



The asset light model: A blind spot in hospitality research

Inès Blal*, Giuliano Bianchi

Ecole hôtelière de Lausanne, HES-SO//University of Applied Sciences Western, Switzerland



ARTICLE INFO

Keywords:

Asset light
Financial performance
Strategy
Lodging

ABSTRACT

This research note raises the question of the lack of critical appraisal of the asset light model. Its purpose is to trigger an in-depth exploration of the determinants of performance of the implementation of such decision. To explore our argument, we used a longitudinal data design that combines both cross sections and time series to examine the effects of the asset light model on share returns, EBITDA and ROE of six leading U.S corporations over a 16-year period. We found that the model had no impact on financial performance. Our purpose is to a trigger debate within academia and practitioners on when and how the asset light model is a valid option. As well as which type of contract to rely on and how to build a differentiating strategy when implementing the asset light model.

1. Introduction

This research note raises the question of the lack of critical appraisal of the asset light model. Its purpose is to trigger an in-depth exploration of the determinants of performance of the implementation of such a model. The decision to divest properties and specialize in operations (i.e. the asset light model) has become a widespread practice amongst hotel corporations (Fig. 1) and is often presented as the best fit for the organization (The Economist, 2013; Nair, 2014; Host and Marriott 1994 annual reports). This practice, whose advantages have been widely reported throughout academia, is becoming the new norm (Fig. 1). The near universal acceptance of this model makes the dubious assumption that an asset-light strategy is the best fit, in terms of performance, for every organization in the hospitality industry.

This assumption contradicts the fundamental principles of strategy, whereby unique choices (of competencies and positioning) are what drives outperformance (Wernerfelt, 1984, Porter, 1979). Blindly accepting the asset light model as the best option for lodging corporations leads practitioners and academia to overlook strategy fundamentals and ignore the consequences of the model on long-term performance. This blind spot in our approach to the issue prevents us from addressing key questions such as, for instance, how to position the company vis-à-vis differentiation. Unfortunately, the lack of critical appraisal of the model is an obstacle to acquiring this knowledge.

Since it is accepted as the best choice for all companies, the asset light model and its effects on long-term performance is the subject of very few papers in tourism and hospitality research. These studies, with the exception of one (Low et al., 2015), converge to confirm that the

model is beneficial to corporate performance, which begs the question: How can just one divestment model be beneficial to the performance of all companies? Not to mention that companies implement it to different degrees, so what are the contingent variables which moderate the effects? Why are some companies more successful in generating superior performance than others after the implementation of the asset light choice? It appears that academia and executives are wearing blinders when it comes to this model. We hope that this research note will trigger more discussion for a more critical view of the asset light decision with a view to providing valuable insights for both academia and corporate practices.

2. Epistemological issues

There are, however, practical aspects that explain the limited empirical research on the subject. The most important is the limited size of the population. The asset light model goes hand in hand with network size, which limits the number of hospitality corporations from which to collect data. The latest wave of mergers and acquisitions further exacerbates this limitation. Nevertheless, the blind spot that the asset light model represents is of an epistemological nature for three reasons.

First, the justification for the asset light model is, most often, based on ex-post interpretation and industry reports rather than scientific research. Articles argue that the model allows organizations to adapt to macroeconomic changes such as modifications in debt market conditions and fiscal regulations on real-estate (Blal and Graf, 2013; Hudson, 2010). It also an attractive option to enter new markets (Brookes and Roper, 2012; Roper 2015), and a tool to mitigate risk (Sohn et al.,

* Corresponding author.

E-mail address: Ines.blal@ehl.ch (I. Blal).

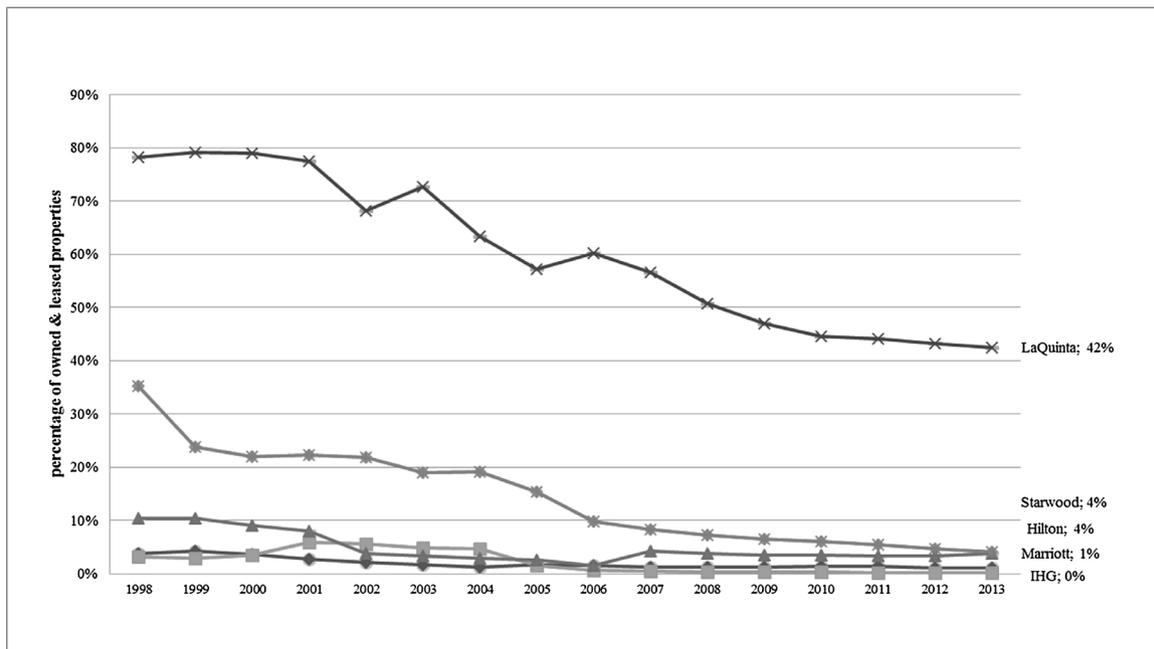


Fig. 1. The implementation of the asset light model. Source: Annual reports of respective companies.

2013). Furthermore, practitioners and financial investors argue that it enables companies to diversify their risk profiles (Page, 2007). However, with the exception of three studies (Sohn et al., 2013, 2014; Low et al., 2015) on the impact of asset light on firm value, we have no scientific investigation of the performance benefits supposedly generated by the model.

Second, the few empirical studies that have evaluated the financial impacts of the model indicate that increasing the ratio of franchise and management fees to total sales and decreasing the proportion of fixed to total assets has a positive impact on firm value (Sohn et al., 2013, 2014). Nevertheless, using to the portion of revenues to operationalize the asset light model overlooks its effects on organizational design. Also, it does not factor in the impact of specialization. The study by Low et al. (2015) measures the role of hotel properties' asset class in mixed asset portfolios. The results reveal that lodging corporations that own their property assets outperformed organizations that had chosen an asset light model. These findings converge with articles in finance literature, which reveal that the asset light model has a negative scale effect (Yu and Liow, 2009) and a limited effect on performance.

Third, the asset light model entails a deliberate choice to specialize in one or more points along the value chain (Blal and Graf, 2013; Roper, 2015) and makes concurrent use of ownership transactions, leasing, franchising, and operating contracts. Therefore, its implementation requires the reliance on flexible organizational arrangements that make simultaneous use of transactions. Such lean and complex structures are very likely to increase coordination and operating costs, and thus, hinder the overall operational performance. Not to mention that not all companies in the industry have these skills. We propose that adopting the asset light model is a way of adaptation to a norm, but that its effects on performance are neither uniform across corporations nor immediate. Therefore, considering this model as a one-size-fits-all solution is a fundamental flaw that hinders the progression of research and contribution to management.

3. An exploratory study

The goal of our analysis is to examine whether the implementation of the asset light structure affects the financial performances in the lodging sector. The literature makes the link between financial markets

and the asset light model. Therefore, we selected companies that are listed on the New York Stock Exchange and that pursued an asset-light strategy over a period of at least 15 years. As the implementation of the asset light model started in the mid-1990s, we could observe the phenomenon over a 16-year period from 1998 to 2013. The mid 1990s marks the inception of the phenomenon.

The restructuring, mergers, and acquisitions that occurred in the industry limited the number of companies available for the longitudinal analysis. Six corporations constituted the available population for our research: Marriott, InterContinental, Starwood, Hilton, Choice, and LaQuinta. In addition, the panel data is imbalanced: out of these six corporations, we could collect the financial data of two (i.e. Choice and Starwood) for the whole period from 1998 to 2014.

To explore our argument, we examined the effects of the asset light model on three performance measures (i.e. the return on share price, Earnings before Interest, Debt, and Amortization-EBITDA, and Return-on-Equity-ROE) of six leading U.S. corporations over the 1998–2013 period. We used a longitudinal data design that combines both cross sections and time series. We did so to control for unobservable variables, such as corporate culture, that do not change from one year to another.

From CRSP/Compustat Merged Database we obtained financial data at a fiscal year frequency. We also used the data provided by Dr. French on his website to apply the Fama and French model to compute the stock returns. We manually retrieved the total number of hotels in the corporation's network and the number of managed and franchised hotels from the annual reports of the five leading lodging corporations. To address the limitations of past studies, we operationalized the construct of implementation of asset-light, by measuring the number of managed and franchised properties over the total number of hotels in the corporation's network.¹ This variable, as opposed to the revenue proportion used in the literature, integrates organizational design aspects. We started collecting this information seven years ago, which allowed us to constitute a unique dataset on the asset light model.

To conduct our analysis, we use a longitudinal data design that

¹ Formally, the explanatory variable of interest is defined as: $light = \frac{(\# Management\ properties + \# Franchise\ properties)}{\# totals\ properties}$

Download English Version:

<https://daneshyari.com/en/article/11005013>

Download Persian Version:

<https://daneshyari.com/article/11005013>

[Daneshyari.com](https://daneshyari.com)