

Influence of local environment on exit of accommodation establishments

Martin Falk^a, Eva Hagsten^{b,*},¹

^a Austrian Institute of Economic Research (WIFO), Austria

^b University of Iceland, Iceland



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ABSTRACT

This study investigates how the local environment (access to fibre broadband infrastructure, local competition and seasonality) alongside commonly established factors such as size, age and price, influences exit of accommodation establishments during a period of ten years. Cox proportional hazard model estimations based on census data for the accommodation sector show that the supply of fibre broadband infrastructure on the premises, or close by, is of importance for the continuation of the establishment. However, size is the solely most influential factor for longevity of accommodation establishments, followed by seasonality (increasing the risk of exit), fibre broadband supply (except for city hotels) and the price level. Local competition is only marginally relevant, for city hotels. In addition, the estimations show no clear traces of the financial crisis.

1. Introduction

The accommodation sector provides services of a specific kind: inseparable (room, food, drink and entertainment, for instance). This means that the production of the service cannot be disconnected from its consumption, nor can it be moved, stored or exported (Moeller, 2010). Thus, a local rather than global substitutability could exist, implying that the physical environment within which the establishment is operating may affect its performance or survival to a larger degree than for other businesses. Local competition and seasonality are factors found to affect the exit of accommodation establishments (Baum & Mezas, 1992; G mar, Moniche, & Morales, 2016; Kaniovski, Peneder, & Smeral, 2008; Vivel-B a, Lado-Sestayo, & Otero-Gonz alez, 2016). In addition, ICT technologies or adoption enhance the performance of hotels or other types of service firms in rural areas (Ivus & Boland, 2015; Scaglione, Schegg, & Murphy, 2009; Sirirak, Islam & Ba Khang, 2011). Mihali  and Buhalis (2013) argue that the quality of the ICT infrastructure is of particular importance for small hotels and Cobanoglu, Berezina, Kasavana, and Erdem (2011) as well as Brochado, Rita, and Margarido (2016) emphasise the importance of high-quality internet or broadband access to keep hotel guests satisfied.

The aim of this study is to provide first insights into the importance of a bundle of location specific factors (supply of fibre broadband infrastructure, local competition and seasonality) for exit of accommodation establishments. In addition, common or establishment distinctive factors such as size, age, price segment and share of foreign visitors (export of services) are investigated. To allow for analysis of

establishment heterogeneity, an exhaustive single-country dataset is used (census of hotels, hostels and cottages in Sweden). By using establishment data, difficulties related to mergers and acquisitions often arising in firm-level analysis can be avoided. This is feasible because an establishment is, contrary to a firm, geographically and not legally defined. The exit probability is modelled as a function of the location- and establishment-specific factors based on data from 2002 to 2012 for approximately 3000 hotels, hostels and cottages, by use of a Cox proportional hazard model with time-varying and time-invariant variables (Cox, 1972). Simplified, this approach describes the status in years t_1 to t_n of an accommodation establishment that existed in year t_0 : either it continues operations or it closes down (Fig. 1). Besides common establishment and macroeconomic factors (withheld in the illustration), exit is expected to depend on the local environment. Municipalities are used as boundaries for the local markets. Given that seasonality generally is related to the situation of the accommodation establishment, it is considered an external rather than an internal factor.

Several studies investigate the determinants of exit of accommodation establishments, often with a specific interest in hotels (Baum & Ingram, 1998; Baum & Mezas, 1992; Chen & Yeh, 2012; G mar et al., 2016; Ingram & Baum, 1997; Kalnins & Chung, 2006; Kaniovski et al., 2008; Lado-Sestayo, Vivel-B a, & Otero-Gonz alez, 2016; Li & Sun, 2012; Li, Li, Chang, & Sun, 2013; Park & Hancer, 2012; Vivel-B a et al., 2016; Youn & Gu, 2010). The main findings reveal that location, agglomeration, local competition, market concentration as well as hotel characteristics (initial size, age, price segment and financial status) are of importance. Much emphasis is also put on the role of agglomeration

* Corresponding author. University of Iceland, S mundargata 2. 101 Reykjav k, Iceland.
E-mail address: eva.hagsten@gmail.com (E. Hagsten).

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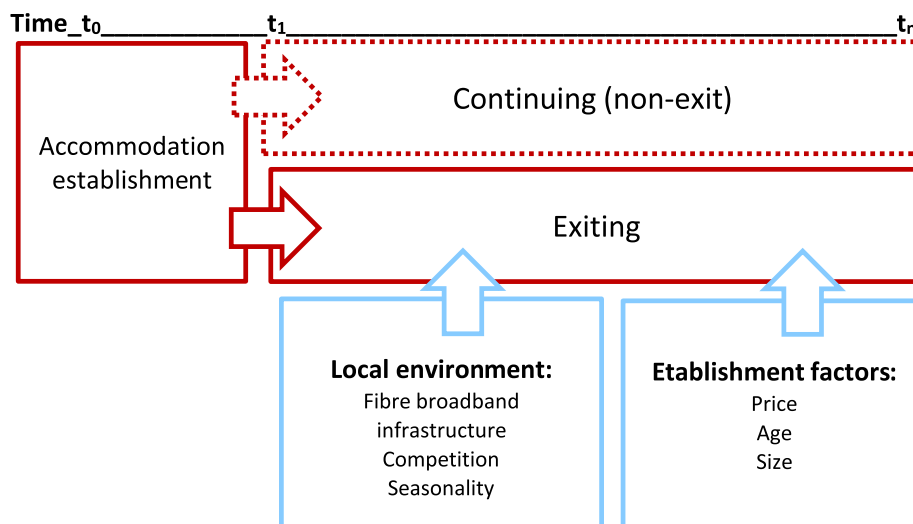


Fig. 1. Graphic illustration of survival model.

(Baum & Mezias, 1992), chain affiliation (Ingram & Baum, 1997) and financial indicators such as liquidity, solvency and profitability (Gu & Gao, 2000; Li & Sun, 2012; Li et al., 2013; Park & Hancer, 2012; Youn & Gu, 2010). Other strands of the literature stress the role of seasonality (Kaniovski et al., 2008), business cycles (Gémar et al., 2016), demand uncertainty (Chen & Yeh, 2012), proximity to airports (Gémar et al., 2016), management or owner specifics (Brouder & Eriksson, 2013) and local demographic factors (Parsa, van der Rest, Smith, Parsa, & Bujisic, 2015).

Despite the large number of studies, there is no consensus about the factors influencing survival (or exit) other than initial accommodation size. Instead, the significance of other determinants investigated (local competition and age) varies considerably across the studies. There is also a deficit of studies investigating the role of high speed broadband supply related to exit of accommodation establishments. In addition, available studies are challenging to compare because of differences in sample features (inclusion of small hotels), estimation methods (survival or logit models), measurement and definition of key variables as well as geographical coverage (total country or region). A common denominator of the studies is that the sample of hotel establishments is restricted to medium-sized or large hotels, exceeding a certain revenue threshold.

The novelty of this study is the investigation of exit determinants for establishments providing inseparable services, based on census data for hotels, hostels and cottages, with special emphasis on variables describing the local environment (supply of fibre broadband infrastructure, local competition and seasonality). Not only all accommodation establishments are included (as opposed to the literature based on financial reports that commonly neglect small operational units), but there is also a full geographic coverage of rural and urban areas, allowing city hotels to be analysed separately. By linking regional information from different sources to the accommodation dataset, a second layer is obtained, including variables on the local environment.

2. Theoretical background

The starting point for this study is the theory of “Noisy selection”, where efficient firms grow and survive while inefficient ones decline and fail (Jovanovic, 1982). Hopenhayn (1992) takes the theory further by showing that the rate of survival is higher for older and larger firms. However, economics is not the only field that takes an interest in the duration of firms. The importance of age and size has also been highlighted in studies based on the population ecology theory (“liability of newness” and “liability of smallness”), where the populations of

organisations (firms) and their environment is in focus (Aldrich & Auster, 1986; Freeman, Carroll, & Hannan, 1983; Hannan & Freeman, 1977). As a parallel, seminal management strategy research describes the industry environment of the firms as five competitive forces of importance for profitability (Porter, 2008). Still, it is uncertain to what extent these general theories are directly applicable to heterogeneous establishments (Bartelsman & Doms, 2000; Syverson, 2011) that provide non-separable services. Because of this, results based on a broader set of theoretical approaches such as agglomeration (Baum & Mezias, 1992), regional dimensions (Fritsch, Brixey, & Falck, 2006; Huggins, Prokop, & Thompson, 2017; Lado-Sestayo et al., 2016), entrepreneurship (Ilmakunnas & Topi, 1999) and new trade theory (Melitz & Ottaviano, 2008; Melitz, 2003) are also taken into account in the choice of explanatory variables.

In a survey of the empirical literature, Siegfried and Evans (1994) emphasise that age and size are focal points for exit (survival) of firms. The disadvantage of small and young firms is often related to limited access to external funds or to difficulties in hiring staff (Audretsch, 1995). Innovation activity is another crucial factor behind firm survival. In general, firms that successfully innovate are able to establish a competitive advantage in the market (Audretsch & Mahmood, 1995) and thus have a lower exit risk (Buddelmeyer, Jensen, & Webster, 2010; Cefis & Marsili, 2005; Fernandes & Paunov, 2015). Non-technological innovations, for instance within marketing, are more frequent than product and process innovations in the accommodation sector.²

Recently, the technological environment made possible by generic innovations has become an important source of competitive advantage for firms in general (Cardona, Kretschmer, & Strobel, 2013; Hagsten, 2016) and for accommodation establishments in particular (Ivus & Boland, 2015; Scaglione et al., 2009; Sirirak, Islam, & Ba Khang, 2011). Studies on municipality-level data show that broadband internet supply might have a favourable impact on the local economy (Atasoy, 2013; Kolko, 2012). Based on regional data at the postal code level for the US, Kolko (2012) finds a strong positive association between local broadband availability, defined by speed, and local employment growth. In addition, using a representative sample of Norwegian firms, Akerman, Gaarder, and Mogstad (2015) demonstrate that an increased availability of broadband internet access improves the labour outcomes of skilled workers in the local labour market. Recent analysis of US county data (Tranos & Mack, 2016) show that broadband internet infrastructure leads to increases in the number of local establishments in knowledge intensive service firms.

² Source: Community Innovation survey, Authors calculations.

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