

# **A Comparative Study and Assessment of Investments in the Hotel Industry in Iran and Turkey (1992-2011)**

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## **Abstract**

Investment in the hotel industry, if not the largest, but is one of the most profitable activities in many countries is considered. Comparison of hotel industry with successful countries in the field of tourism and hotel shows a huge gap. In this study the method of GMM, Using time series data from 1992 to 2011 to investigate the factors influencing investment in the hotel sector and Iran and Turkey in the field are compared with each other. The results indicate that GDP and enter the number of passengers and tourists in Iran and Turkey the most important development of the two countries are investing in the hotel industry. The results also indicate The increase of tourists, not only in these two countries, both countries have an increasing impact on the hotel industry, rather, the increase of tourists entering the country Lead to increased investment in the hotel industry in Turkey is higher. Based on exchange rates in both countries are increasing investment in the hotel industry. Swelling of the main factors negatively affecting increasing investment in the hotel industry of the two countries, Turkey and Iran.

**Keywords:** Hotel Industry, Tourism Industry, Investment, Iran, Turkey.

## **1. Introduction**

The boom in the tourism sector due to increase in demand for hotels, leading to an increase in investments in the hotel industry. Tourism industry unlike other sectors providers a set of service including travel agencies and tour operators, agents of air transport, rail, road and sea, hotels, guest houses, operators of tourist attractions, restaurants, shops of handicraft products, souvenir items, clothing, footwear, leather items and other items are interest to tourists that most of the service providers work in the private sector and related governmental agencies are trying to reduce their tenure, the affairs of development planning and management of tourism activities.

Variety of activities related to the tourism industry has led to a boom in this sector, create a high economic effects for the country's economy compared to other sectors of the economy. In addition, previous studies have shown the important role of industry in reducing unemployment and improving income distribution and increase government revenues. This is especially since the unemployment rate in our country is considered as a major economic

problem, day by day as more serious attention of policy makers and planners have been and development of the tourism industry has become a national demand. However creating such an environment must be clearly associated with the conduct of public resources and economic opportunities to the industry. This case, tourism sector will be seen as an opportunity for the private sector investors and entering this sector, while achieving the national goals of job creation and the development of national economy, the profits will be earned. Therefore, tourism development has led to a boom in the hotel industry and thus attract the attention of tourists and visitors is of extreme importance. Therefore, this study based on develops investment strategies of the tourism and hospitality industry in Turkey, provide suitable approaches for dealing to Iran.

## **2. Theoretical Literature**

### **2.1 The role of Investment in Tourism and Hotel Industry**

Tourism as an industry to develop needs a large initial investment is that usually this capital from the private sector, government and some transnational institutions is provided. This investment will depend on economic conditions, social and environmental, regional and local in every country. Mac Kercher about the tourism industry refers to the fact that their understanding can be very useful. He believes that:

1. As an industrial activity, tourism, consumption and waste of resources and possesses a special infrastructure needs.
2. As a consumer of resources, has the ability of excessive consumption of resources.
3. Tourism as an industry is dependent on the private sector, where investment decisions are primarily based on achieving maximum benefit.
4. Tourism must compete for scarce resources to obtain guarantees their survival.
5. Tourism as an industry is multi-faceted, in which case it is difficult to monitor.
6. Tourism is a consumer not anthropologist.
7. Tourism is a form of entertainment.
8. Unlike other industries, tourism generates income, albeit rather on the import of consumer not export of products (Way Gee, 2003: 9).

With a little reflection on these facts, we can conclude that the tourism industry is more like a heavy investment. For example, investment in recreational and residential development is almost impossible without the development of transportation.

On the other hand, investment in this sector is almost essential. So the industry is currently one of the main elements of economic growth in order to attract investment and create jobs and promote economic growth (Hall and Jenkins, 2009: 210).

In this context, the World Tourism Organization believes that finance the development of tourism and its related industries, a major factor underway. Financial needs and potential resources of it should identified an investment policy be devised. Necessity of financing and the way it should be clearly identified and be provided for each country or specific region.

There are basically three types of financing needs that must be considered in the development of tourism and hotel management. Need to provide financing for tourism projects, regional or national public plan, more detailed planning of the area for tourism development and analysis of the feasibility and planning of special projects developed. The overall levels of financing programs are usually the responsibility of the state. Financing of joint projects, depending on local conditions, should be done by the government or the private sector. However, more detailed planning should still do the planning criteria must be reviewed and approved by it. If the financing plan locally is not possible, it tries to cope by international assistance.

In total since tourism and hotel requires a high volume of investment and the other hand, also have to no instant profit, Therefore, the private sector alone cannot do this kind of investment is probably require strong government support and financial incentives without the support of the public sector cannot succeed in this emerging industry. Obviously, the increase of foreign tourists to the country, will follow the prosperity and development of tourism, increase revenues and stabilize the exchange rate. In this respect, the creation of appropriate social and economic contexts in society, Incentives for greater participation of private sector in order to protect its investment required, provide necessary facilities such as payment of long-term loans with low interest, land allocations, supply of materials with state rate and ... can be prioritized for further development of hotel industry.

## **2.2 Adjustment Comparison of Tourism Industry in Iran, and Turkey**

### **Iran Country**

Iran with an area of 1/6 million square kilometers, from the north with central Asian countries, from the East with Afghanistan and Pakistan, from south by the Persian Gulf countries and from West with the Iraq and Turkey have common border and has a population of about 76 million people.

Iranian economy into four sectors, including oil, industry and mining, agriculture and services will form. Much of the territorial revenues through the production and export of oil and its related products is provided. The role of non-oil exports is not very wide. Much of Iran's non-oil products, including handicrafts, fruits, crops and industries (automotive) and inorganic.

But Iran is a country with diverse climate, so that in every season of the year, you can travel to any part of it, as we see in the faces of other chapters. In addition to history and ancient civilization it is great of the remains traces of the old days. In addition, a number of religious sites and natural attractions and historical background of the Islamic has added to its. All mentioned features of high talents and capabilities of Iran Suggests to become a tourism hub in the region.

### **A: Strengths**

Although tourism in Iran has a long history, and has its roots in ancient eras, but as an industry dates back to 1960 decade. In the fourth program infrastructure development in the industry in our country was formed. Statistical analysis shows that during these years the tourism industry

in well-planned goals is achieved. In 1355 year, the average stay of tourists in Iran was about 5/18 days. Average annual growth of tourists entering to the country was 8%, Currency earnings also increased 25 percent and 11 percent growth in dollars had been spent by tourists (Farzin, 2004: 9). Iran on 5 September 1964 joined the World Tourism Organization (WTO), that's why our country has been dubbed World Tourism Day on September fifth.

According to UNESCO, Iran is one of the ten largest countries in terms of tourist attractions. In terms of diversity of climate and nature tourism is the world's fifth largest, but in terms of tourism acceptance rated seventy and in terms of uptake foreign exchange revenues from tourism authority has 89.

Green tourism, sustainable tourism, bio-tourism are the various terms that are used for nature tourism. 60 percent of the world's tourists are nature tourists. Iran is one of the few countries that will be remembered as a country with 4 seasons (Jamshidi, 2003: 4).

The tourism industry is called smokeless industry. Because there is no pollution or contamination is very small. In addition, employment in the tourism industry will create jobs in two ways: 1 - Direct employment: the people directly related to tourism such as hotel and airline, and 2- Indirect employment: that is indirectly related, for example, the construction companies involved in building the hotel. For every incoming tourists to Iran for 3 to 4 directly and indirectly for 9 to 12 persons creates employment (Mir-Hosseini, 2003: 29).

Generally positive economic impact of tourism for different countries and Iran can be summarized as follows:

1. Currency revenue: exports of tourism products to create income for host countries and can also stimulate investment in other economic sectors. Tourism is one of the five Group exports to more than 83 percent of the country's main source of foreign exchange earnings for at least 38 percent of the world.
2. Creating revenue for the government: government revenues from tourism can be classified into two categories, direct and indirect. Direct section included taken tax from revenues of employment and trade in the tourism sector. Also indirect section includes taxes and duties on goods and services supplied to tourists.
3. Creating jobs: the rapid development of international tourism creates employment. For example, the hotel sector alone, about 11/3 million jobs created in 1995 around the world.
4. Stimulate investment in infrastructure: tourism can encourage local government for improve the infrastructure to investment.

Table 1. The number of tourist arrivals to the country's and foreign exchange receipts

year	Ttourist arrivals	Currency receipts (million dollars)
1975	502278	201
1980	153612	52
1985	89425	32
1990	161954	65
1995	488908	205
2000	1341762	671
2001	1402160	701
2002	1584922	792
2003	1767684	750
2004	1950446	825
2005	2133208	858
2006	2315970	894
2007	2498732	931
2008	2681494	967
2009	2864256	1004
2010	3047018	1040
2011	3229780	1077

As can be seen in the table above, in 2009 , the rate of incoming tourists to Iran, was 2864256 people which has income about 1004 million dollars. In 2010 , the rate of incoming tourists to Iran, was 3047018 people which has income about 1040 million dollars. In 2011 , the rate of incoming tourists to Iran, was 3229780 people which has income about 1077 million dollars.

### **B: Weaknesses**

Regardless of the political crisis resulting from the revolution and imposed war, Reduce the intake of foreign tourism in the past two decades, should weakness of infrastructure, growth in prices, lack of promotion, lack of investment in education, human resources, lack of security and confidence-building policies, adding to it.

Cities such as Tehran, which looks at some times its population of 15 million, compared with some Arabic countries that do not have half the population, the number of its standard residential centers was around a fifth of these countries.

The cost of renting a room in a hotel in our country is higher than countries such as Turkey, as in other countries, only 45 percent of the income from the rental of hotel rooms and the hotel was about 55 percent funded side outdoor activities.

- In Iran relative to some neighboring countries pricing system of hotels is discriminatory. International hotels receive renting rooms from domestic travelers to Rials and foreign tourists to the dollar (Gholipour, 1385: 105).

- Tour and Travel Agency in Iran are over 2,000 managers of travel agencies are aware of the many limitations that make them difficult to attract tourists will position. The most important of these limitations is advertising. While countries such as Malaysia Emirates are doing a lot of advertising on satellite networks in Iran has shown no willingness to do so is not. In contrast, negative publicity which is elusive to tourists, is constant (Sabetian, 2004: 1 and 2).
- The tourism industry in Iran does not benefit the services and professionals. Unfortunately in the field of hotel and standard delivery of services to tourists are faced with many problems, because people are not educated and trained in the ranks of management and employees., tourism is an hospitality activity, So when the services are provided, thanks to the devotion and service providers will be important. This requires increased investment in human resource development and employment in the tourism industry (Gholipour, 2008: 106).
- The tourism industry has a comprehensive communication with different levels of security at national, regional and international. Any brutality will enter irreversible loss into the industry. According to estimates of the World Tourism Organization, tourists traveling to a country of your satisfaction to 20 people, but their grievances to the 47 states (Rahimpoor, 2004: 32).
- Confidence in the tourism development and marketing operations has an important role in attracting tourists. National and international confidence in the two is debatable. Internal confidence is removal of stress and tension that cause inflammation is a major cause of the lack of public and officials from awareness of the benefits of tourism. However, several issues must be considered for international confidence:
  - 1 - Avoid from any violent
  - 2 - Coordination of providing security news through a single spokesperson
  - 3 - Avoid zoom in national and international events.

## **Turkey**

Turkey with an area of 779,452 square kilometers, has borders with countries like Armenia, Azerbaijan, Iran, Iraq, Syria, Greece and Bulgaria. The Mediterranean sea to from the south, the Aegean sea from the west and the Black sea and the Marmara from the north west area surrounding it. In the sea of Marmara and the Aegean islands, made efforts to invest is the one of the most attractive tourist areas in the country are located.

Dardanelles and the Bosphorus that separated turkey from the Asian region has an area of approximately 5% of the country's territory. Turkey has 74 million people, Istanbul is the largest city in the country with 12 million population. 90 percent of the population are Muslims. Turkey's membership application was rejected in 1989 in Europe. The main reason for rejecting the request, because the situation of human rights in this country, but in the December 1999 this demand was accepted.

Turkey's national income with more than \$ 295 billion has been announced as the sixteenth largest economy. Organization for Economic Cooperation Europe has announced Turkey's

national income in 2001, with over \$ 145 billion, is among the world's twentieth largest economy. Turkey's economy forms the production of textiles, light industry, tourism and agriculture. Its economy, especially in the tourism sector ahead exposure to several crises in succession after the first Persian Gulf War in 1991, has experienced considerable growth. It appears that the number of tourist arrivals to Turkey in the past decade has accelerated.

### 3. Research Methodology

This study is a descriptive analysis and the data using data extracted from the website of the World Bank and Iran and Turkey have been investigated separately. The method used is GMM.

#### 3.1. Research model and variables

In this study the factors influencing investment in the hotel industry in Iran and Turkey, the following pattern is used:

$$I = \alpha_0 + \alpha_1GDP + \alpha_2P + \alpha_3EX + \alpha_4Tu + \alpha_5AM + \varepsilon \quad (1-3)$$

Where: GDP: Gross domestic product, P: inflation (in this study as the consumer price index inflation is used). EX: exchange rate, TU: The number of tourists, AM: is the number of travel agencies. Data used in this study as the logarithm of the time series data extracted from the World Bank website. This study aimed to investigate whether there is a relationship between each independent variable on the dependent variable. Via GMM, the regression coefficients of the independent variables in the model are estimated.

### 4. Estimation of the Research Model

#### 4.1. Estimated Model for Iran

In the first step is to evaluate the reliability of the variables:

Table 2: Reliability of the variables

Variables	Statistics	Probability	Results
exchange rate	-1.3E-05	0/0001	I(1)
Gross domestic product	-9.5E-06	0/0006	I(1)
Investment in the hotel sector	-3.6E-06	0/0114	I(1)
Inflation	-1.1E-05	0/0000	I(1)
The number of travel agencies	-6.4E-06	0/0210	I(1)
Number of tourists	-1E-06	0/0527	I(1)

The reliability results demonstrate of the Dickey Fuller method shows that all variables is stable with a difference.

Table 3 Estimation results of the GMM estimation method.

Variables	Statistics	Probability	Results
C	0	-1.4E-06	0/1142
GDP	0/418756	2/655674	0/0237
P	0	-2.5E-06	0/0200
TM	0/000362	2/602435	0/0314
TA	0/162736	3/097879	0/0123
EX	0/003775	2/076612	0/0645
R2 :0/92    D.W : 1/93    J-statistic :3/71			

The results of these estimates are as follows:

Gross domestic product has a positive and significant effect on investment in Iran's hotel and percent change in the rate of production the amount of 0/41 increased investment in Iran hotel. Inflation has a negative and significant effect on investment in Iran's hotel and for every one percent change in the rate of inflation, the rate of investment in the hotel sector 0/16 percent decrease. The number of tourists on investment in hotel sector has a significant and positive effect the amount of one percentage change in tourism 0/0003 percent increase in hotel investment. The number of travel agencies has a significant and positive effect on investment in the hotel sector and for every one percent change in the number of agencies the amount of 0/16 investment in the hotel sector increases. Exchange rate has a significant and positive effect on investment in the hotel sector and for every one percent change in the exchange rate, the amount of investment 0/003 will increases.

#### 4.2 - Estimated Model for Turkey

In the first step is to evaluate the reliability of the variables:  
Table 4: Reliability of the variable

Variables	Statistics	Probability	Results
exchange rate	-1.5E-05	0/0001	I(1)
Gross domestic product	-4.3E-05	0/0003	I(1)
Investment in the hotel sector	-3.1E-05	0/0035	I(1)
Inflation	-1.4E-05	0/0028	I(1)
The number of travel agencies	-5.4E-06	0/0159	I(1)
Number of tourists	-4.6E-06	0/0187	I(1)



The reliability results demonstrate of the Dickey Fuller method shows that all variables is stable with a difference.

Table 5 Estimation results of the GMM estimation method.

Variables	Statistics	Probability	Results
C	0/58294	0/734587	0.4814
GDP	0/000019	1/900809	0.0235
P	0	-3.6E-06	0.0553
TM	0/467507	2/199376	0.0558
TA	0/004563	2/069181	0.0466
EX	0/897836	1/325321	0.017
R2 :0/95    D.W : 1/96    J-statistic :3/12			

The results of these estimates are as follows:

Gross domestic product has a positive and significant effect on investment in Turkey's hotel and percent change in the rate of production the amount of 0.0001 increased investment in Turkey hotel. Inflation has a negative and significant effect on investment in Turkey's hotel and for every one percent change in the rate of inflation, the rate of investment in the hotel sector 0.12 percent decrease. The number of tourists on investment in hotel sector has a significant and positive effect the amount of one percentage change in tourism 0.46 percent increase in hotel investment. The number of travel agencies has a significant and positive effect on investment in the hotel sector and for every one percent change in the number of agencies the amount of 0.004 investment in the hotel sector increases. Exchange rate has a significant and positive effect on investment in the hotel sector and for every one percent change in the exchange rate, the amount of investment 0/89 will increases.

### 5 - Analysis of Results

Our results indicate that gross domestic product and enter the number of passengers and tourists in Iran and Turkey, are the major factors of investor development in the hotel industry of the two countries. In other words, the increase in GDP has increased investment in the hotel industry. This effect in the Turkey has been highlighted more and bigger. The greater part of hotel investments in Turkey due to the country's GDP is increasing and increasing larger effect on the hotel industry in the this country.

The results also show that the increase of tourists entering in both countries have an increasing impact on the hotel industry and the hotel industry in Turkey is more conducive to increased

investment. The results also suggest that the increase in exchange rate in both countries led to increase in investment in the hotel industry of the two countries. In other words, increase in exchange rate led to foreign purchasing power increased and the demand for tourism increases, which ultimately will increase investment in tourism and hotel management. The results indicate that rising inflation is the most important factor that has a negative impact on investment in the hotel industry of the two countries, Turkey and Iran.

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