



Gains from horizontal collaboration among ski areas



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HIGHLIGHTS

- Collaboration through lift-linking leads to an increase in local overnight stays.
- Average treatment effect is 11 percent relative to unconnected villages.
- Estimates are higher for small villages.
- Lift-linking effect is not significant when lift-linking does not lead to new ski terrain.
- Effects of new lift linkages on overnight stays are declining over time.

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ABSTRACT

Ski areas are known to expand by linking their lifts to neighbouring systems. Based on data from approximately 250 winter sport destinations in Austria, pooled over the years 1998–2014, this study explores the effects of such horizontal collaboration on the number of overnights stays in the area. A difference-in-differences (DID) approach combined with propensity score matching shows that new lift-linkages or expansions lead to a consolidation in the number of overnight stays at a level 12 per cent higher than before the introduction of the lift-link. However, there is a certain degree of heterogeneity in the causal effects. Satellite ski areas, remote villages and those who combine lift-linking with new connecting slopes benefit the most. More recent lift-linkages seem to lead to smaller gains than those established in the early years.

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1. Introduction

Firms are increasingly aware of how the potential of inter-firm collaboration and alliances can affect performance (Holm, Eriksson, & Johanson, 1999; Singh & Mitchell, 2005). A typical example is the ski industry: By installing a lift-link, for instance, which connects formerly separate areas, ski lift companies are forming long-term strategic collaborations. This type of collaboration can be best characterised as a coopetition strategy (that is,

cooperative competition; Brandenburger & Nalebuff, 1995), horizontal collaboration (Dodgson, 1994) or an alliance with competitors (Eisenhardt & Schoonhoven, 1996).

These days inter-connected skiing is common in the Austrian Alps, where a vast network of lift-serviced terrain and villages has been established. From 1998 to 2014, 20 lift-linked ski areas were created. This has affected about 67 out of the 250 villages in the region's winter sport destinations. Austrian ski lift companies argue that inter-connected ski areas are key to strengthening their ability to compete against companies in France and Italy, where lift connections have been established since the 1970s and 1980s (e.g. Les Trois Vallées and Les Arcs-La Plagne in France as well as Sella Ronda

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in Italy).¹ Little is known, however, about the degree to which lift-linkages have stimulated local tourism demand.

This study provides initial empirical insights into the local impact of collaboration on new lift-links between ski areas. The impact on local tourism demand is measured as the effect on overnight stays in subsequent winter seasons, ascertained through application of the difference-in-differences estimator (DID). This estimator compares the difference in the number of overnight stays between villages affected by a lift-link (the treatment group) and those that are not (the control group). In examining the effects, the principal (main) and the satellite area (or village) are distinguished from each other.² In addition, a wide range of characteristics of the areas are taken into account such as size, presence of a competing ski area, distance to urban agglomerations, member of ski alliance, and ski area elevation. Typically, ski lift companies with existing linkages tend to be larger, are concentrated at higher elevations, are mainly located in the west of Austria and are already part of a large ski alliance.

Several studies show that co-competition can positively affect the performance of manufacturing and service firms (Peng, Pike, Yang, & Roos, 2012; Ritala, 2012; Walley, 2007 for a survey). Luo, Rindfleisch, and Tse (2007) find a non-linear relationship between the degree of co-competition and firm performance. Specifically, the influence on return to equity (ROE) is positive at a moderate level of inter-firm collaboration, but diminishes at a high intensity. However, there have been relatively few attempts to estimate the causal effects of co-competition using difference-in-differences methods. In addition, few studies investigate the heterogeneity of effects with respect to firm characteristics. For the airline industry, Oum, Park, Kim, and Yu (2004) find that horizontal alliances are positively related to firm productivity, but have no significant impact on profitability. Furthermore, the magnitude of the productivity effect achieved increases with the level of cooperation. In the related tourism literature there are few empirical studies on cooperation among industry actors (Beritelli, 2011). According to Fyall, Garrod, and Wang (2012), collaboration between organisations in different locations has so far received relatively less attention than for instance collaboration between organisations within destinations or be non-competing collaborators.

This study contributes to the literature in several ways: It is the first investigation of the wider impact on local tourism demand (measured as the number of overnight stays) of horizontal collaboration through lift-linking of ski areas. Second, the analysis investigates how returns to new lift-linkages unfold across size of ski areas and type of lift-link over time (with or without new ski terrain). The study also contributes to the growing literature on performance of the ski industry in general. Previous literature in this field has focussed on measuring the efficiency of ski lift companies (Brida, Deidda, & Pulina, 2014; Goncalves, 2013), environmental strategies and efficiency of such strategies (Goncalves, Robinot, & Michel, 2016), and the relationship between the performance of ski lift companies and weather factors (Gonseth, 2013; Shih, Nicholls, & Holecek, 2009; Steiger, 2011).

The structure of this paper is as follows. Section 2 outlines the theoretical background, while Section 3 introduces the empirical model. Descriptive statistics and the data used for the study are discussed in Section 4. Section 5 presents the empirical results, and Section 6 provides concluding remarks.

2. Theoretical background and conceptual discussion

There are several types of theories that explain how firms collaborate with customers, suppliers and competitors: strategic alliances, cooperation, and horizontal collaboration. Strategic alliances involve the sharing of (tangible or intangible) resources between independent firms with the overall objective of meeting both the combined and individual goals of the firms involved (Chathoth & Olsen, 2003; Mohr & Spekman, 1994). Parkhe (1991) defines a strategic alliance as “a cooperative agreement involving two or more firms through which linkages are built to share resources leading to the joint accomplishment of individual goals”. There is a clear distinction between alliances with suppliers or customers (vertical collaboration) and alliances with competitors (horizontal collaboration) (Belderbos, Gilsing, & Lokshin, 2012). The latter kind of collaborations is becoming increasingly common among firms (Grandori & Soda, 1995; Holm et al., 1999; Walley, 2007). The occurrence of this type of collaboration is often referred to as co-competition (that is, cooperative competition; Brandenburger & Nalebuff, 1995; 2011). This means that firms or other organisations collaborate and compete simultaneously (see Walley, 2007 for a recent survey). The economic rationale for collaborations with competitors is the resource based theory (Barney, 1991). Here, collaborations are an opportunity to create value through combinations of assets, knowledge or other capabilities (Barney, 1991; Belderbos et al., 2012). Thus, co-competition makes it possible for firms to maintain their market share or to acquire a larger share (Ritala, 2012). These synergy effects may also lead to an improvement in the firm's competitive position. Walley (2007) suggests that co-competition leads to superior performance (better products and services for the customer) for the participating firms.

In the tourism and hospitality sectors, possible forms of collaboration range from loose arrangements – such as networks or partnerships that are often informal in nature – to stronger linkages (Beritelli, 2011; Bramwell & Lane, 2000; Buhalis & Cooper, 1998; Czernek, 2013; Jamal & Getz, 1995; Scott, Baggio, & Cooper, 2008; von Friedrichs Grängsjö, 2003; Wang & Xiang, 2007). Further forms include strategic or non-equity-based alliances (such as franchising or management contracts; Chathoth & Olsen, 2003), and mergers and acquisitions (Canina, Kim, & Ma, 2010). In general, it is possible to distinguish between formal, contract-based and informal, relation-based modes of collaboration (Beritelli, 2011). These different types of cooperative behaviour can be explained by several theoretical concepts, such as institutional analysis, rational choice theory, transaction cost theory, resource dependency theory, game theory, and social exchange theory (Beritelli, 2011). Empirical studies have demonstrated that the degree of collaboration varies widely, ranging from a lack of collaboration among operators of the same type – as in Elba, Italy (Baggio, Scott, & Cooper, 2010) – to the friendship witnessed among competitors in the Sydney hotel industry (Ingram & Roberts, 2000).

Looking at winter sport destinations more specifically, Flagestad and Hope (2001) show that interaction among various types of tourism enterprises is widespread. von Friedrichs Grängsjö (2003) describes this as having a community supply network of hotels, restaurants, transportation services, ski lift companies, and city tourism promotion offices. These establishments often refer business to each other and participate in joint promotional activities (see also Kylänen & Rusko, 2011). For Austrian winter sport destinations, a tendency towards enhanced cooperation among destination marketing organisations can be observed, which has forced former competitors to develop joint strategies (Strobl & Peters, 2013). A lift-linkage can be regarded as a formal collaboration in the same market (horizontal or intra-sectoral), as a collaborative alliance (Gray, 1989; Wood & Gray, 1991), or as a formal contract-

¹ An exception to this is the lift-link between Samnaun (CH) and Ischgl (AT) in 1978.

² A satellite resort is defined as a ski resort which is often smaller than the principal, and often located in a remote area or in a corner of the wider ski area.

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