



University of
Massachusetts
Amherst

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Abstracts of Presentations at the 2016 Annual Iahfme Research Symposium

The Attenuating Effect of Brand Diversification on the Relationship between Franchising and Firm Performance

TMurat Kizildag, Melih Madanoglu and Kyuho Lee

Abstract

Franchising some and owning other outlets is considered a performance-enhancing strategy relative to owning all outlets. Few studies explored when franchising reduces firm performance, however. We fill this gap by using two moderators: brand diversification and geographic dispersion. Using a sample of restaurant firms for the 1997-2012, we find that brand diversification and geographic dispersion moderate the relationship between franchising and firm financial performance through a three-way interaction. In line with our predictions, for firms with high geographic dispersion, the influence of franchising is more negative when combined with high brand diversification. Results were similar for franchising firms with low geographic dispersion and high brand diversification. Overall, findings indicate that franchising is not always performance enhancing. Thus, franchising restaurant firms should exercise some caution prior to executing a multi-branding strategy.

Sensitivity of Investments to Internal Capital in Restaurant firms: Franchising vs. Non-Franchising Restaurant firms

Sensitivity of Investments to Internal Capital in Restaurant firms: Franchising vs. Non-Franchising Restaurant firms

Tarik Dogru and Arun Upneja

Abstract

The purpose of this study is to examine whether expansion through franchising decreases underinvestment problems or it creates overinvestment problems in restaurant firms. For this purpose, restaurants firms' sensitivity of investments to cash flows are examined for the period of 1995-2015. Contrary to the findings in

mainstream corporate finance literature, the results show that unconstrained restaurant firms depend more on cash flows for investment than do constrained restaurant firms. In particular, unconstrained restaurant firms that expand through franchising depend more on cash flows than constrained restaurant firms. Nonetheless, investment-cash flow sensitivities of non-franchising restaurant firms were similar to the findings in mainstream corporate finance literature. These results suggest that expansion through franchising exacerbates overinvestment problems in unconstrained restaurant firms. Practical implications are discussed within the realm of hospitality and corporate finance literature.

Impact of the PATH Act / FIRPTA Reform on REITs and the Hotel Sector

Mark S. Johnson and Arjun J. Singh

Abstract

On December 18, 2015, President Obama signed the Protecting Americans from Tax Hikes Act of 2015. The Act has been viewed by many to be good news for REITs and non-U.S. investors because the reform measures facilitate foreign investments in U.S. real estate through changes in the tax code. The Act, however, significantly restricts REIT spinoff transactions and REIT formation. Thus, the legislation has potentially positive (tax) and negative effects (REIT spinoff and REIT creation restrictions) on REITs and the industries in which they operate. Utilizing the Capital Asset Pricing Model, we conduct an event study that examines events associated with the legislation (introduction, passage and signing). From the analysis, we draw three conclusions. One, for the sample of 160 REITs, spanning all publicly traded REITs in the U.S. market, we find that the legislation caused an overall impact of -2.2% of stockholder wealth. Two, we find that Healthcare REITs (-4%) and Hotel REITs (-2.9%) are more negatively impacted than other REIT sectors.

Three, a close examination of the Hotel industry reveals that while Hotel REITs were negatively impacted by the legislation C-Corps in the hotel industry were unaffected by the legislation. That is, the legislation is detrimental to Hotel REITs but not to the C-Corps which manage and sometimes own Hotel Properties.

Customer vs Citizen Willingness to Pay for Unhealthy Food Choices Risk Reduction Labeling

Yuxia Ouyang and Dr. Amit Sharma

Abstract

Studies have found that consumers value health-related information labeling. Such message, by indicating the quality of food, reduces information asymmetry between consumers and food product suppliers. Past studies have also found consumers to be willing to pay extra to support the labeling implementation. Furthermore, in studies that investigate customers' willingness to pay (WTP) preferences, individuals have been found to exhibit different levels of WTP for food labeling regulations when acting as a voting citizen than a buying consumer. Such consumer-citizen duality is resulted from individual's different roles in life: in their role as consumers,

they make purchase and only consider their individual benefits; while as citizens, they vote on laws that regulate the products they purchase so they are also concerned about the public right and benefits for the community. Only considering individual's preference as a buying consumer may fail to provide correct preference measure for policy makers when the object is to establish regulation. This study examines people's willingness to pay (WTP) extra for unhealthy food warning message that expects to reduce people's unhealthy food choices risk in both contexts as buying consumers and voting citizens. It addresses two important issues. First, if healthy warning message that expects to reduce unhealthy food choices risk by certain degree were labeled on menus in a restaurant, would people be willing to pay extra when acting as a citizen to vote for a mandatory regulation than as a buying consumer? Second, when people are shown message that is expected to reduce unhealthy consumption to a higher extent, will they be willing to pay extra for the labeling regulation? As such, the results of the study provide a better understanding of the citizen-consumer duality theory that people exhibit different preferences of WTP for unhealthy food warning message, when acting as a voting citizen than as a buying consumer.