include mainly academic literature (e.g. books, journals and so on) and official reports published by EC, Portuguese authorities or other relevant sources. However, because this research was done almost simultaneously with the introduction of EMU, articles published in the British and Portuguese press were also reviewed and utilised. The use of these sources is however open to question, because as mentioned in the methodology chapter, newspapers are

not necessarily as reliable as scholarly sources. Using newspaper sources is likely to encounter bias within the sources (see, Baron (2004) for details on media bias). An example of bias within newspaper articles on the effects of EMU is the possibility of the influence of the political affiliations of the newspaper and its general view in favor of, or against, the introduction of EMU in Europe. Nonetheless, the use of newspapers proved to be useful for providing information on the context of this research. The articles helped create an understanding of the issues for the economies of the different countries. In some cases, they included valuable information not found elsewhere, such as present news and distinct views on the implications of EMU.

Secondary data collection

The collection of secondary data was relevant in order to identify important economic indicators of the Portuguese economy and data from the tourism sector and hotel industry in Portugal (e.g. main indicators of tourism businesses in Portugal). In this case, official statistics provided by national institutions such as DGT, Ministry of Economy, INE, and ICEP were used. International agencies such as the World Bank, IMF, Eurostat and WTO were also useful sources. For example, an analysis of the statistical data of the tourism enterprises, provided by the national statistical board (INE), revealed the importance of the hotel sector within the tourism sector and provided an initial idea about the number of the hotels in the North of Portugal. It should be noted however that there was a lack of statistical data on the tourism sector in Portugal and, in some cases the existing data were found to be inconsistent among the different sources. These problems were overcome by using credible sources (Eurostat and Ministry of Economy), for example, to provide the Portuguese main economic indicators (e.g. the contribution of tourism in GDP), and when possible by creating new data based on existing data (e.g. grouping hotels based on size, location and classification).

Criticisms can be made of the fact that there is little analysis or re-interpretation of the secondary data in this research. However, the aim of using secondary data was not to re-interpret these data for a different purpose to the original, as several authors did, but simply to report the data in its original format as a contribution to the research argument. For this

reason, most of the secondary data used were placed in the introduction and literature review chapters, instead of in the research findings.

In spite of the valuable contribution in achieving the objectives of the research, the secondary data available could not provide answers to the research questions of this study. Hence, most of the data were collected from primary sources. The contribution of these sources is explained in following sub-section.

Primary data collection

As argued by Patton (1990), the decision to collect primary data depends on the research purposes, and also on the main findings of the literature survey and external factors such as time and monetary constraints. As a result, primary data collection methods can be used in a variety of ways, in different settings, and be obtained from different sources. Hence, it is a task of the researcher to develop the most suitable data collection procedures for his/her study, which requires very careful reflection and evaluation (e.g. Jick, 1983; Miles and Huberman, 1994; Marshall and Rossman, 1989; Patton, 1990 and Marlow, 1993).

As reflected on in the previous chapters, and indicated in the methodology chapter, to obtain the necessary information, this study adopted a quantitative methodology, using structured and semi-structured questionnaires. The three surveys carried out were undertaken using personal interviews. However, the method used within business survey differed from the method used within the national and industry surveys. In the business survey, the interviews followed a strictly controlled pattern of questioning (structured questionnaire), while the national and the industry survey the interviews followed a more open pattern of questioning (semi-structured list of topics). The aim was to make surveys more sensitive to the profile of the respondent involved.

The following sub-sections describe the key outcomes of the methodological research choices and their benefits and limitations in terms of validity, credibility and operational adequacy.

a) The adoption of quantitative methodology

As discussed in chapter 4 (section 4.3.), both qualitative and quantitative methodologies are valid and suitable for social research. Therefore, the selection of which research approach is appropriate in a given study should be based upon the subject under investigation, the goals of the research and the resources available (Patton, 1990). This research adopted a quantitative approach.

The ability of the quantitative approach (influenced by the positivism research paradigm) to generate an accurate description of reality based on established theories and variables, makes this approach powerful for understanding the implications of EMU. Instead of building a new theory, this research took three models that were already well developed in the business and competitiveness fields and used them as guidelines to the content of the research. Additionally, taking into account that measuring the implications of EMU was the focus of this research, the option of a quantitative approach (strong in measuring variables) seemed appropriate for this research. The use of a quantitative approach allowed the analysis of the perceived implications of EMU at the three levels of the hotel business environment in as objective a way as possible. The topic of study is still a theme of heated debate in the literature as reflected in Chapter 2 (subsection 2.4.2.3) and results describing the reality through quantifiable data can contribute and serve as basis for further research in other contexts.

The methodology adopted, however, does not provide deep explanations or analysis beyond the descriptive level, even when significant, valid and reliable. Hence, future research could be undertaken using qualitative methodologies, for example, in order to understand the motivations of respondents. With a view to avoid a complete lack of explanations in the results, several open questions were introduced within the questionnaires that supported the three surveys undertaken. These questions were used to provide more comprehensive information of the objective framework adopted.

b) Sampling

This study provides a valuable contribution to the perceptions of EMU by sampling three distinct stakeholders of the hotel business industry: the national authorities, the industry

associations and the hoteliers from the north of Portugal. The process of sampling in this study, that is the rationale or justification for the decisions of selecting a study sample, was determined by the specific aims and research questions. The fact that there were few, if any, studies involving the perceptions of the hotels stakeholders was also relevant. In addition, the role that each stakeholder plays at each of the distinct levels of the business environment was an important reason for involving all of these groups. It was assumed that each stakeholder (defined in this study as an individual group or organisation that has an impact on, or is impacted by, the hotel business environment) would evaluate the implications of EMU using their own background (e.g. field of work and context) and that the perceptions of the various stakeholders might differ as well as agree since they may be affected by EMU in different ways. For example, the business respondents, who are directly involved in the operational activities of hotels, might have distinct views from the national authorities that develop policy and planning and make decisions at the national level for the future development and public good and from the industry associations that are directly involved at the industry level. Therefore, the inclusion of these three study groups in the research, beyond permitting a multi-perspective of the implications of EMU, also permitted the comparison of the differences and similarities between the three viewpoints with the literature. Each of these perspectives emphasises certain aspects that may be relevant for evaluating the implications resulting from EMU.

The option of including hotels only from the North of Portugal and not more areas in Portugal, already discussed in Chapter 1 and 4 (subsections 1.2.2. and 4.4.6, respectively), brought benefits to the study. A census was achieved and the resources available (research, time and money) were not diluted.

An evaluation of the sampling choices made within each survey used in this research is now provided. Taking into account that within the national and industry surveys sampling was based on similar criteria, they are evaluated together.

b.i) Sampling within the national authority and industry association surveys

The choice of sampling method and criteria for the national authorities and the industry associations was a non-probabilistic method, *judgemental sample*, using as the criteria the role played by the organisation within the hotel sector. This was deemed to be the most appropriate for studying the perceptions of both these types of organisation. As explained in Chapter 4 (sub-section 4.4.6) using probability samples to examine the views of the national authorities and industry associations would not be appropriate, because there was the risk of excluding relevant organisations or selecting organisations that may not be the most helpful for the research. The national authorities and the industry associations, which are intimately involved in the hotel business environment, would be likely to provide a better understanding of the potential implications of EMU on the hotels, rather than other national or industry organisations for whom the hotel industry might be at best a peripheral concern. By surveying the selected organisations, different components of the theoretical framework adopted in the research, and in particular the understanding of the national and industry environment in which the hotels operate (see chapter 4, sub-section 4.2 for details) was obtained. For example, by selecting the ministries of Economy/Secretary of State of Tourism, Finances, Territory Plan, Social Security and Work, and also the public entities responsible for the tourism training, financing, promotion and organisation, the main fields of the hotel business environment were explored, essentially, at the national context. On the other hand, by involving the industry associations, which seek to contribute directly to the success of the hotel industry, such as *UNISHNOR*, *ADHP*, *ADETURN*, *CTP* and *AEP*, an understanding on the implications of EMU on the hotel business environment, essentially, at the industry level was obtained.

Hence, and given that the majority of the organisations agreed to participate, the study identified the industry perspectives towards the implications of EMU on the hotels business environment. However, this claim may be tempered by the fact that there are organisations that might have been included, but were not, for example, the National Association of Portuguese Municipalities; the Regional Tourism Boards; the Association of the Hotels of Portugal and the Portuguese Association of Travel Agencies and Tourism. As these missing organisations play distinct roles in the tourism sector, their participation would have been

desirable for achieving additional views on the implications of EMU in terms of the perceived implications of EMU at the regional level and tourism infrastructures and promotion. In fact, the regional and industry views may be under-represented with these missing organisations. Nonetheless, two factors suggest that the lack of the views of these organisations would not significantly affect the results of this research. Firstly, the Association of the Hotels of Portugal and the Portuguese Association of Travel Agencies and Tourism are members of the board of directors of the Confederation of Portuguese Tourism (CTP), which, in turn, was surveyed and represents and promotes the interests of its members in the industry context. Secondly, the most relevant regional tourism association - ADETURN -, which has the Tourism Regional Boards and National Association of Portuguese Municipalities as members, was surveyed, suggesting that the regional perspective was also not compromised by these two missing organisations.

However, this does not mean that in future studies, efforts should not be made to include these organisations. Even though they are members of the organisations surveyed, which promote their interests, suggesting some possible correspondence between their views, it is not certain that they have the same views on all topics. A possible way to obtain the views of those organisations may be to ask the other respondents to interfere in this way. This is a common practice in the Portuguese context. In this study, they were contacted and invited to participate, but they did not reply to the letter and phone calls.

b.ii) Sampling within the hotel business survey

In the case of the hotel business survey, it was decided to aim for a *census*, that is, to survey all the study units (hotels located in the North of Portugal) rather than to select and study only some of the study units. The rationale for this option was presented in detail in the methodology chapter (chapter 4, sub-section 4.4.8). The assurance of representativeness, commonly problematic in survey research, was not a problem at all in this research, as virtually all the hotels participated in the study. It is, however, important to indicate that the representativeness is evident for the north of Portugal only for the reasons discussed in the introductory chapter (sub-section 1.2.2). Caution should be taken when generalising the results

to the national level, or even to other regions, because the hotel industry in other regions might have different characteristics potentially resulting in potentially different results. For example, based on data published by DGT (2005a), the hotels in the Algarve tend to have more intense activities at the international level, in terms of for example clients and suppliers, and hence they may have different views about the implications of EMU and, namely, the Euro. The methods applied in the study can be, however, replicated in different contexts, as reported in section 8.2.

c) Survey design

Although there are many useful guidelines in the research literature on how to design a survey (e.g. Jennings, 2001; Creswell, 2007 and Saunders et al., 2007), designing a questionnaire on the subject matter of the research entails more than following the basic rules of survey design. Considerations such as the use of clear and direct questions, avoiding biased questions and the warranty of total confidentiality were not a difficult task in this research. However, features such as the selection of the most relevant questions in each questionnaire, the decision on the type of questions to use, the response format and the definition of the sequencing of sections or individual questions were particularly critical in the survey design of the three questionnaires used in the research.

For example, in the business survey, given the nature of this survey, the translation of the questionnaires from English into Portuguese was problematical because in some cases there was difficulty in finding adequate words in Portuguese (e.g. business environment). Furthermore, the problem of translation was equally problematic when the information collected was transcribed and translated into English, which required considerable effort to ensure that the meaning of the Portuguese text was not misrepresented during the translation process. The specific decisions adopted to overcome these difficulties are explained and evaluated for each questionnaire below.

In terms of the national and industry surveys, which involved two heterogeneous groups with different activities and roles within the hotel industry, the research design implied

different questionnaires for both groups (national authorities and industry associations). For the reasons already explained in the methodological chapter, two semi-structured questionnaires (using mainly open question) were developed as the basis for the face-to-face interviews carried out with the national authorities and the industry associations. In general, both questionnaires proved to be useful for collecting information on the various fields of activities involving the hotel sector. However, the data collection and analyses suggested that the information collected, namely data related to the perception of the national authorities and the industry associations towards the effects of EMU on the operational business environment, was in certain cases insufficient. For example, from the questions related to the operational level, it was not always possible to obtain detailed information from these groups, which in turn, limited the analysis of some topics. Hence, the use of open questions was useful in obtaining the organisations' views on the national and industry environment, but for the views on the operational environment it was not so useful, because in most of the cases they had not a view or an explanation about the topic. Nonetheless, the use of closed questions would have had the same problem.

In terms of the business survey, it was decided to include a series of six foci for investigation, using both open and closed questions to cover the main topics of the research (see, Chapter 4 subsection 4.7.7.2. for details). By using open-ended questions following specific closed-questions, additional information was obtained explaining the reasons for the closed question answers. This option, although time consuming when running the questionnaire, revealed itself very useful when analysing the questionnaires. It showed and permitted understanding that sometimes identical responses such as *yes* or *no* had very different explanations. At the same time, it did not change the basis of the quantitative approach used in the survey. The inclusion of these open-ended questions was possible because the questionnaire was implemented through face-to-face contact, otherwise it would be difficult to retain the attention of the respondents for so many questions. It should be noted that, on average, each questionnaire based interview lasted 50 minutes, which did not exceed the researcher's expectations when the questionnaire was designed, but confirmed that the questionnaire was long and could have lower response rate if not implemented face-to-face. By using face-to-face questionnaires, the business survey also ensured that each individual was asked exactly the same questions in

exactly the same way, avoiding errors in the data and interpretation of it given that there were many of them. In fact, the initial expectations that the business respondents, although they may have the same perspective as all were running hotels, may be heterogeneous in their answers were confirmed during the data collection. For example, it was found that the business respondents had different views on the implications of EMU on the competitive position of their hotels.

In terms of the sequence of the questions of the business questionnaire, it should be mentioned that the sequential logic of questions adopted followed the logic of the theoretical framework. This included a set of questions about the perceived implications of EMU on the national environment, industry environment and operational environment. Particular emphasis was given to the operational environment, since it was the level with which the respondents would probably feel as most relevant to them.

A final note should be made concerning to the important role that the pilot survey had to overcoming the problem of the translation of some words in the questionnaires from English into Portuguese. In fact, it allowed the identification of some words whereby additional explanations were required and the need to use adequate words known by all entrepreneurs.

d) Administration of face-to-face questionnaires

The three surveys developed in this research were administrated in person by the researcher. In all cases, this approach brought benefits for this study.

As mentioned earlier, it was evident that face to face interviews increased the response rate (93% within the business survey, 63% within the national survey and 71% within industry survey) and also reduced the level of misunderstanding. In some cases, and particularly during business survey, the respondents revealed that they had agreed to participate in the study because they would have the chance to meet the researcher and discuss the theme face-to-face, which ensured them of the credibility of the work and had facilitated the completion of the questionnaire since the researcher would be there to explain any points in the questions that they could misinterpret. Some of these respondents also revealed that they had so many

requests to complete all types of questionnaires that most of the time requests made by phone, e-mail or post sank into oblivion. By the direct contact with key players in the field, the researcher could explain and clarify questions, and particularly, in the case of the national and industry surveys, probe by asking additional questions, to enhance the likelihood of obtaining useful responses from the interviewee.

Apart from the benefits mentioned above, the administration of face-to face questionnaires was also relevant to ensure that the interviews were conducted as impartiality as possible. For this purpose, all the interviews were conducted by the researcher and there was a concern to discuss in the methodology chapter how the interviews were conducted in ways that are, at the very least, accessible to other researchers in order to maximise the *reliability* (trustworthiness) and *validity* of the data collected. Moreover, it was possible to confirm the interest demonstrated by the respondents in this study. For example, within the national survey, it was found that as soon as the respondents received the letter sent by the researcher explaining the focus of the study being undertaken and asking them to participate in the study, more than half of the respondents contacted the researcher two or three days later to arrange the interview, suggesting that they recognised the importance of the study. The fact that the study had been sponsored by the Portuguese Institute of Tourism, which had previously recognised the study's importance, may also have contributed to this. Those who declined the invitation claimed mainly that their agenda was full. There were a few cases where the appointment was arranged, but the interview did not materialise due to official commitments of the respondents.

Conducting the surveys at the workplace of the stakeholders was important to ensure that hotel's stakeholders were inconvenienced as little as possible. However, it was also important to ensure that adequate time was provided to answer all of the questions asked.

8.2.3. Evaluation of the analytical approach adopted

Even though this study adopted a quantitative methodology approach, both quantitative and content analysis (generally considered a qualitative technique) approaches were employed, because of the nature of the questionnaires in the national and the industry surveys.

8.2.3.1. Quantitative analytical approach

The quantitative analytical approach, rooted in positivism, was developed to analyse the data collected within the business survey. Since a *census* is involved, this analysis used mainly descriptive statistics instead of inferential statistics (see, chapter 4 sub-section 4.3.8.1 for details), which would have been appropriate if there was a need to ‘infer’ something about the population from results based on a sample from that population, as authors such as Balnaves and Caputi (2001) have demonstrated. The use of descriptive statistics, which included basic descriptive methods such as frequencies and cross tabulations helped to summarise and describe the data of the perceived implications of EMU at the three levels of the business environment. In addition, the concepts and the operational process used in this research were defined and explained, meaning that other researchers can reassess and replicate this investigation.

In spite of the number of respondents involved permitting the consideration of the group as a *census*, a note should be made in terms of the implications of the non-respondents in the analysis made. That is, 7 percent of the population (8 hotels). Taking a hypothetical case that these units participated and had different thoughts about the implications of EMU, a question emerges: would the data obtained from these units change the interpretation of the results? Based on the profile of the non-respondents the answer is “most likely no”. The non-respondent hotel had very similar characteristics to those, which participated, namely in terms of the star ranking, number of beds and type of ownership.

8.2.3.2 Content analytical approach

The content analysis approach (conceptual analysis) was used for analysing the data from the national and the industry surveys. According to Krippendorff (2004), content analysis methods are designed to determine in a systematic, objective and quantitative manner the presence of certain words, concepts, themes or sentences within texts or sets of texts. These characteristics of content analysis allow the analysis of data regardless of their format. Despite the fact that

the data from the national and industry survey were collected using semi-structured interviews with several open questions, this fact does not affect the analysis of these data using a quantitative approach.

Employing content analysis in this study has served at least two main purposes: (i) to identify and interpret patterns and common themes in responses, by reducing the textual material obtained through the national and the industry interviews into more manageable bits of data (see section 4.4.8.2 for details on content reduction process), (ii) to validate the research framework adopted in this study, by using the basic themes and concepts defined in the theoretical framework as the analytical template for data collected through mainly open questions (see section 4.2. for a detail of the explanation of the framework). The process of selecting appropriate units of content for study that could represent the theoretical concepts and themes developed through the conceptual framework of this research (e.g. the national competitiveness, the industry competitive position or business opportunities) has benefited, by its turn, the research results. As argued by Riffe et al. (2005), if the content classification is conceptually and theoretically sound, the researcher increases the chance that the results will be meaningful and valid (i.e. existing correspondence of the categories to the conclusions). Hence, one of the main criticisms to the use of content analysis, namely the lack of consistency when reducing text into categories or key words, was reduced in this research. For this purpose, it was important to provide a full explanation of the theoretical framework on which the study is based during the presentation of the methodological choices and processes made during the research. To respect, in a very careful way, the language used by the respondents as well as the context of the data was also a concern during the research analysis and, in particular, when coding data.

As there was a concern to select categories and subcategories predetermined by the theoretical concepts and themes developed through the conceptual framework of this research, the data from the national and the industry surveys fitted easily under the main categories or subcategories adopted. The use of these categories provided a basis to describe and interpret the views of the national authorities and the industry associations towards the implications of EMU on the hotel business environment and make comparisons between the views of the different hotel's stakeholders involved in the study.

8.3. DISCUSSION OF THE RESULTS

Having discussed the main theoretical, methodological and analytical issues affecting this research, this section discusses the results presented in Chapters 5, 6 and 7. The discussion will be carried out in relation to the differences and similarities between the hotel stakeholders' perceptions, which are also compared with previous published results and theoretical expectations. In doing so, the discussion focuses on the main perceived implications of EMU at each level of the business environment. The contribution of these results to the understanding of the implications of EMU is also discussed in this section. In fact, the study provided a new path for the analysis of the implications of EMU by adopting, in the economic integration field, an innovative theoretical framework based on Porter's models and brought to the research arena a three-dimensional perspective on the implications of EMU, by using the views of distinct stakeholders of the hotel business industry, which previous research on this domain has not done.

8.3.1. The implications of EMU on the national business environment

On the basis of the results presented in Chapter 5, EMU represents a significant shift in the national environment of Portuguese hotel businesses and influences each determinant of the Tourism Diamond (see figure 8.3.). As identified in Chapter 5, beside some basic differences in the views of the hotel stakeholders, there are many similarities in their perceptions of the implications of EMU at the national level of the business environment.

In each study group, the majority of the respondents recognised the potential progress in macroeconomic terms as a result of the introduction of EMU and described EMU as a positive influence on the Portuguese economy. Hence, the results of the surveys carried out in this research support previous expectations (described in Chapter 3) that EMU would benefit the macroeconomic environment in the Euro zone, as a result of changes caused essentially by factors such as interest rates, exchange rates, transactions costs, employment efficiency,

productivity and so on. Not surprisingly, these outcomes were essentially found in the national authority responses.

The results of this investigation also indicated that over the first years of EMU the economic reality in Portugal did not match exactly with the expectations of the proponents of EMU or even the views of the hotel stakeholders. As mentioned in the literature, since 2001, Portuguese economic growth has slowed (see Chapter 2, subsection 2.4.2.3.3.). In 2002, the national economy showed signs of recession and the Portuguese Government received a formal reprimand from the European Commission for the size of the country's budget deficit, which reached 4.3 percent of the country's GDP in 2001 (*Banco de Portugal*, 2003). This forced the Government to introduce a severity program to bring the budget deficit under control. Although they succeeded in reducing the budget deficit, the severe fiscal policy adopted, in conjunction with weaker global growth, postponed economic growth (*Vida Económica*, March 2003). In 2003, Portugal had the lowest nominal per-capita GDP of all EU member states and at the same time, Portugal saw higher levels of unemployment and inflation remained considerably above the average for the Euro zone (*The Daily Telegraph* on June 09, 2003; *Vida Económica*, March 2003 and Schwartz, 2004). However, one main issue should be considered: the three study groups described the implications of EMU in the medium and long term, showing that the current short-term economic performance did not necessarily contradict the study group's perceptions or the views of the proponents of EMU. This suggested that the Portuguese economy needed to adjust to the new regime brought about by EMU or/and that these adjustments may take time to become visible (*The Daily Telegraph* on June, 09, 2003; *Vida Económica*, March 2003 and Schwartz, 2004).

Within this context, the investigation of the views of the national authorities, as those responsible for policies and planning at the national level, was particularly helpful. By including the views of this study-group, the research has contributed to an additional understanding of the implications of EMU on the economic performance of Portugal. In fact, these respondents when asked about the economic situation in Portugal explained that Portugal was experiencing a period of economic adjustment because, during the 1990s, there had been excessive government expenditure. Hence, according to them, this justified the disparity between the literature expectations and the economic performance of Portugal at that time and explained

why the positive effects of EMU on the national business environment will be evident only in the medium and long term. They added that a set of structural reforms, for example in terms of employment, productivity and early retirement and old-age schemes, was taking place in order to anticipate the positive effects of EMU.

Given that, assessing the impact of EMU on the intensity of the reform process represents a challenge for empirical research, because it may be difficult to distinguish which reforms are made in response to EMU. These views helped in understanding the perspective of the national authorities surveyed towards the relationship between EMU and structural reforms. According to them, the main arguments found in the literature for more structural reform, as result of EMU, are valid (see, Duval and Elmeskov (2006), for details on the arguments for EMU both strengthening and weakening structural reforms). About this, the study of the descriptive evidence on reform patterns after EMU, presented by Duval and Elmeskov (2006), suggested that there is little evidence, if any, that EMU has facilitated the pace of structural reform in the Euro zone. Based on the OECD figures, these authors revealed, for example, that EMU members have not been more active at reforming their labour and product markets than non-EMU EU countries.

Potential effects for the tourism sector

As demonstrated in Chapter 2 and 3, the literature suggested that tourism would benefit from the potential effects brought by EMU which was expected to have positive impacts on national competitiveness (e.g. WTO, 1998a, 1998b, 1998c; Torres, 1999; Ratz and Puczko, 1999, Ratz and Hinek, 2005). The data described in Chapter 5, and summarised in Table 8.1, also revealed that in general EMU was perceived as a key force contributing favourably to the improvement of the competitiveness of Portugal as a tourism destination. Nonetheless, as shown in the table below (8.1), there are some different views, which were demonstrated particularly in the business surveys.

In order to simplify data and better compare the results, the reasons presented in the table were previously aggregated into a pattern of categories using the techniques of content

analysis. For this purpose, the two first reasons cited by the respondents in their explanations were considered.

Table 8.1. Summary of the effects of EMU on Portugal as a tourism destination based on the hotel stakeholder views

Specific reasons explaining the general overview given by the hotel stakeholders	Effect of EMU on Portugal as a tourism destination:								
	Unfavourable			Little effect or nil effect			Favourable		
	N	I	B	N	I	B	N	I	B
The existence of different prices of services offered			√						√
Price versus quality of the Portuguese products							√		√
Positive effects on the economy							√		
Simplicity							√		√
Other factors are more important (e.g. quality and prices)				√	√	√			
EMU is just an instrument				√		√			
EMU requires proactive measures and actions								√	
Lack of ability of some Portuguese enterprises to respond to new challenges			√						
Total number of respondents in each study group	-	-	14	4	2	45	6	3	39

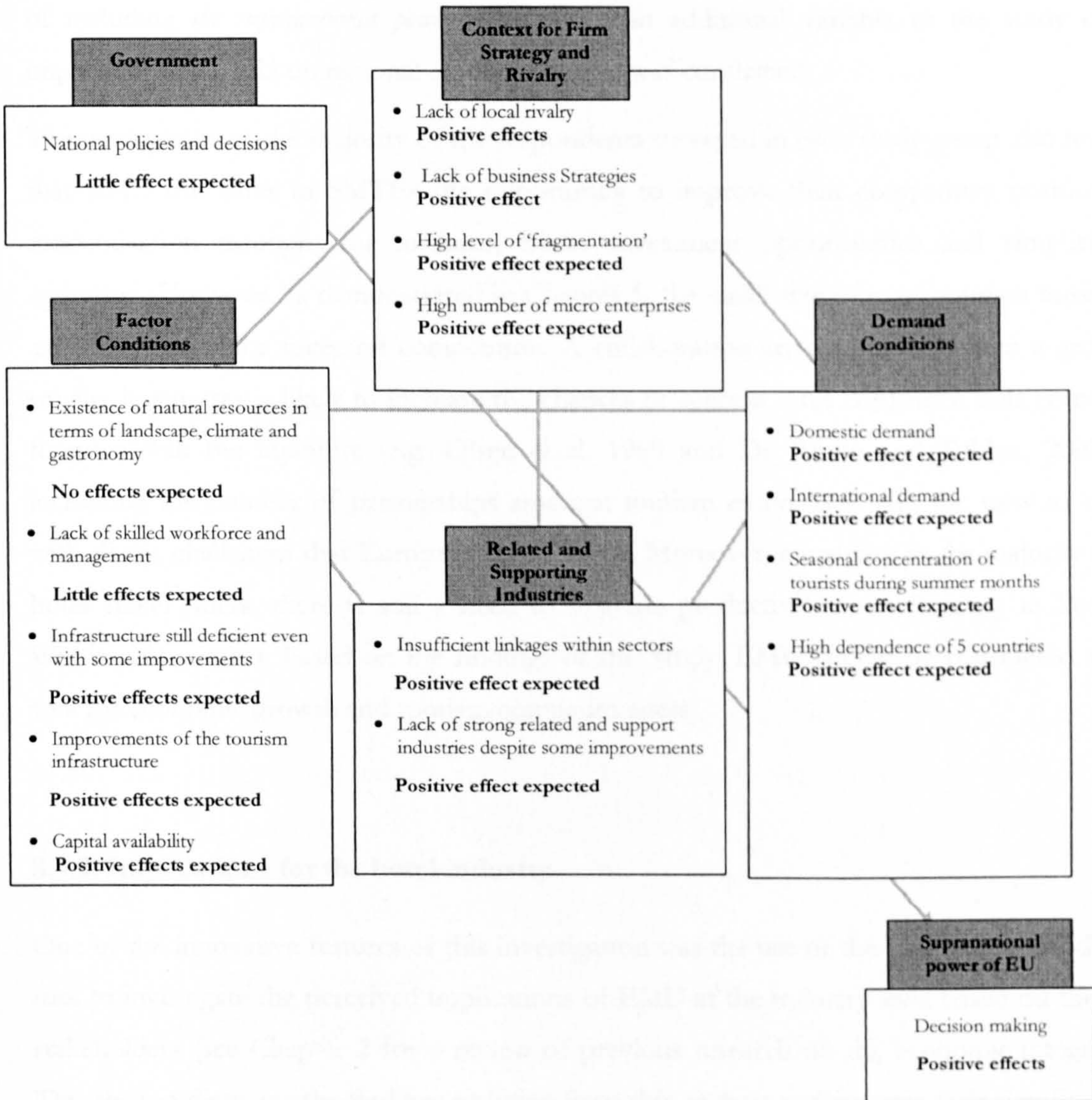
Legend: N- national authorities; I- industry associations, B- business units

Table 8.1. demonstrates that the national authorities and industry associations were more likely to be confident about the potential effects of EMU on Portugal as a tourism destination than the business respondents. In fact, even though several managers recognised the importance of EMU on tourism competitiveness, most of the business respondents believed that EMU had little or no effect on the hotels, arguing that there were other factors more relevant or that EMU would be just an *'instrument'* to improve competitiveness (see chapter 5 for details about the other factors).

For those respondents in each of the study groups who identified the positive influence of EMU on tourism competitiveness, simplicity, macroeconomic effects and the need for proactive actions were the main reasons for such competitiveness. There were also views, namely within both the national associations and the business surveys that in general Portuguese enterprises offer quality and competitive prices, which could be an advantage

within a more competitive environment. This is consistent with previous studies (WTO, 1998a and Ratz and Puczko, 1999, Ratz and Hinek, 2005) that reported a relationship between competitiveness and EMU. However, these effects will be achieved in the medium and long run, since they are dependent on the macroeconomic environment, which according to the majority of the respondents in each of the study groups will be improved in the medium term. The upshot of the analysis of the effects of EMU on each determinant of the tourism Diamond (adapted from Porter's model) is that the majority of the hotel stakeholders confirmed that EMU could give tourism in Portugal a competitive advantage. In fact, on the basis of the results presented, particularly in Chapter 5, it was evident that the study groups expected positive effects on almost each determinant of the Diamond, as demonstrated in Figure 8.3. below.

Figure 8.3 Portuguese Tourism Diamond in 2003 and the effects of EMU, based on the views of the three groups: a summing up



Hence, the analysis of the implications of EMU on each determinant of the Diamond provides further evidence of a positive relationship between EMU and tourism national competitiveness. The analysis offered a macro and micro perspective from which the perceptions of the implications of EMU on the competitiveness of the national environment can be analysed. In addition, the role of each determinant in the model was emphasised by the

results of this research. For example, on the basis of the views of the hotel stakeholders towards the influence of EU on the policy-making process at the national level, the importance of including *the supranational power of EMU* as an additional variable to the study of the implications of EMU on national competitiveness was confirmed.

The perceptions of the majority of the respondents surveyed in each study group also revealed that EMU can offer to SMTEs the opportunity to improve their competitive position and modernisation through, for instance, better investment opportunities and simplicity of operation. However, as demonstrated in Chapter 5, the small size of most tourism businesses can be a barrier for successful competition. A collaboration arrangement between a group of smaller businesses is likely to increase the chances of success. This confirmed calls commonly found within the literature (e.g. Olsen et al, 1998 and De Bruijn and Tukker, 2002) for increasing the number of partnerships amongst tourism enterprises with the view to coping with all the challenges that Europe is facing today. Moreover, according to the majority of the hotel stakeholders, there is still a need to upgrade productivity and efficiency in Portugal. Within this context, based on the findings of this study, EMU should be considered as one tool for economic growth and tourism competitiveness.

8.3.2. Implications for the hotel industry

One of the innovative features of this investigation was the use of the Five Forces Model as a tool to investigate the perceived implications of EMU at the industry level based on the hotel stakeholders (see Chapter 2 for a review of previous research on the economic integration). This section discusses the findings resulting from this analysis and assesses their significance to the study of the implications of EMU on the hotel business environment.

Perceived effects on the five forces of the industry competitiveness

Generally speaking, the analysis of the perceived effects of EMU on the five determinants of industry competitiveness identified by Porter (1990) (described in Chapter 6) revealed that in

most cases the three study groups had different views on the implications of EMU on the hotel industry. In addition, the findings from the three surveys revealed that the perceived changes were somewhat less than predicted in the literature on EMU (see chapter 3 subsection 3.4.4, for the review of the EMU influence on the hotel industry). Reviewing the literature one would get the impression that quite a lot of implications will result for industry competitiveness but, for example, the business respondents had different views on this question, stating that factors, such as the quality of service, were more important for the competitive position of the hotel industry than EMU and the Euro.

As reflected in Chapter 6, the business respondents were more sceptical about the implications of EMU on all five forces compared to the other two groups. They revealed an overall view that EMU had no effect on four of the key forces that, according to Porter's model (Porter 1980), determine industry competitiveness. For them, only the *rivalry between the existing competitors* had effects and even these effects were moderate. In contrast the national and industry respondents perceived positive effects on the majority of the five forces. The most frequent identification of changes was identified in the national authority survey, with the positive implications of EMU in relation to the five forces being the most frequent. These findings are confirmed by the following table (8.2), in which the answers were grouped taking into account the most common opinions found within the surveys.

Table 8.2. Most common findings on the effects of EMU on five Forces

FIVE FORCES	National Survey	Industry survey	Business survey
Power of buyer	+	+	=
Power of suppliers	+	=	=
Rivalry between the existing competitors	+	+	+
New competitors entering in the industry	+	+	=
Threat of Potential Substitutes	=	=	=

+ Positive effect

= limited or no effect

The above table (8.2) also confirms that the major effects perceived by the study groups, namely the national authorities and the industry associations, were related to the power of

buyers, increased rivalry between the existing competitors and the entry of new competitors. An analysis of the perceived effects of EMU on each of the forces of Porter's model is now provided, by comparing the results found in each study group and as described in Chapter 6.

The perceived effects of EMU on buyers

As mentioned in previous chapters, some studies (Gill and Duncan, 2001) have suggested that EMU would bring more efficiency in the production of services and differences in the prices of services within the Euro zone. As a result, European consumers would be afforded the opportunity to compare and decide best value. This, in turn, would also stimulate tourism enterprises to innovate (Ratz and Hinek, 2005): which confirms the view of Porter (Porter 1990), in which he postulated that demanding buyers operating in a competitive environment force firms to meet high standards in terms of product quality, features, and service.

Based on the hotel stakeholders' answers, reported in Chapter 6 (subsection 6.3.1) and summarised in Table 8.3., it was evident that the respondents support these findings by confirming they thought that consumers became more informed about the prices and will find it easier to compare prices and decide best value. Nonetheless, the fact that potential changes in the 'power of buyers' could occur as result of changes in the number of customers, as suggested in the literature (Gill and Duncan, 2001) was not recognised by the majority of the respondents.

Table 8.3. Summary of the perceived effects of EMU on buyer power, based on the views of the three study groups

Perceived effects on the 'power of buyers' (<i>italic</i>) and the main reason presented for the perceived effect (normal text)	Industry Associations		National Authorities		Hotel Business	
	N	%	N	%	N	%
<i>Consumers well informed may have more power to negotiate</i>						
Easier to compare prices and decide what provide the best value	5	100	10	100	13	13
<i>Changes in the number of customers does not affect the customers ability to negotiate</i>						
Buyers' choices depend on other factors (e.g. hotels characteristics and services quality)	5	100	10	100	90	86
<i>Doubts about how to deal with the Euro may decrease costumers power to negotiate</i>						
Consumer less informed about the value of the Euro avoid to buy	-	-	-	-	1	1

Note: Multiple response

The results from this research also revealed that there were differences between the views of the study groups on the effects of EMU on the '*power of the buyer*', which refers to the bargaining ability of buyers (Porter, 1980). As shown in Table 8.3, for all national authorities and industry associations, EMU was thought to have increased the power of the buyers as a result of increased information, which is consistent with previous studies (Gill and Duncan, 2001; Ratz and Hinek, 2005). They also believed that an increase in the *power of the buyer* may influence the prices that hotels can charge, costs and investments, because 'powerful' buyers demand costly services (also found in Porter's text, even though he was not referring to the effects of EMU (Porter, 1990). In contrast, the majority of respondents (86%) from the business survey were not certain about these effects. They explained that the fact that people were looking for particular hotel characteristics, such as location or quality, would limit their wish to negotiate, limiting in this way the '*power of the buyer*'. Additionally, there was a business respondents who said that in the early months of the Euro launch people had doubts about the value of the Euro, suggesting that this could have affected peoples' behaviour, namely their expectation of being able to negotiate prices or on the option to not buy.

Given that previous studies (DGT, 2004) demonstrated that the tourists in Portugal are very sensitive to prices and, as mentioned above, tourists compare prices easily through the use of a single currency, one would expect that these issues would strengthen the power of buyer.

However, based on the views of business respondents, this expectation was not confirmed by all the hotel stakeholders.

The perceived effects of EMU on suppliers

The results have shown that the three study-groups had different beliefs about the effects of EMU on suppliers. As may be observed in Table 8.4, the national authorities were more confident about the positive effects of EMU on suppliers than the other two groups. As reported in Chapter 6 (subsection 6.3.2) these respondents thought that the new market conditions would push all enterprises to innovate and decrease prices. In fact, this optimism was not so obvious in answers of the representative of the industry associations or in the majority of business respondent answers which, in general, identified the effects of EMU on the hotel suppliers as nil.

Table 8.4. Summary of the effects of EMU on suppliers, based on the three study group' perceptions

Perceived effects on suppliers	Industry Associations		National Authorities		Hotel Business	
	N	%	N	%	N	%
There are positive effects	-	-	5	50	7	6
There are negative effects	-	-	-	-	2	3
There are no effects	5	100	-	-	95	91
Do not have a view	-	-	5	50	-	-
Total	5	100	10	100	104	100

Thus, from the national perspective, the results support previous research (Gill and Duncan, 2001) that found positive effects of EMU on suppliers through an increasing involvement in European operations and markets. But, from the industry and business perspective, the results contradict these previous assertions by identifying, for example, that there is no risk of an increase in the 'bargaining power' of suppliers because EMU has no effects on the domestic suppliers from whom the main hotels purchases are made (see chapter 6 sub-section 6.3.2 for details about the reasons for perceived effects). Hence, the opportunity of EMU to increase

the bargaining power of the hotel suppliers was not confirmed by the industry and business views.

The perceived effects of EMU on rivalry among existing competitors

Previous studies (James, 2001) have suggested that the competitive nature of the market in which businesses operate, was likely to be changed by the introduction of the Euro. Price competition and claims of enterprises innovating with a view to coping with new challenges being brought about by EMU were two of the most common reasons anticipated in the literature, as identified in Chapter 3 (subsection 3.4.4.).

The results from the national and the industry surveys support these findings. In fact, the majority of the respondents (7 out of 10 national authorities and 4 out of 5 industry associations) suggested that the hotels were stimulated to innovate as a consequence of transparency of prices after the introduction of the Euro and consumers being well informed and demanding. In addition, as referred to by seven of the national authorities (see Chapter 6 subsection 6.3.4.2 for details), EMU reduces the barriers to entry into the hotel sector and expands economic stability. This results in more enterprises in the same market, which in turn increases competitiveness.

Using the data reported in Chapter 6 (subsection 6.2.3) regarding to the views of business respondents on the effects of EMU in the hotel industry competitiveness, it became evident that these respondents had views about the rivalry among existing competitors that differed from the national and the industry views. As shown in Table 8.5, which aggregates into three variables the hotel stakeholders' views reported in Chapter 6 and Chapter 7 regarding the implications of EMU on rivalry among competitors, only 10 percent of the business respondents identified increasing rivalry between the existing competitors, while in the other two groups this proportion was much higher (70% in the national survey and 80% in the industry survey).

Table 8.5. Summary of the effects of EMU on rivalry among competitors based on the three study group perceptions

Effects in rivalry among competitors	Industry associations		National authorities		Hotel Business	
	N	%	N	%	N	%
There are effects	4	80	7	70	5	10
There are no effects	1	20	-	-	91	82
Do not know	-	-	3	30	8	8
Total	5	100	10	100	104	100

The perceived effects of EMU on new entrants

The results from this study revealed that the three study groups had different views in terms of the perceptions of the effects of EMU on ‘the entry of new competitors’ as result of the introduction of EMU. The respondents from the national authorities and the industry associations were surer of the possible effects on the entry of new competitors rather than the other two groups. Consistent with some views found in the literature (James, 2001), 8 of the 10 national authorities and 4 of the 5 the industry associations believed that the reduction of interest rates, together with the consolidation of the economic integration process (both strengthened by the introduction of EMU), would reduce barriers to entry into the hotel industry. As a result, the number of current and new investors would increase over the next few years, which they considered be a positive effect. By contrast, the findings from the majority of business respondents revealed that a large number of these respondents held the view that EMU had no effect on the number of new entrants into the hotel industry. In fact, the majority of the business respondents described the increase in the number of competitors as a trend resulting from a more and more global economy rather than as an effect of EMU at this level. Moreover, as reported in Chapter 5 (see, Chapter 5, sub-section 5.4.1.1.3, for detailed tables), they did not recognise that after EMU it was easier ‘to access to capital’ or that ‘capital became cheaper’, which were reasons proposed in the literature (e.g. Harris, 2001 and Barr et al., 2003) and within the other two surveys for explaining potential new entrants in the hotel industry (see, Chapter 6, sub-section 6.3.4., for detailed data).

In addition, when comparing the findings of the three surveys with the literature on the potential effects of EMU on mergers and acquisitions also mentioned in the literature as

reasons encouraging ‘new entrants’ (e.g. Deloitte and Touche Consulting, 1998; Marques, 1999 and Harris, 2001), the data shown in Table 8.6, which aggregates the views of each group (on the basis of data from Chapter 6 subsection 6.3.4) revealed that the business respondents also had different views.

Table 8.6. Summary of the findings of changes on merger and acquisitions, based on the three study group’ perceptions

Effects in mergers and acquisitions	Industry associations		National authorities		Hotel Business	
	N	%	N	%	N	%
There are effects	5	100	3	30	39	38
There are no effects	0	-	1	10	65	62
Do not have a view	0	-	6	60	0	-
Total	5	100	10	100	104	100

All the respondents from the industry associations recognised effects in mergers and acquisitions, while in the other surveys the proportion of the respondents with these views was less than 40 percent (38% in the business survey and 30% in the national survey). As shown in the above Table 8.6 a high proportion of respondents in the national survey (60%) did not have a view and the majority of the business respondents (62%) said that there were no effects.

The perceived effects of EMU on ‘potential substitutes’

In contrast with some of the literature (Mussweiller and Strack, 2004), the results from this study, described in Chapter 6, revealed that the majority of the respondents in each study group perceived limited or no effects of EMU on ‘potential substitutes’. They described the effects on potential substitutes essentially as a result of a conjugation of factors such as globalisation, technologies, EU enlargement, size and organisation yielding differences in the cost/quality dimensions or high levels of customer information. Therefore, they argued that the role of EMU was fairly limited. Even when given the view of 8 of the 10 respondents from

the national authorities, that EMU had consolidated the EU market and made travel easier, potentially increasing the number of ‘substitute products or services’, no significant effects were expected. In addition, as described in Chapter 6 (subsection 6.3.5), the majority of the respondents in the industry survey (4 out of 5) and in the business survey (74 out of 104) did not support the views, found in the literature and mentioned by two national respondents, that the end of exchange rate could and prices exposition could encourage shifts on demand side.

Finally, according to the majority of the respondents in each of the three study groups, the differences between the hotel service rates in the Euro zone, commonly cited in the literature (James, 2001) as a reason for an increase in ‘potential substitutes’, was not a problem for the hotels in the north of Portugal. According to these respondents, the relationship between hotel rates and the service quality offered by hotels implies that a greater clarification of prices would not have a great impact on the choices of services or products. In addition, as reported in Chapter 7 (subsection 7.3.3.5.3), 56 percent of the respondents from business survey believed that they offer lower rates within the Euro zone, which suggests that the potential effect of EMU on substitutes services/products as result of a higher exposition of prices is limited.

8.3.3. The implications on the operational environment

As demonstrated in the literature review (Chapters 2 and 3), since the first plans were announced of the establishment of a monetary union in Europe several studies, reports and many journal articles and books focused on the relationship between EMU and businesses. There is, however, a lack of information on the effects of EMU in the tourism field and very little research dealing with the impact of EMU on Portuguese tourism enterprises, as discussed in Chapters 2 and 3. With this literature base as the context, this study filled this gap by studying the perceived implications of EMU on the hotels in Portugal. Having discussed these implications at the national and industry context levels in which hotels operate, this section focuses on the results relating to the perceived impacts brought about by EMU at the

operational level. In doing so, the views of the hotel stakeholders on this question are identified and compared with previous studies and theoretical expectations.

A review of the literature (e.g. Bieger and Laesser, 1999; Lepecq, 1999; Piggot and Cook, 1999; Barbosa et al., 1999; Whyman, 2002; Rickards, 2003; DeGrauwe, 2005; Ratz and Hinek, 2005 and Baimbridge and Whyman, 2005) referred to a potentially strong relationship between EMU and businesses in general, suggesting that EMU was a source of constraints, threats and opportunities for European businesses. By studying the perceptions of the hotel stakeholders, this study confirmed that some of the impacts of EMU on businesses anticipated by the literature were understood by the hotel stakeholders as likely effects on hotels in particular, but others effects were not. Tables 8.7 and 8.8, present these results on the basis of the value chain model. The use of the value chain model (see Porter, 1985 for details) has demonstrated to be useful for organising information and knowledge in an effective way (see subsection 8.2.1.2, for a further review of the significance of the value chain when analysing the perceived implication of EMU).

Table 8.7. Hotel Value Chain under the context of EMU: Primary activities

Element	Activity	Effects of EMU (review of the literature)	The most common views in each study group
Primary activities	INBOUND LOGISTICS	Reception of goods and raw material	Not applicable
	OPERATIONS	Services offered Accommodation provided	The threat of new entrants and increasing rivalry will require that the enterprises to employ and improve their resources capability in operation activities (Gill and Ducan, 2001, Ratz and Hinek, 2005)
	OUTBOUND LOGISTICS	Housekeeping	Not applicable
	MARKETING AND SALES	Market research Pricing policy Promotion Distribution Sales	The Euro may affect factors such as market and competitors analysis, pricing points, price list, price-displays, bar codes, catalogues and advertising (Bywater, 1997) The Euro requires new marketing strategies (Europe become as a 'single product' requiring a rethinking of marketing plans) (Weber, 1998 and Bieger and Laesser 1999) The emerging macroeconomic environment must be taking into account marketing actions. The customers' information must become an important tool for the enterprises improve their sales (Marques, 1999).
	SERVICES	Installation After sales services Complaints	The additional sales would imply extra services requirements (Bieger and Laesser, 1999)

Table 8.8. Hotel Value Chain under the context of EMU: Secondary activities

	Element	Activity	Theoretical expectations	The study groups views (based on the most common views)
Support activities	PROCUREMENT	The function of purchasing inputs. Relationships with suppliers	New source of suppliers Shifts on the costs of inputs (Johnson and Turner, 2000)	Business survey: The relationship with suppliers did not change significantly ↔ <i>Limited or null effects</i> National authorities/industry associations: There is a positive relationship between EMU and suppliers. (e.g. new suppliers and shifts in the costs of inputs ↔ <i>Positive effects</i>
	HUMAN RESOURCES	Educational and training	Need of staff training namely in accounting, informatics and sales departments (Deloitte and Touche Consulting, 1998). Worker mobility Need of more qualified people	Business respondents: Staff training (46%) ↔ <i>Moderate effects</i> National authorities/industry associations: Worker mobility. Need of qualified people ↔ <i>Moderate effects</i>
	TECHNOLOGY DEVELOPMENT	Needs of the new software and hardware	The adaptation of software and hardware Information technology: billing, invoicing, accounting, management information and scanning systems must be changed. Chance to innovate (Weber, 1998).	Business respondents/ National authorities: Adaptation of the software and hardware (e.g. data files and programs, cash registers, computer keyboards, calculator buttons) ↔ <i>Moderate effects</i> Industry associations: The adaptation of the software and hardware. Innovation ↔ <i>Positive effects</i>
	INFRASTRUCTURE	Shifts on financial services Legal and contractual features Accounting changes Management Consulting	Changes on accounting and legal contracts. New opportunities in the financial department as result of a new macroeconomic environment Effects on foreign currency transactions. (Costa, 1999).	Business respondents: Changes on accounting and legal contracts. Simplicity. EMU did not affect investments. Effects on foreign currency transactions. ↔ <i>Moderate effects</i> National authorities/Industry associations: Changes on accounting and legal contracts. New opportunities to invest ↔ <i>Positive effects</i>

These tables (8.7 and 8.8) present an overall picture of the identified effects of EMU in each of the particular activities through which a firms develop competitive advantage, as proposed by Porter (1985). These tables also show that, in the view of the national authorities and the industry associations, EMU can positively impact the majority of these activities by making possible new configurations of the value chain (for example, by requiring changes in services,

human resources and marketing departments). This is consistent with previous studies (e.g. Deloitte and Touche Consulting, 1998, Ratz and Hinek, 2005). However, the findings from the business survey, described in chapter 7, and briefly summarised in Tables 8.7 and 8.8, showed that, in contrast, the majority of the business respondents thought that there were little or no effects of EMU on hotel activities. A discussion regarding of these differences is given below.

EMU and marketing and sales

In respect of the potential effects of EMU on hotel marketing and sales, the findings from this research show that a large proportion of the business respondents did not believe that EMU had significant effects on hotel marketing and sales activities, while the majority of the national authorities and the industry associations thought that EMU had positive effects on this. For example, the most common effects found in the literature (Weber, 1998), that the use of a common currency would help to promote business in the Euro market as it affords firms the opportunity to gain more visibility in Europe and the world, was not perceived by the hotel respondents. Only the national authorities and the industry associations identified this.

Moreover, the claims, often mentioned by supporters of EMU (Mussweiler and Strack, 2004), that greater macroeconomic stability and cheaper cross board border barriers (e.g. end of exchange currency costs) will raise consumers welfare and demand, were not perceptions supported by the hotel businesses stakeholders in considering hotel demand. For these respondents, on the basis of their sales, hotel demand had not changed as result of the introduction of EMU. They believed that tourist demand is more influenced by factors, such as customer needs, rather than by EMU or the Euro (see chapter 7, subsection 7.3.3. for an explanation). By contrast, the majority of the respondents from the national authorities and industry associations were optimistic about there being positive changes in the number of tourists, mainly from the Euro Zone. The results from the national authority survey showed that, in general, they believed that tourist flows would increase as a result of EMU and the Euro and, consequently, there would be a greater demand for accommodation provided by hotels in the North of Portugal.

A note should be made concerning the impact of EMU on hotel profits derived from currency exchange transactions. This is a topic that is hardly, if at all, mentioned in the literature, perhaps, because, in general, businesses benefit from the simplicity resulting from a single currency. However, as reported in Chapter 7 (subsection 7.4.2) the results from this research revealed that 5 percent of the business respondents mentioned that they lost the possibility to earn commission from the exchange desk at the hotel reception as a consequence of the single currency and this affected hotel profits. This suggests that, due the specificity of the hotel businesses, this may be important to consider when analysing the implication of EMU on sales and profits.

EMU and the suppliers of the hotel unit

As previously referred to in subsection 8.3.2, the majority of the business respondents did not agree that the single currency had improved the relationship between hotels (hotels in general and, in particular, their own hotel) and suppliers as a consequence of price transparency and the simplicity brought about by the Euro, as was identified by, for example, Marques (1999) and Gill and Duncan (2001).

In fact, 91 percent of the respondents mentioned that, on the basis of the example of their own hotel, EMU had not affected their relations with their suppliers and their purchasing plans (see Chapter 7 section 7.3.1. for details). This contradicts the majority of the views expressed in the national and industry responses, which identified a positive relationship between EMU and hotels suppliers. The general claims found in the theoretical expectations on EMU and businesses (Cunha, 2003) were, similarly contradicted by the business stakeholders' views.

EMU and technology

Previous studies (Pike and Barlow, 1998) suggested that EMU required changes in business technologies and has afforded businesses the opportunity to innovate as software and hardware are required. Nonetheless, these suggestions were poorly recognised by the hotel's

stakeholders. In all the cases, the majority of the respondents recognised, to a greater or lesser extent, changes in the software or even the hardware used by hotels, but only three of the industry associations identified that hotels will experience changes in technological capacity or innovation ability due to EMU and the Euro.

EMU and human resources

On basis of the hotel business responses, the results showed that the majority of the hotels did not experience impacts on their staffing as result of EMU nor did they believe that EMU had considerable implications in this respect. They did not confirm the need for training as result of the introduction of EMU, as expected in the literature (Trichet, 2004). In addition, and also in contrast with the literature, the majority of the business respondents did not perceive an increase in the free movement of labour. However, as explained in chapter 7 (subsection 7.3.5.), thirty-one percent of the hotels surveyed had training sessions for their staff. The results of this study also revealed that there were differences between the views of the hotel stakeholders. In fact, in contrast with the views of the business survey, all the national authorities and 3 of the 5 industry associations revealed that there were expected changes in labour mobility and staff training. In accord with claims found in literature (Trichet, 2004), the national authorities and industry respondents thought there was a need for additional qualified workers and trained staff to face the new external environment. As mentioned in Chapter 5 (subsection 5.4.1.3.), for these respondents, the enterprises in general, and hotels in particular, would be looking for more suitably qualified workers, encouraging labour mobility.

EMU and accounting, financial and investments issues

Changes in businesses investments (e.g. simplicity, macroeconomic environment and new business opportunities to invest), financial and accounting activities were often mentioned in the literature (Costa, 1999) as positive likely impacts occurring from EMU. The results of this study demonstrated, however, that these changes were less than expected by the literature. As shown in Chapter 7 (subsection 7.3.5.), the general views of the national authorities and the

industry associations agreed with the claims of literature in relation to the potential for new opportunities to invest and the need to adapt accounting contracts to the Euro. The findings from the business survey revealed that the practical changes resulting from need to adapt the accounting and financial department to the Euro were also recognised by the business respondents. However, in terms of investments, the data demonstrated that 80 percent of the hoteliers were not expecting changes in hotel investment. On basis of their own experience, the majority of these respondents indicated that EMU had little or no effect on their investments, because in their views the effects of EMU on their hotels were very limited (see chapter 7 subsection 7.3.7, for details).

In summing up the discussion on the findings resulting from the value chain analysis, two opposite questions emerged. Firstly, the business respondents, based on what happened in their hotels, suggested that the operational activities of hotels were much less affected by EMU than anticipated by the theoretical expectations of the national authorities, the industry associations or even in the literature. Secondly, on basis of previous studies (Whyman, 2002) many enterprises, for different reasons, are failing to appreciate the importance of the establishment of EMU.

Hence, it is hoped that this study will stimulate further research on this topic, by considering the differences found in this study.

8.4. CONCLUSION

In order to critically evaluate the whole study, this chapter has discussed the overall merit of the reported research, demonstrating the main reasons to consider this study as valid, credible and reliable. In doing so, the chapter evaluated the theoretical, methodological and analytical approaches of the research. As far as theoretical approaches is concerned, the choice of using business theories and models as a framework to investigate the stakeholder' perceptions of the effects of EMU on the hotels in the North of Portugal was evaluated. The contribution given by combining Porter's models together into an all-encompassing framework was also discussed. In terms of methodological approach, the chapter, using criteria such as the quality

and accuracy, evaluated the issues related to data collection. Finally, an evaluation of the analytical approaches adopted in this research was made. This included assessing the quantitative and content analysis.

This chapter has also evaluated the results described in Chapters 5, 6 and 7 by combining these findings with the review of the literature and also by exploring similarities and differences between the hotel’s stakeholders. A summary of the key similarities and differences is provided in the following tables (8.9 and 8.10).

Table 8.9. Summary of key similarities between the viewpoints of the three study groups

	National Authorities	Industry Associations	Hotel Business
Key similarities:	√ - most common view		
National business environment			
➤ Portugal’s participation in EMU is favourable	√	√	√
➤ EMU is a key force driving the business environment	√	√	√
➤ The most significant impacts arise from the potential consequences for the economies of the participating countries.	√	√	√
➤ EMU and SGP will bring better conditions for Portugal’s economy in the medium and long term	√	√	√
➤ EMU may improve Portugal’s infrastructures	√	√	-
Industry business environment			
➤ Tourism sector has become more competitive	√	√	-
➤ New opportunities and threats will arise for hotel industry	√	√	√
➤ There were no relevant changes in the organisation priorities	√	√	√
Operational business environment			
➤ EMU has a considerable impact upon the operational business environment	√	√	-
➤ Businesses had received support and significant information	√	√	√
➤ Some enterprises are not ready for the new challenges or increased competition	√	√	√

Table 8.10. Summary of key differences between the viewpoints of the three study groups

	National Authorities	Industry Associations	Hotel Business
Key differences:	√ - most common view		
National business environment			
➤ EMU has a considerable impact on national investment	√	√	-
➤ EMU has a considerable impact at a social level	√	√	-
➤ Perceived changes in cost of capital	√	√	-
➤ The effects of EMU on tourist flows	√	√	-
➤ EMU has a considerable impact on national competitiveness	√	√	-
Industry business environment			
➤ EMU has a considerable impact on customers	√	√	-
➤ EMU has a considerable impact on suppliers (suppliers become more competitive and innovative)	√	√	-
➤ EMU has a considerable impact on market structure	√	√	-
➤ EMU has a considerable impact on rivalry among competitors	√	√	-
Operational business environment			
➤ Need for new business strategies	√	√	-
➤ Perceived changes on hotel rates	√	√	-
➤ Impacts of EMU on promotional activities	√	√	-

From the evaluation of the research process and the discussion of the main results, it can be concluded that the main strengths of this research are: (i) the fact that the theoretical approach adopted innovated in attempting to approach and adopt theories and perspectives from business management and competitiveness domains within the field of economic integration; (ii) by combining three distinct Porter models together into an all-encompassing framework, this study confirmed that it would be possible to merge approaches into an integrated study procedure and to involve several macro and micro variables for analysing the implications of EMU into the different dimensions of business environment and (iii) the assurance of representativeness, commonly problematic in research projects, was not a problem at all in this research since the study aimed for a *census* of the hotels. There are, however, specific limitations in this research which should be addressed as a means for improvement or potential strategies for further study. They are presented in the next chapter, where overall conclusions regarding the results and their correspondence with the research questions presented in the methodological chapter are discussed.

9. CONCLUSIONS AND IMPLICATIONS

9.1. INTRODUCTION

The present research analysed and critically evaluated the perceptions of the hotel stakeholders towards the effects of European Monetary Union upon the business environment (external, competitive and operational) of hotels in the North of Portugal. For this purpose, a literature review on the economics of integration and of the business environment was undertaken (especially those related to EMU, competitiveness, national, industry and operational business environment) and presented in Chapters 2 and 3. Moreover, to investigate the hotel stakeholders' perceptions in the implications of EMU, to identify benefits and problems resulting from the introduction of EMU, as well as to provide solutions to reinforce positive outcomes and overcome obstacles, primary data were collected during 2002 and 2003 by interviewing hotel businesses, national authorities and industry associations. Chapter 4 presented a detailed discussion of the techniques and methods used for the collection and analysis of the data. Chapters 5, 6 and 7 reported the findings. The previous chapter (8) demonstrated the main reasons to consider this study as valid, credible and representative and discussed the main findings presented in chapters 5, 6 and 7 and compares them with previous research reported in the review of the literature (chapters 2 and 3). This chapter (9) provides the overall conclusions regarding the research objectives presented in Chapter 1. This chapter also addresses the main contributions to the body of knowledge arising from the research, both for theory and practice. The development taking place in the hotel business environment, since the primary data was collected, is also discussed and related to the implications for future

research. The chapter concludes with a brief reference to the recent changes on the Portuguese hotel's business environment and some final remarks regarding the research.

9.2. SUMMARY OF THE MAIN RESULTS

Based on the findings discussed in the previous chapters, a summary of the main results is presented here, by considering the four research objectives addressed by the study.

9.2.1. *Objective 1:* To introduce and review the theoretical underpinnings of regional economic integration with particular reference to the evolution of the European Union and the introduction of the European Monetary System

As reflected in Chapter 2, much has been written and discussed about European integration since the early post World War II period. During the 1950s the discussion of economic integration was focused on the explanations and concepts of economic integration and the potential effects of regional agreements, in particular of customs union, were a central theme running through most of the studies (e.g. Viner, 1950; Meade, 1955; Lipsey and Lancaster, 1957; Balassa, 1961). Later, the existing theories of economic integration and international trade were applied to different levels of integration and different areas of economic activity (such as agriculture, regional, social, among other) (e.g. Shibata, 1971; Corden, 1972; Grubel and Lloyd, 1975; Tovias, 1977). From the end of the 1980s onwards, monetary union and its future became a continuous source of forecasts and speculations with the objective being to identify the gains and losses brought about by EMU (e.g. Horvath and Luboš, 2002; Mongelli, 2002 and DeGrauwe, 2005).

For tourism, European Monetary Union and its related currency has been considered by several authors (e.g. WTO, 1998a; Marques, 1999; Ratz and Puczko, 1999, Ratz and Hinek, 2005) as one of the most important contributions to the development of the tourism sector in Europe. For these authors, opportunities were expected in the tourism business environment,

and were expected to be created by such factors as competitive advantage and a stable macroeconomic environment. The main opportunities identified were: (i) easier and cheaper cross-border transactions and operation, (ii) reduced or eliminated market access barriers; (iii) price transparency; and, (iv) more efficient and integrated capital markets and increased competition. On the other hand, the literature also suggested that to exploit these opportunities there was a need for business preparation that required pro-active actions, high levels of information and the perception of the managers that there was a need for change.

Nonetheless, despite the literature revealing that some authors had suggested a clear relationship between EMU and tourism, only a few studies focussing on tourism and economic and monetary union have been published up to now. In addition, most of the outputs of the available studies focused on expectations and possible scenarios built by the authors and not on the views of the key people involved in the tourism business environment, as this study did.

Moreover, when applied to the effects of EMU on SMTEs in Portugal, the major findings and conclusions of a survey of the literature confirmed that this theme has not been subject to much investigation prior to or since the launch of the Euro in 2002, despite the importance that the sector has in the Portuguese economy. In fact, the limited literature available on the theme was published before the introduction of the Euro (for example, APVT, 1997; Deloitte and Touche Consulting, 1998; Torres, 1998; Costa, 1999) and was, in great part, based on expectations and assumptions or related to the practical issues relating to the changeover period of 1999-2002, with the main aim of informing entrepreneurs of the main operational.

Hence, overall, meeting this objective contributed not just to demonstrating that the business dimension was largely missing in existing literature on economic integration, which mainly used theories from international trade to study the implications of economic integration, but also that little was known regarding the implications of EMU in the tourism context in general and in the hotel industry business environment, in particular.

Thus, this research provides an important contribution to the understanding of the implications of economic integration for participating countries and their businesses since it

introduced a new path for the study of the implications of EMU by introducing business and strategic theories as the basis for studying the implications of EMU on the hotel sector, rather than restricting its area of investigation to economic integration and trade theories. This research is also the first attempt to investigate various aspects of the implications of EMU upon hotels in the north of Portugal as perceived by three distinct groups, which may be adapted to other regions or sectors.

9.2.2. Objective 2: To develop a conceptual framework for researching the implications of EMU at the three main levels of the business environment (national, industry and operational level) and, consequently, on business competitiveness

This study adopted and adapted the Porter's models (Diamond, Five Forces and Value Chain) as the basis for studying the perceived implications of EMU upon the hotel industry. In spite of these models having been developed for the manufacturing sector, this study revealed that they provided a suitable theoretical framework for studying the implications of EMU in the services sector, which can be regarded as an innovative practice. Since these models proved to be sufficiently versatile (regarding the context of study) and may be adjusted to new contexts and variables (for example, within this study, it was found that it would be beneficial to include *the supranational power of the EU* as a new variable to the Diamond model), they can be used as a departure point from which researchers can develop future studies.

Furthermore, by putting forward a conceptual framework that combines the three distinct levels of the business environment (national, industry and operational) and those variables involved at each level (see Chapter 4 for details), this research provides a richer perspective on the implications of EMU that had not been provided before. As result, some relevant conclusions emerged.

One of the main conclusions the study reached through the conceptual framework used was that, as expected, EMU has significantly changed the business environment. The adaptation of the Diamond, Five Forces and Value Chain models to study the perceived implications of EMU revealed that, according to the hotel stakeholders, EMU not only changed the business

environment at a national level, but also changed the competitive and operational environment of the hotels. However, the results of the empirical case study (hotels in the North of Portugal) did not confirm all the specific changes expected, as shown in the previous Chapter (see, Table 8.8, for details). The effect expected in literature was greater than the effect observed by the hotel stakeholders and, in particular, by the business respondents. Interestingly, as chapters 5, 6 and 7 indicated the number and degree of difference decreased when the business respondents referred to their perceptions of the implications of EMU on businesses in general rather than their own business.

It was also found that the effects of EMU at the corporate level were either underestimated by business respondents or overestimated by the literature, as some divergence was found between them. As reflected in Chapter 7, the majority of the business respondents in the North of Portugal, although recognising that EMU had changed the business environment, perceived that the implication of EMU on their own hotels was relatively limited, because according to their perceptions only a limited number of measures were required and most of them were routine in nature. By contrast, the majority of the literature, supported by the general views of the national authorities and the industry associations, estimated significant changes at the operational level of tourism businesses. For instance, expected impacts on the hotel competitive position, sales, investments, strategies and human resources found in the literature and also on the views of the national authorities and the industry associations were not commonly found among the answers obtained from the business survey. One of the main explanations found for these divergences may be related to EMU being an ongoing process that will take many years to fully complete. Consequently, the subsequent analysis and assessment on the effects should be taken as a study “in progress” as it is based on the evidence to date.

9.2.3. Objective 3: To analyse and compare the perceptions on the implications of EMU on the external, competitive and operational environment of the hotels operating in the North of Portugal, using the tourism stakeholders: business people; people from the industry associations; people from the national authorities

In the tourism area, this study offered a three-dimensional perspective by using the views of distinct stakeholders of the hotel business industry: the national authorities, the industry associations and the hoteliers from the north of Portugal. The role that each stakeholder plays at each of the distinct levels of the business environment was the main criteria for involving these groups. It was assumed that each stakeholder (defined in this study as an individual group or organisation that has an impact on, or is impacted by, the hotel business environment) would evaluate the implications of EMU using its own background (e.g. field of work and context) and that the perceptions of the various stakeholders might differ as well since they may be affected by EMU in different ways. For example, the business respondents, who are directly involved in the operational activities of hotels, might have distinct views from the national authorities that develop policy and planning and make decisions at the national level for the future development and public good and from the industry associations that are directly involved at the industry level. Therefore, the inclusion of these three study groups in the research, beyond permitting a multi-perspective of the implications of EMU, also permitted the differences and similarities between the three viewpoints to be compared with the literature. Each of these perspectives emphasises certain aspects that may be relevant for evaluating the implications resulting from EMU.

The evident conclusion achieved from this study was that the three study groups had relatively different hopes and fears concerning EMU (see Chapter 8, Tables 8.9 and 8.10 for details). In fact, as shown in the previous three chapters, hotelier respondents as a group revealed the greatest indifference and the group of the national authorities was the most frequently positive in regards to the outcomes of EMU, at the national, competitive and operational levels. The impact of EMU on the business environment was, nonetheless, recognised by the three study groups as, in general, showing positive perceptions toward future changes in Portugal's macro environment indicators and hotel competitiveness.

As explained through chapters 5 to 8, the perspectives of the three study groups varied according to the topics in question. It was evident that the study groups shared similar views regarding EMU as a key force driving the business environment, but the type or intensity of the effects varied. For instance, while among the national authorities and the industry associations were unanimous that enterprises needed new business strategies, within the hotelier responses this was not the most common view. Moreover, from the data it was also evident that the views of the national authorities and the industry associations differed from the views of the hotel businesses for some of the topics. For instance, while the national authorities and the industry associations recognised considerable impacts on competition and operational activities, the hotel businesses thought that these effects were limited in their hotels. Differences in the views regarding the implications of EMU on topics such as cost of capital, tourist flows and changes, increasing of national investments, hotel relationships with suppliers, business strategies, and operational activities were also found. In particular, the views from the business respondents differed from the views from the national authorities and industry associations respondents, who in general were expecting much more effects than business respondents. These findings have important implications for practice, which are addressed later in this chapter (section 9.3.1).

9.2.4. Objective 4: To understand how EMU affects the decision-making or strategies of tourism stakeholders

As mentioned above, in terms of the hotel businesses the empirical findings presented in Chapters 5, 6 and 7 showed that the majority of hoteliers perceived EMU to have effects at each of the three levels of the business environment: the national, competitive and operational environment. But, when the hoteliers were referring to the business environment of their own hotel, the study concluded that the impact of EMU was perceived with less frequency by the respondents, as was evidenced in Chapter 7. For example, while 50 percent of the hotelier respondents believed that EMU had affected the competitive position of the hotel industry requiring proactive actions, only 24 percent of them said that the competitive position

of his/her hotel had changed. Moreover, for most hotelier respondents, despite of their mainly positive views about the effects of EMU upon the national and competitive business environment, the introduction of EMU and the adoption of the Euro did not cause serious changes at the corporate and strategic level for their hotel and most of the changes at the operational level were routine changes in systems. As a result, they recognised that they had done little to prepare for the changes brought about by EMU and the Euro, tending to be reactive or indifferent. Reasons such as *'small size enterprise'*, *'key characteristics of the hotel'* and *'others priorities'* were the most cited explanations by the hotelier respondents for the limited effects of EMU on their hotels and their reactions. However, the study also concluded that some hotels (14% of total) were looking to take advantage of the European integration process and tended to be taking a more proactive approach to their strategies or plans to face increased competition after the launch of EMU. For them, ensuring service quality and variety became more and more important for the business's development. In summary, the hoteliers perceived changes brought about by EMU but, in the majority of the hotels, decision-making or strategies were not affected significantly.

In respect of the implications of EMU on the decision-making or strategies of the national authorities, the data from the national survey revealed that, even though all of the respondents from national authorities recognised that the implementation of EMU transferred decisions made from the national to the EU level, due to factors such as the Single Monetary Policy, they considered that the activities and priorities of the authority they represented did not need to change. Only four out of ten respondents indicated that their activities and priorities changed because of the participation of Portugal in EMU, explaining essentially that the convergence criteria required by the Maastricht Treaty pushed the Euro countries to reduce expenses and, consequently, the budget of the public institutions became more limited, affecting their actions in this way.

A similar conclusion was found among the industry associations since, according the views presented in chapters 5, 6 and 7, they recognised several implications of EMU but, as they mentioned, their strategies and decisions-makings did not change.

Based on these findings, this research demonstrated that contrary to the literature expectations, EMU seemed to have little influence on the hotel stakeholder's decision-making despite EMU having been recognised as a key force in the hotel business environment.

9.3. IMPLICATIONS

As earlier discussed, the investigation of the hotel stakeholder' perceptions of the effects of European Monetary Union on the hotels in the North of Portugal has contributed to a better understanding of the implications of EMU through three main theoretical contributions: *First*, the study provided and compared the perspectives of three groups of stakeholders on the implications of EMU: the national authorities, the industry associations and the hoteliers. *Second*, the study adopted and adapted concepts and relevant models from business, competitiveness and strategy theories to examine the perceived effects of EMU on the business environment. *Third*, the study offers original data on the stakeholders' perceptions of the effects of EMU on tourism and brings the discussion down a micro economic level by considering these effects on the hotels in the North of Portugal. The practical implications, which also address the research aim, are now discussed.

9.3.1. Implications for practice

From a practical perspective, the results produced by this study made available research findings with a view to help Portuguese tourism stakeholders (policy-makers, key managers and industry associations) to explore opportunities and avoid possible limitations and barriers brought about by EMU.

Table 9.1 offers a summary of the actions and suggestions proposed by the hotel' stakeholders and discussed in Chapters 5 to 8.

Table 9.1. Summary of the main actions and suggestions to explore opportunities and overcome barriers brought about by EMU

Towards national authorities	Proposed by business respondents	Proposed by industry respondents
	<ul style="list-style-type: none"> • To make the requirements of the SGP more flexible in order to avoid major changes in public investment • To end bureaucracies (e.g. the use of cheques in the Euro zone), since they contradicted the advantage of using a single currency • To adjust tax policies, namely VAT, to be similar to tax in the other Euro countries • To provide better infrastructures, facilities and services in order to attract more tourists to Portugal • There is a need for national policies and support • To adopt a powerful tourism national policy 	<ul style="list-style-type: none"> • To adopt structural reforms in order to improve the productivity of qualified workers and make flexible the labour market • To avoid unnecessary public expenses • To see the Euro as an important instrument which is national economics and business of participating countries
Towards industry associations	Proposed by business respondents	Proposed by national respondents
	<ul style="list-style-type: none"> • To provide more information on the implications of EMU • To continue supporting hotel business 	<ul style="list-style-type: none"> • To encourage the re-organisation of the industry which is highly characterised by fragmentation • To explore the great diversity of tourist resources in the North of Portugal under a new macro environment • To continue to be conscious of the need to change in order to respond to the new challenges • To encourage partnerships, cooperation and associations between tourism enterprises • To support promotional activities of the region
Towards hotel businesses	Proposed by national respondents	Proposed by industry respondents
	<ul style="list-style-type: none"> • To be innovative and creative, adopting proactive measures • To increase productivity • To build new strategies, such as those which link the potential of the North of Portugal to the new macro environment or create partnership with other tourism business • To view EMU as a tool and not as an opportunity <i>per se</i>, because the opportunities are not expected to be realised by default or without a major effort on behalf of the enterprises • To offer new and higher quality services to a more and more demanding market 	<ul style="list-style-type: none"> • To create alliances or partnerships • To guarantee quality of services/products (instead of low prices), innovation, skilled workforce and management. • To increase productivity • To be rigorous and efficient in the attempt to increase the competitiveness of the industry, in a market that is becoming more competitive • To develop strategies • To stop to 'thinking individually' • To act in a proactive way • To be attentive to changes in the business environment and be ready to operate in a changing environment • The operational costs required by EMU should be used to improve the information system and the image of the hotel

In summary, on the basis of the main findings discussed in chapters 5, 6, 7 and 8, which included the views of the entire population of hotels in the North, National authorities and Industry associations), this research has demonstrated that EMU is a key factor influencing the three different levels of the hotel business environment even though that is not always perceived by all the stakeholders. Therefore, this study concluded by warning businesses that

preparation and actions for a more competitive environment is needed. Appropriate tax and national policies are a necessary, but not, a sufficient condition for the success of businesses. It is very important that enterprises react to the opportunities available to them in order to secure maximum benefits, and minimise potential costs, from the process. There is a need for entrepreneurs to have vision, to identify substantive opportunities, and to develop the right business plans or strategies that fit with the new business environment brought about by EMU, even if the enterprises are small and medium size. A failure to make the right selections may endanger their position in the market and increase their fragility, given the fact that the establishment of EMU will bring more intense competition and further pressure on hotels' profitability.

9.4. RECENT DEVELOPMENTS

Given that EMU is part of an ongoing process of economic integration that will take years to fully complete, and because several years have passed since the primary data were collected, this sub-section describes the recent changes on the Portuguese hotel's business environment and possible implications on new studies on the field of this research.

(i) Recent data provided by the EC (2005a, 2006) regarding the implications of EMU indicates that since 2003 there has been less volatility in market variables, such as interest rates and exchange rates, and there is some evidence that an economic recovery in the Euro area is well underway. This may suggest that, nowadays, the hotels stakeholders, and in particular the hotel businesses may have different views on the implications of EMU on the hotel business environment. In addition, several years after the introduction of EMU there were more opportunities to perceive the implications brought about by EMU.

(ii) With a view to the reorganisation of the tourism sector, the Portuguese government is undertaking a process of internal reform of the Portuguese public administration. As a result, a new Organisation Law of the Ministry of the Economy and Innovation and a legal framework was approved. *Turismo de Portugal* became the national public service for the Tourism sector. It results from a partial merger of the National Tourist Training Institute (INFTUR);

Directorate-General for Tourism (DGT) and General Inspectorate on Gaming (IGJ), with the restructured Portuguese Tourism Institute (ITP) (*Decreto-Lei n°141/2007*, April, 27). The implications of this reorganisation of the tourism sector on the perceived analysis of the implications of EMU is essentially in terms of the kind of national authorities that need to be involved. For instance, since authorities as such DGT or INFTUR are now part of the Portuguese Tourism Institute, this will reduce the number of authorities to be surveyed. Meanwhile, API was also merged with ICEP (in 1st of July, 2007), resulting a new institution (AICEP) that became responsible for the promotion of global Portuguese trademark, services the attraction of structuring investment, as well as of the Portuguese direct investment promotion.

(iii) According to data published by INE (2006) the number of the Portuguese hotels has been increasing considerably. In the North of Portugal there is evidence that there the number of hotels has increased 6 percent between 2003 and 2005, the majority of these being new 4 and 5 stars hotels. The inclusion of these hotels in future studies may either confirm or alter the resulting analytical review although it is unlikely that a 6% increase in the population will, of itself, lead to major differences in the collective perception of the industry. It is argued that it is more likely that exposure to the EMU environment for a longer period of time will be mirrored in the collective response of the industry.

9.5. LIMITATIONS AND FURTHER RESEARCH

Though the approach taken in gathering the data was as comprehensive as was feasible at the time, there are two shortcomings that need to be addressed when considering the study and future research. First, this study focused on a phenomenon that is a very extensive and major, i.e. EMU. This represents a challenging task for research regardless of the more specific interests that the study may have. In this study, this extensive and complex phenomenon has been studied from a rather narrow perspective. The selection of the single case study - the implications on the hotels in the North of Portugal - naturally brings some limitations as far as the generalisation of the results of the study is concerned. Second, the main limitation of the

study concerns the available data, in the sense that primary data were collected in 2002 and to 2003 and, with EMU as an ongoing process the business environment has moved on to a new phase in its development. In addition, as already mentioned, according to the data published by INE (2006) the number of the Portuguese hotels and those located in the North, have increased by 6 percent over the last three years.

Hence, based on the results and the limitations of this research, there are some main areas that can be explored by both academics and practitioners in the future. They can be summarised as follows:

- A similar study could be initiated looking at hotels within different countries within the Euro zone. It would be interesting to compare within these countries the attitudes towards the implications of EMU;
- A similar study could also be undertaken within countries outside Europe, which have a high level of international relations with the Euro zone to determine the business thinking there;
- The study could be extended within the Portugal both by increasing the sample size and/or by sampling in other regions for example Lisbon area or Madeira or the Algarve. Equally a study could investigate differences between hotels focussing on the business market compared to those dealing with the international leisure market thereby enriching our understanding of Portugal's hotel sector;
- The study would be enriched if it could be replicated, exploring similarities and divergences in the primary data, in the sense of understanding how respondent' perspectives changed over time;
- In addition to the points stated above, the research is restricted to hotels, while it could/should equally be applied to other enterprises operating in the tourism sector of Portugal's economy.

9.6. CONCLUDING REMARKS

Recognising the significance of the introduction of EMU for the tourism business environment, this study offers original information in a field which, at the time this research began, was not investigated by previous research and remains still poorly documented. In fact, this study is one of the few in the field of tourism, specifically, designed to understand the perceptions of EMU by the main stakeholders of the hotel industry. Hence, it is hoped that the presented study contributes towards understanding the effects of EMU on the tourism sector and in particular in the hotel industry and, at the same time, encourages further work in this field.

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Appendix 1: Data collection documents

A 1.1. National Survey

National and Regional Public Authorities – Interview

Part I. The Authority information

1. Name of the authority: _____
2. Location: _____
3. Main activities: _____
4. What is the Authority main focus relating to Tourism, if any?

Part II. The implications of EMU upon Portuguese Economy: general perspectives

5. What is the current view of Authority about the Portuguese participation in Economic and Monetary Union?
6. According to the viewpoint of your Authority, what are the two main *advantages* the Portuguese economy may expect from Economic and Monetary Union?
Why? (each advantage)
When does your Authority think that those advantages will occur?
What are their implications for business environment in which firms are operating?
7. What does your Authority consider to be the two main *disadvantages* of Portugal joining EMU?
Why? (each disadvantage)
When does your Authority think that those disadvantages will occur?
What are the implications of those disadvantages to Portuguese economy?
When does your Authority think those disadvantages will be overcome? Why or why not?
8. According to your Authority's viewpoint, what is the main implication for the Portuguese economy of European Central Bank sets the interest rates?
Does your Authority think that this an advantage to Portuguese economy? Why?
Is your Authority trying to take advantages of it? How?
Does your Authority think that this a disadvantage to Portuguese economy? Why?
Is your Authority worried about it? Why?
Is your Authority trying to do something about it? How?
9. According to your Authority's viewpoint, what is the main implication for the Portuguese economy of Growth and Stability Pact?
Does your Authority think that this an advantage to Portuguese economy? Why?
Is your Authority trying to take advantages of it? How?
Does your Authority think that this a disadvantage to Portuguese economy? Why?
Is your Authority worried about it? Why?
Is your Authority trying to do something about it? How?
10. Does your Institution think Euro will strengthen over next three years?
If yes, what will be the effect of the Euro on Portuguese economy?
Is your Authority trying to take advantages of it? How?
If no, does your Institution think Euro will weaken in the next three years?
Does your Institution think Euro will stay where it is?
Is your Authority trying to do something about it? How?

Part III. The implications of EMU at operational level of the Authority

11. **Taking into account EMU introduction and consolidation, is EMU having an impact on the way in which your institution operates?**
If yes, how and why?
If not why not?
12. **How EMU may influence your priorities over next three years?**
If yes, why?
If not why not?

Part IV. The implications of EMU upon *Portuguese tourism sector*

13. **According to your Authority, does EMU affect the competitive position of Portugal as tourism destination?**
If 'yes', please explain how and why?
If 'no', why not?
14. **Does your Authority consider that the loss of ability to vary the value of Portuguese currency causes a problem for Tourism sector competitiveness?**
If 'yes', please explain how and why?
If 'no', why not?
15. **Does your Authority consider that Portuguese Tourism policies should be changed as result of the introduction of EMU?**
If 'yes', please explain how and why?
Does your Authority think that those changes will occur? When? Why not?
If 'no', why not?
16. **Has the implementation of EMU altered your policy regarding to tourism sector, if any?**
If 'yes', please explain how and why and when?
If 'no', why not?
17. **Is your Authority expecting from introduction of EMU to bring about changes in Tourism Infrastructures, such as accessibility, airports and services suppliers over next three years?**
If 'yes', please explain how where and why?
What are the implications of this on Tourism Sector development?
If 'no', why not?
18. **Does your Authority believe that EMU may have influence upon the vitality of the Portuguese Tourism Industry over next three years?**
If 'yes', please explain how and why?
What are the implications of this on Tourism Sector development?
If 'no', why not?
19. **According to your Authority does EMU have implications for the demand for holiday by Portuguese residents in Portugal?**
If 'yes', how and why?
If 'no', why not?
20. **What is your Authority's expectation of the effect of EMU upon the number of tourists from other countries of the Euro zone?**
Why?
21. **What is your Authority's expectation of the effect of EMU upon the number of tourists from non-Euro zone countries of the Euro zone?**
Why?

Part V. The implications of EMU at *Hotel sector level*

22. Does EMU open up opportunities to the Hotel sector?

How and what are they?

If no, why not?

23. Does EMU present threats to Hotel sector?

How and what are they?

If no, why not?

24. From your Authority's point of view: Does EMU mean an increase in the level of the competition for the Portuguese Hotel sector?

Why?

Who? Due national or international competitors?

When?

25. Does your Authority consider that EMU is more likely to increase the number of mergers and acquisitions in the Portuguese Hotel sector over next three years?

If yes, why?

How may this affect the future of Portuguese Hotel sector?

If not, why not?

26. Does your Authority think that EMU might increase the number of new investors in the Hotel sector over next three years?

If yes, by whom and why?

If not, why not?

27. Does your Authority consider that EMU will bring about more investments in existing Hotels?

If yes, Which types of investment? Why?

If not, why not?

28. Some people considered that the Euro would result in price transparency in Euro zone. Please tell me whether your Authority agrees or disagrees that this is true for Hotel sector?

If agree, what does your Authority think this means for demand for Hotel Accommodation in Portugal? Why?

If not, why not?

29. In general, does your Authority consider that the introduction of the Euro has affected the prices of the products or services offered by the Hotel sector in Portugal?

Why?

What are the implications of this on demand for Hotel Accommodation? Why?

30. Does your Authority consider that EMU has changed the relationship between hotels and their suppliers?

If yes, how and why? Does your Authority think that the price transparency will affect it?

If not, why not?

31. Taking into consideration the implications of EMU on Hotel sector, would you say that are there differences between the implications for hotels based in the North of Portugal and the hotels based in other areas of Portugal?

Why?

32. Has the implementation of EMU altered your policy regarding to Hotel sector, if any?

If 'yes', please explain how and why and when?

If 'no', is there any reason why your Authority doesn't have?

Part VI. The implications of EMU at *Hotel business level*

33. Has EMU brought about changes in market conditions for hotel business operation in North of Portugal?

If yes, what changes?

If no, why not?

34. From the Authority's point of view, are Hotels in the North of Portugal able to face those changes?

If yes, why and how?

What are the main forces that they might have due EMU introduction?

If no, why not?

What main difficulties they might have due EMU introduction?

35. What kind of support, if any, did you give to Hotel managers in North of Portugal to help improve their business performance under EMU context?

In which of the following areas:

Information/documentation	Physique infrastructures	Account support	Legal support
Commercial support	Training support	IT support	Other

36. What is the Authority's point of view of the overall effects of the single currency on the development and expansion of hotel businesses in the North of Portugal?

Why?

Part VII. The respondent

37. Name and position: _____
38. Main responsibilities in organisation: _____
39. How long have you worked in this Authority? _____ Months/years
40. Please add any comment you would like to make.

Appendix 1: Data collection documents

A 1.2. Industry Survey

Industry Associations

Name of the Association:	_____		
Location:	_____		
Type of association:			
<input type="checkbox"/> Private	<input type="checkbox"/> Public	<input type="checkbox"/> Mix	
<input type="checkbox"/> Local	<input type="checkbox"/> Regional	<input type="checkbox"/> National	<input type="checkbox"/> International
Number of workers:	_____		

Part I. The Association information

1. What are the main activities of the Association related to Tourism sector?
2. How much of your work is connected to Hotel sector?
3. How many associated Hotels from the North of Portugal does your Association have?

Part II. The implications of EMU upon Portuguese Economy: general perspectives

4. What is the current view of Association about the Portuguese participation in Economic and Monetary Union?
5. According to the viewpoint of your Association, what are the two main *advantages* the Portuguese economy may expect from Economic and Monetary Union?
Why? (each advantage)
When does your Association think that those advantages will occur?
What are their implications for business environment in which firms are operating?
6. What does your Association consider to be the two main *disadvantages* of Portugal joining EMU?
Why? (each disadvantage)
When does your Association think that those disadvantages will occur?
What are the implications of those disadvantages to Portuguese economy?
When does your Association think those disadvantages will be overcome? Why or why not?

Part III. The implications of EMU upon Portuguese tourism sector

7. According to your Association, does EMU affect the competitive position of Portugal as tourism destination?
If 'yes', please explain how and why?
If 'no', why not?
8. Does your Association consider that the loss of ability to vary the value of Portuguese currency cause a problem for Tourism sector competitiveness?
If 'yes', please explain how and why?
If 'no', why not?
9. Does your Authority consider that Portuguese Tourism policies should be changed as result of the introduction of EMU?

If 'yes', please explain how and why?

Does your Authority think that those changes will occur? When? Why not?

If 'no', why not?

10. **Is your Authority expecting from introduction of EMU to bring about changes in Tourism Infrastructures, such as accessibility, airports and services suppliers over next three years?**

If 'yes', please explain how where and why?

What are the implications of this for Tourism Sector development?

If 'no', why not?

11. **Does your Authority believe that EMU may have influence upon the vitality of the Portuguese Tourism Industry over next three years?**

If 'yes', please explain how and why?

What are the implications of this on Tourism Sector development?

If 'no', why not?

12. **According to your Authority does EMU have implications for the demand for holiday by Portuguese residents in Portugal?**

If 'yes', how and why?

If 'no', why not?

13. **What is your Authority's expectation of the effect of EMU upon the number of tourists from other countries of the Euro zone?**

Why?

14. **What is your Authority's expectation of the effect of EMU upon the number of tourists from non-Euro zone countries of the Euro zone?**

Why?

Part IV. The implications of EMU at *Hotel sector level*

15. **Does EMU open up opportunities to the Hotel sector?**

How and what are they?

If no, why not?

16. **Does EMU present threats to Hotel sector?**

How and what are they?

If no, why not?

17. **From your Authority's point of view: Does EMU mean an increase in the level of the competition for Portuguese the Hotel sector?**

Why?

Who? Due national or international competitors?

When?

18. **Does your Authority consider that EMU is more likely to increase the number of mergers and acquisitions in the Portuguese Hotel sector over next three years?**

If yes, why?

How may this affect the future of Portuguese Hotel sector?

If not, why not?

19. **Does your Authority think that EMU might increase the number of new investors in the Hotel sector over next three years?**

If yes, by whom and why?

If not, why not?

20. **Does your Authority consider that EMU will bring about more investments in existing Hotels?**

If yes, which types of investment? Why?

If not, why not?

21. **Some people considered that the Euro would result in price transparency in Euro zone. Please tell me whether your Authority agrees or disagrees that this is true for Hotel sector?**

Why?

What does your Authority think this means for demand for Hotel Accommodation in Portugal? Why?

If not, why not?

22. **In general, does your Authority consider that the introduction of the Euro has affected the prices of the products or services offered by the Hotel sector in Portugal?**

Why?

What are the implications of this on demand for Hotel Accommodation? Why?

23. **Does your Authority consider that EMU has changed the relationship between hotels and their suppliers?**

If yes, how and why? Does your Authority think that the price transparency will affect it?

If not, why not?

24. **Taking into consideration the implications of EMU on Hotel sector, would you say that are there differences between the implications for hotels based in the North of Portugal and the hotels based in other areas of Portugal?**

Why?

25. **Has the implementation of EMU altered your policy regarding to Hotel sector, if any?**

If 'yes', please explain how and why and when?

If 'no', is there any reason why your Authority doesn't have?

Part V. The implications of EMU at *Hotel business level*

26. **Has EMU brought about changes in market conditions for hotel business operation in North of Portugal?**

If yes, what changes?

If no, why not?

27. **From the Authority's point of view, are Hotels in the North of Portugal able to face those changes?**

If yes, Why and how?

What are the main forces that they might have due EMU introduction?

If no, why not?

What main difficulties they might have due EMU introduction?

28. **What kind of support, if any, did you give to Hotel managers in the North of Portugal to help improve their business performance under EMU context?**

In which of the following areas:

Information/documentation	Physique infrastructures	Account support	Legal support
Commercial support	Training support	IT support	Other

29. **What is the Association's point of view of the overall effects of the single currency on the development and expansion of hotel businesses in the North of Portugal?**

Why?

30. **What is the Authority's point of view of the overall effects of the single currency on the development and expansion of hotel businesses in the North of Portugal?**

Why?

31. **What does your Authority believe will be the implications of the interest rates set by Central Bank on their business development?**

Why?

If no, why not?

32. **Does your Authority think that the development of hotel businesses will be affected by current and future national policies approved to fulfil EMU consolidation and Stability Pact?**

If yes, how?

If no, why not?

According to your Authority, is the recent increase of the Fiscal Tax in Portugal a consequence of EMU introduction?

Does your Authority consider that the recent change on fiscal policy affect the hotel's businesses?
How?

Part VI. The implications of EMU at operational level of the Association

33. **Is EMU having an impact on the way in which your institution operates?**

34. **Have you assessed Euro implications on Hotels?**

If so, how and when?

If no, why not?

35. **Has the implementation of EMU altered the way you deal with the Hotel sector?**

If so, how and why?

And, what does your Association think will be the implications of those in Hotel business?

If not, is there any reason why your Association doesn't have?

36. **In a general sense, what are the priorities of your institution until 2005 (inclusive) which are influenced by EMU implications?**

Part VII. The respondent

37. **Name and position:** _____

38. **Main responsibilities in organisation:** _____

39. **How long have you worked in this Association?** _____ Months/years

40. **Please add any comment you would like to make.**

Thank you very much for your time and co-operation!

Appendix 1: Data collection documents

A. 1.3. Business questionnaire

Questionnaire

Under a research study the Bournemouth University is assessing the opinion of the Portuguese entrepreneurs about the implications of Economic and Monetary Union¹ (EMU) and, namely the Euro upon the competitiveness of the hotel enterprises in the North of Portugal.

It intends to contribute, in a pragmatic way, to the competitiveness, modernisation and expansion of the Portuguese enterprises, which are operating in a new context brought about by the adoption of the Single Currency.

The purpose of this questionnaire is to understand your viewpoint of the implications of EMU/euro and to consider these implications on your own hotel establishment.

We would be grateful for your assistance in completing this questionnaire.

All the information you provided will be treated as strictly confidential and is to be used for research purposes.

Part I. The Hotel information

1. **Name of the hotel establishment:** _____

2. **Location:**
 - 2.1. a) Porto b) Minho c) Trás-os- Montes d) Douro
 - 2.2. a) Litoral b) Interior

3. **Classification of the hotel establishment:**
 - a) Hotel b) Hotel Residential

4. **Which category has been awarded to your establishment?**
 - a) Five stars b) Four stars c) Three stars d) Two stars e) One star

5. **How many rooms does the hotel establishment have?** _____

6. **How long has the hotel been in this current ownership?** _____ Months/Years

7. **Under what type of ownership is your establishment?**
 - a) Individual b) Limited company c) Society anonym
 - d) Other Please, specify _____

8. **Is this hotel establishment:**
 - a) Part of a local multiple hotel establishment business
 - b) Part of a national hotel chain
 - c) Part of an international hotel chain

If 'part of an international chain', where is the main headquarters (country)? _____

- d) A single hotel establishment business

If 'single hotel', is it a family business? a.1) Yes a.2) No

9. **How many all year full time workers do you have, including the working owners?** _____

10. **Do you have non-Portuguese workers?**
 - a) Yes N° of workers: All year _____ Seasonal _____

Where are they from? _____

Is there any relevant change in the number of these workers since the EMU introduction?

 - a) Yes b) No If 'yes' What is the main reason for that?

Reason: _____

¹ EMU- The unification of the economies of member countries of EU through the introduction of a common currency and the centralization of the economic policies. EMU came into effect by 1st January 1999, even without euro notes and coins that became to circulate on 1st January 2002.

b) No

11. **What percentage of your clients is:**

a) From Portugal? _____

b) From the Euro countries (AU, B, FI, FR, DE, GR, IRL, IT, LUX, ND, SP)? _____

c) Elsewhere? _____

Part II. The respondent

12. **Name and position:** _____

13. **Gender:**

a) Male b) Female

14. **Which of these age groups are you in?**

a) 20-30 b) 31-44 c) 45-59 d) 60+

15. **What educational background do you have?**

a) Elementary school b) Secondary school c) High education Name of the degree: _____

16. **Since you left full time education do you have attended any course related to hospitality and tourism subjects:**

a) Post graduation course b) Training course c) Professional course d) None

If applicable, please specify which type of course: _____

17. **How long did you work in the hotel industry and, in particularly, in this establishment?**

a) _____ Months/years b) _____ Months/years

18. **What was your main previous occupation:** _____

19. **Did you have international professional experience?**

a) Yes b) No

If 'yes', in which type of Jobs? _____

In which countries? _____

How long have you been working abroad? _____ Months/years

20. **Which of the following best describes your current view of Portuguese participation in the Economic and Monetary Union?**

a) Strongly support it b) Generally in favour of it c) Neutral
d) Generally opposed to it e) Strongly opposed to it

21. **Did you change your mind during Economic and Monetary Union (EMU) introduction process?**

a) Yes Why? _____
b) No

22. **How well informed do you think you are about the general effects of EMU?**

a) Very well informed b) Well informed c) Informed
d) A little informed e) Not informed at all

Part III. The general perspectives of EMU in the Portuguese context

23. **What do you think were the *two* main advantages, if any, to Portuguese economy by joining Economic and Monetary Union? Please explain your answer.**

a) Advantages:

1. _____ 2. _____

(Please, go to Q.24)

b) None

Some people considered that the EMU would lead to a favourable economic environment for enterprises, arguing that the EMU implies factors such as these I am going to mention. Please tell me whether you agree or disagree with each one of these, by choosing one of the phrases and please explain why or why not?

	Strongly agree <input type="checkbox"/>	Agree <input type="checkbox"/>	Neither agree nor disagree <input type="checkbox"/>	Disagree <input type="checkbox"/>	Strongly disagree <input type="checkbox"/>
Economic stability would increase					
Why?/Why not?	_____				
Business incomes would increase	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Why?/Why not?	_____				
The quantity of specialised inputs available to national firms would increase	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Why?/Why not?	_____				

24. Concerning to the disadvantages, what do you think were the *two* most important disadvantages, if any, to Portuguese economy by joining Economic and Monetary Union? Please explain your answer.

a) Disadvantages:

1. _____ 2. _____

(Please, go to Q.26)

b) None

Some people considered that the EMU would lead to an unfavourable economic environment for enterprises, arguing that EMU implies factors such as I am going to mention. Please tell me whether you agree or disagree with each one of these, by choosing one of the phrases and please explain why or why not?

	Strongly agree <input type="checkbox"/>	Agree <input type="checkbox"/>	Neither agree nor disagree <input type="checkbox"/>	Disagree <input type="checkbox"/>	Strongly disagree <input type="checkbox"/>
It is important for Portugal having the option to devalue the national currency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Why?/Why not?	_____				
The euro is a weaker currency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Why?/Why not?	_____				

25. Some people considered that the monetary union would lead to further political union of the Euro countries. Personally, do you agree with this sentence?

a) Yes b) No c) Don't Know

Do yourself think, to Portugal, the movement towards the unification of the Europe should be:

a) Very unfavourable b) Unfavourable c) Neutral d) Favourable

e) Very favourable

Please explain your answer: _____

26. Taking everything into consideration, would you say that Portugal has benefited more than, or less than, other countries by its membership of the single currency?

a) More b) Lesser c) Neither

If applicable, please explain your answer. _____

Part IV. The implications of the EMU for the *Portuguese tourism sector*

27. Do you think that Economic and Monetary Union has affected the competitive position of Portugal as tourism destination?

- a) Yes Why? _____

 b) No Why not? _____

 c) Don't know _____

28. What do you think will the effect of the euro on the number of tourists until 2005 (including):

	Increase considerably	Increase	No change	Decrease
From Portugal?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Main reason:	_____			
From other euro countries?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Main reason:	_____			
From non-euro countries?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Main reason:	_____			

29. In general, do you consider EMU to be an opportunity or a threat to the development of Portugal as a tourism destination? Please explain your answer, giving examples.

- a) Opportunity b) Threat c) Both d) Don't know
- Opportunities _____

 Threats _____

Part V. The implications of EMU at *Hotel industry level*

30. In your opinion: Does the Portuguese Hotel industry have been exposed to increased competition after the euro introduction?

- a) Yes Why? _____

 b) No Why not? _____

 c) Don't know _____

31. What do you think will be the effect of the introduction of the EMU on the number of merger and acquisitions in the Portuguese hotel industry until 2005 (including)? Please justify your answer.

- a) Increase considerably b) Increase c) No change d) Decrease e) Don't know
- If applicable, please mention how do you think this can affect the Portuguese hotel Industry? _____

32. Do you think that the single currency has encouraged the hotel workforce mobility into/out of Portugal?

- a) Yes Why? _____

 b) No Why not? _____

 c) Don't know _____

If applicable, please mention how do you think this is important to Portuguese hotel industry? _____

33. In your opinion: what will be the effect of EMU on the following issues until 2005 (including):

	Easier	More difficult	No change	Don't Know
Expansion of the hotel businesses in Portugal	↑	↑	↑	↑
Main reason: _____				
Business diversification of the Portuguese hotel industry	↑	↑	↑	↑
Main reason: _____				
Access to capital of Portuguese hotel industry	↑	↑	↑	↑
Main reason: _____				
Portuguese hotel taxation policies	↑	↑	↑	↑
Main reason: _____				

34. In your opinion: Are the implications of EMU on the hotel industry well understood by the current Associations of the hotel industry? Indicate why/why not, giving examples.

a) Yes ↑ b) No ↑ c) Don't know ↑

35. Do you have full confidence, some confidence, not much confidence or no confidence at all in the Portuguese hotel's ability to succeed into the euro context? Please explain your answer, justifying, according to your viewpoint, how this can affect the future of the Portuguese Hotel Industry.

a) Full confidence ↑ b) Some confidence ↑ c) Not much confidence ↑ d) No confidence at all ↑

Reasons: _____

Part VI. The implications of EMU at the *business level*

EMU and competition

36. Do you think EMU has affected/will affect the competitive position of your business until 2005 (including)?

a) Yes ↑ Why? _____

And, how does your enterprise react? _____

b) No ↑ Why not? _____

c) Don't know ↑ _____

37. In your opinion: What main opportunities and threats does your business have to face because the euro introduction? Please explain your answer.

a) Opportunity 1 _____ Opportunity 2 _____
 Opportunity 3 _____ None ↑

b) Threat 1 _____ Threat 2 _____
 Threat 3 _____ None ↑

EMU and enterprise's activities

38. Do you think that the recent increase of the Taxation in Portugal is a consequence of EMU introduction?

a) Yes ↑ Why? _____

b) No ↑

c) Don't know ↑

39. **Has the mentioned increase affected your business?**
 a) Yes Why? _____
 b) No Why not? _____
 c) Don't know
40. **At operational level, has the introduction of EMU affected/will affect (until 2005 including) the way you operate your business?**
 a) Yes Why? _____
 b) No Why not? _____
 c) Don't know
41. **What main strengths does your business have in EMU context?**
 a) Strength 1 _____ Strength 2 _____
 Strength 3 _____ None
42. **Under the context of EMU, what are the main factors that need to be done by/within the business to improve its performance?**
 a) 1. _____ 2. _____
 3. _____ b) None c) Confidential

A. Enterprise's purchases (suppliers)

43. **With which countries do you deal in terms of suppliers?**
 a) Portugal b) Others euro countries (Specify) _____ c) Non-euro countries
 If your enterprise deals with international suppliers, please estimate the proportion of your international suppliers (%):
 a) Other (s) euro country (ies) _____ % b) Non-euro countries _____ %
 What are the main products /services that you buy out of Portugal? _____
44. **Do you think that EMU affect or will affect your relationship with your suppliers until 2005 (including)?**
 a) Yes Please explain, **how?** _____
 b) No

B. Sales and Marketing

45. **What do you think was and will be the effect of the introduction of the Euro on the number of your clients from the euro and non-euro zone until 2005, including? Please, give the main reasons for that.**
 Up to now:
From euro zone:
 a) Increase considerably b) Increase c) No change c) Decrease
 Main reason : _____
From non euro zone:
 a) Increase considerably b) Increase c) No change c) Decrease
 Main reason : _____
 Until 2005:
From euro zone:
 a) Increase considerably b) Increase c) No change c) Decrease
 Main reason : _____
From non euro zone:
 a) Increase considerably b) Increase c) No change c) Decrease
 Main reason : _____
46. **Has the method of payment usually used by your clients changed since the introduction of the single currency?**
 a) Yes Please specify, **how?** _____
 b) No c) Don't know

47. **Has the way you promote your business changed because the adoption of EMU?**
 a) Yes Please, explain how and what do expect of this? _____
 b) No c) Don't know

48. **In your opinion does the Euro create opportunities to develop your market share?**
 a) Yes In which markets? _____
 b) No c) Don't know

C. Pricing policy

49. **In general, how does the Euro affect the prices of the products or services offered by your hotel?**
 a) A price rise b) A temporary price followed by a reduction
 c) A price reduction d) Negligible effect
 e) Don't know
50. **Are there large price differences between your products or services and those on offer from your international competitors due the Euro introduction?**
 a) Yes, they are higher b) Yes, they are lower c) No d) Don't know
 If applicable, please mention the main reasons for that: _____

 If 'a' how does your enterprise react to that difference: (multiple answer)
 a) Harmonises the prices b) Improves the services c) Differentiates the services/products d) None

EMU and enterprise's preparation

51. **Has the impact of the Euro been studied by your enterprise over the period of time in question?**

Year	Before 1999	1999	2000	2001	2002	After 2002
Yes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
No	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

52. **What do you estimate be the total cost of changing to the Euro for your business, in terms of money?**
 a) Less than 5.000 euros b) More than 5.000 and less than 12.500 euros
 c) More than 12.500 and less than 25.000 euros d) More than 25.000 euros
 e) Don't Know

53. **How would you break down the costs mentioned under Q.51 among the following headings in terms of percentage:**
- Adaptation of IT infrastructures (hardware/software) _____
 Staff training and internal communication _____
 Dual pricing, promotional material _____
 Communication with customers/suppliers _____
 Other(s) costs. Please specify: _____

54. **Did you receive support from the Government institutions, the hotel industry association or other any institution to face the Euro challenges?**
 a) Yes Type of support: _____
 How useful was the support you received for your business development?
- | | Very useful | Useful | Not very useful | Not at all useful |
|----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Government Institutions | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Hotel Industry Association | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Other (s). Please specify: | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
- b) No Why not? _____

EMU and future plans/strategies

55. **Is EMU bringing about some implications what will encourage you to invest money until 2005 (including)?**
 a) Yes Object of investment: _____
 Reason: _____

b) No Why not?: _____

56. Does your firm have a plan/strategy to deal with future challenges of EMU?

a) Yes b) No

If 'yes' what plan/strategy do you have in place? (Multiple answer)

- | | | | |
|--|--------------------------|-----------------------------|--------------------------|
| a) To improve the services performance | <input type="checkbox"/> | b) To reduce the prices | <input type="checkbox"/> |
| c) To differentiate the products | <input type="checkbox"/> | d) Business Diversification | <input type="checkbox"/> |
| e) Entry in related business | <input type="checkbox"/> | f) To develop new services | <input type="checkbox"/> |
| g) Confidential/refused | <input type="checkbox"/> | h) Other(s) Specify: _____ | <input type="checkbox"/> |

If 'no' are there any reason why you don't have?

Reasons:

- | | | | |
|-------------------------------------|--------------------------|-----------------------|--------------------------|
| Will have little effect/ no effects | <input type="checkbox"/> | It will collapse | <input type="checkbox"/> |
| Little/no preparation need | <input type="checkbox"/> | Against it | <input type="checkbox"/> |
| Too busy/ Higher priorities | <input type="checkbox"/> | None | <input type="checkbox"/> |
| Don't know what to do | <input type="checkbox"/> | Other. Specify: _____ | <input type="checkbox"/> |
| We are small business | <input type="checkbox"/> | | |

57. Could you please rank the importance of the following objectives for your business? Please explain your answer (From 1 to 5, where 1 is the more important and 5 the lesser important)

- | | |
|---|--------------------------|
| a) To ensure that your enterprise continues operating within the euro | <input type="checkbox"/> |
| b) To explore the EMU opportunities environment | <input type="checkbox"/> |
| c) To avoid the threats of the EMU | <input type="checkbox"/> |
| d) To improve the current weaknesses of the enterprise | <input type="checkbox"/> |
| e) To explore the current strengths of the enterprise | <input type="checkbox"/> |

58. How do you think your business can be easily adapted if in future market or industry conditions change?

- | | | | |
|----------------|--------------------------|----------------------|--------------------------|
| a) Very easily | <input type="checkbox"/> | b) Easily | <input type="checkbox"/> |
| c) Not easily | <input type="checkbox"/> | d) Not easily at all | <input type="checkbox"/> |

Main reasons for your answer: _____

59. What is your opinion of the overall effects of the single currency on the development and expansion of your business?

- | | | | | | |
|----------------------|--------------------------|----------------------|--------------------------|---------------|--------------------------|
| a) Very positive | <input type="checkbox"/> | b) Slightly positive | <input type="checkbox"/> | c) Neutral | <input type="checkbox"/> |
| d) Slightly negative | <input type="checkbox"/> | e) Very negative | <input type="checkbox"/> | d) Don't Know | <input type="checkbox"/> |

60. Please add any comment you would like to make.

Thank you very much for your time and co-operation!

Appendix 2: Key characteristics of the hotels

Key characteristics of hotels by location	Hotels located in Oporto Region		Hotels located in Non Oporto Region	
	Category	N=51	%	N=53
1 star	1	100	0	0
2 stars	11	45.8	13	54.2
3 stars	18	40.9	26	59.1
4 stars	15	51.7	14	48.3
5 stars	6	100	0	0
Type of ownership				
Local or national group	10	45.2	12	54.5
International chain	10	55.6	8	44.4
Individual businesses	31	48.4	33	51.6
Size by number of employees				
Micro	9	40.9	13	59.1
Small	29	44.6	36	55.4
Medium	13	76.5	4	23.5
Number of rooms				
1-49	17	42.5	23	57.5
50-99	18	40.9	26	59.1
100+	16	80.0	4	20
Family businesses				
Yes	18	37.5	30	62.5
No	33	58.9	23	41.1
Years of current owner				
0-9	29	54.7	24	45.3
10-19	16	51.6	15	48.4
19+	6	30.0	14	70.0