A SYSTEMIC STUDY ON THE HOSPITALITY INDUSTRY'S IDENTIFICATION OF INTANGIBLE CAPITAL

Gaurav Khurana[1], Jitin Sharma[2]
[1,2]Guru Kashi University, Talwandi Sabo

ABSTRACT

In most cases, the market value of a company and the book value of a company are not equal. Since the 1970s, there has been a large growth in the difference ascribed to intangible assets that have not been documented or recognised. However, the question of how to value these intangible assets remains unanswered. This study's goal is to solve the industry's lack of awareness of the value of intangible assets. Based on past research in the hotel sector, five intangible asset investments: Research and Development, Training, Advertising, Labour, Pension, and one business model, Franchising, were selected as the valuation structures in this study. Both the casual dining and fast service restaurant industries' value methodologies are contrasted. For the first time, a quantitative technique to value intangible assets in the hotel sector has been developed that incorporates valuation components from prior studies. The findings of this study will assist managers in the hotel sector make strategic decisions, particularly in the areas of research and development, advertising, and staff remuneration.

Keywords: hospitality, intangible, Multivariate Analysis, Pension

I. Introduction

Publicly traded companies rarely have book values and market values that are identical. This mismatch has been the subject of several explanations from experts across a wide range of fields. This market premium is mostly explained by growth prospects and potential mispricing in financial literature. It's like a true call option, where the value of the option depends on the company's future discretionary investment decisions. As a result of this difference, accounting literature refers to it as "unrecognised intangible assets and asset appreciation." Intellectual capital is a phrase commonly used in business and legal literature to represent the discrepancy between a company's book value and its market worth (Pedro, Leitão, & Alves, 2018). However, despite their differing viewpoints, these answers are not in conflict with each other. Opportunities for expansion might be found among the intangible assets that have yet to be identified. Unrecognized intangible assets might potentially contain intellectual capital. To explain the discrepancy between book value and market value, I look at the underappreciated appreciation of tangible and intangible assets in this research.

II. Purpose of the Study

The subject of measuring and valuing intangible assets has not been clearly studied in the hospitality literature, despite the fact that intangible assets have caught the attention of academic scholars from numerous domains, such as finance, accounting, and management (Shi, & Li, 2019). This study's goal is to fill a gap in our understanding of the value of intangible assets in the casual dining restaurant business, as well as to give managers in the hospitality industry practical advice. The following goals are the focus of this research:

1. Examine the effect on the market-to-book ratio of the appreciation of land and buildings.
2. Examine the effect on the market-to-book ratio of franchising decisions.

3. In the casual dining market, how important is it to build, acquire, and manage intangible assets?
4. Comparatively, casual dining restaurants and fast service restaurants have different needs for intangible asset appraisal.

III. Research Questions

To recap the prior discussion, the following four topics are the focus of this study:

1. In the casual eating business, what is the impact of land and building value on market to book?
2. How does the choice to franchise affect the market-to-book ratio in the casual dining industry?
3. The value of a casual dining restaurant's intangible assets is influenced by the following factors:
4. Is there any difference in the relevance of intangible asset valuation frameworks between the casual dining and fast service restaurant industries?

IV. Theoretical Background

Definition of Intangible Assets

A basic understanding of the term "asset" is required before to delving into the topic of intangible assets. As a rule of thumb, an asset is defined as something of value that is possessed. From a financial accounting standpoint, assets represent a company's economic resources that may be used in the future to generate revenue and profit (Huang, & Liu, 2021). Assets may be classified into tangible and intangible assets based on their physical qualities, which both have all of the criteria of assets. Assets that can be seen, touched, and felt are called tangible assets; those that cannot be seen, touched, or felt are called intangible assets.

V. Research MethodologyMultivariate Analysis

Multiple measures may be studied simultaneously using multivariate analysis, a set of statistical techniques (Li, & Singal, 2019). The first, second, third, and fourth research topics will be analysed using multiple regression. When one of the independent variables changes, multiple regression investigates the effect on the dependent variables (Rico, *et al.* 2020). A multiple regression analysis will be carried out to determine how the ratio of market value to book value has changed as a result of land and building appreciation and franchising, as well as how the worth of the business changes as a result of changes in intangible value.

What we are interested in is determining how much gap there is between the market and book values. Research and development costs, advertising costs, training costs, additional labour costs, additional pension costs, and franchising are all independent factors. Variables that may be controlled include revenue, staff count, total assets, market return, return on assets, and various theories and theories of the business model.

Pearson Correlation

Measures linear dependency between two variables using the Pearson Correlation. The first study looks at the link between the market-to-book ratios in the casual dining restaurant business and the unacknowledged appreciations in land and buildings (Li, & Singal, 2019). In order to get an answer to the first research question, we'll use the Pearson Correlation.

Hausman Test

In a multiple regression model, the fixed and random effects are determined using a Hausman test. Panel data is the type of sample used in this investigation (Alvarez-Ferrer, *et al.* 2018). In a panel study, several individuals are studied at various moments in time. Using panel data, a Hausman test may be used to compare the performance of fixed and random models.

VI. Summary

Unrecorded or unacknowledged intangible assets are blamed for the widening gap between a company's market value and book value (Ali, *et al.* 2020). Despite the fact that this discrepancy has expanded dramatically since the 1970s, there is no consensus on how to adequately value these assets.

Our knowledge gap in the hotel business is being filled with this study, which also provides practical advice for managers. An investigation of how intangible assets affect a company's worth is the focus of this study.

VII. Limitations of This Study

This study has significant limitations, mostly owing to the lack of available data. As a first step, most of the sample businesses' franchising information is not accessible for years prior to the 1990s. This research uses franchising as a dummy variable (Costa, Silva, & Paula, 2020). Due to the Multicollinearity problem, it is automatically eliminated from the final model of the casual dining restaurant business. This study's Multicollinearity problem might be mitigated if firm-years prior to the 1990s had comprehensive franchising data accessible to the researchers.

Second, neither quick service nor casual dining restaurant chains have separate records for R&D and training expenses. This research compares and contrasts the two types of intangible investments. One way to better assess the influence of R&D and Training on intangible assets would be to have distinct information available.

There are three reasons why the REIT index doesn't go back further than 1971: If the REIT index is kept for a longer length of time, more firm years can be included in the multiple regression analysis (Baima, *et al.* 2020). Multicollinearity may no longer be an issue if more years of data are included in the multiple regression analysis of casual dining restaurant companies, as it was in the final model.

For the fourth time, the land and buildings recorded on the balance sheets of both casual dining and fast service restaurant businesses can only be found on a nationwide scale. On a national level, the REIT index is also published Accurate adjustments to land and building appreciation might have been made if regional data on land and buildings and the REIT index had been available.

VIII. Suggestions for Future Research

First, future study might investigate the variables that have contributed to the growth in market-to-book ratios in the casual dining restaurant business and the quick service restaurant industry. Only R&D investments have a positive influence on a firm's market-to-book ratio in the casual dining and fast service restaurant industries, out of the six valuation models for intangible assets (Pedro, Leitão, & Alves, 2018). In both the restaurant and advertising businesses, the market-to-book ratio was influenced in different ways by advertising, labour, and pensions. The causes of these various effects might be investigated in more depth in the future.

Second, franchise is included as a dummy variable in this study's multiple regression analyses, as described in the restriction section (Ferreira, Fernandes, & Veiga, 2020). A proportion of franchise units might be used as an independent variable in future studies, rather than the dummy variable it now is. Multicollinearity will probably be eliminated if the proportion of franchise units is included in multiple regression analysis. Since franchising decisions have an influence on casual dining restaurants' market value, this research question can be answered.

To round things off, given that the market-to-book ratios of both casual dining and fast service restaurant companies are lower than those of the S&P 500, it would be fascinating to evaluate the relative relevance of intangible asset valuation components between the two types of companies. An intangible asset valuation concept used by S&P 500 companies is research and development and advertising. Research on labour and pensions, on the other hand, has gotten far less attention than that on R&D and advertising.

An additional area for investigation would be the effect of marketing on a company's perceived value in the hospitality industry. For both cross-sectional sample enterprises and restaurant firms, advertising has been found to be an efficient strategy for conveying a firm's business principles to its clients and creating brand equity (Martínez-Martínez, *et al.* 2020). Ads may not operate in the same manner for all restaurant types, according to one study. Quick-service restaurants saw a favourable impact on intangible assets from advertising, whereas casual dining restaurants saw a negative impact.

In fact, it had a negative impact on the casual dining restaurant industry's intangible value. It is possible that future studies may look at the impact of advertising on the intangible worth of other types of hospitality businesses as well (Huang, & Liu, 2021).

For the fifth time we may look at the relevance of investments in employee-related intangible assets in the context of various hospitality categories. Casual dining restaurants and fast service restaurants are influenced by employee-related expenditures in different ways, according to this study's findings (Pechlivanidis, Ginoglou, & Barmpoutis, 2021). With regard to quick-service restaurants, labour and pension investments were detrimental to intangible assets; however, these investments were beneficial to the casual dining sector. This discrepancy can be attributed to the two industries' varying degrees of customer service. In the future, researchers might look at the influence of employee-related spending on a company's intangible value in other divisions of the hospitality industry.

There are several ways this research might be used to the hospitality industry as a whole. Intangible asset value is examined in both the casual dining and fast food industries. In the future, researchers may look at other industries, such as the fast-food and fine-dining industries.

IX. Recommendation

As a last point, future studies might look at how hospitality companies account for intangible investments in accordance with FASB standards. A firm's market premium on tangible assets as well as on intangible assets that are not recorded in its balance sheet is defined as the difference between market value and book value (López-Chávez, *et al.* 2020). For physical assets, the market premium is directly related to the rule of historical cost. On balance sheets, certain tangible assets must be evaluated using historical costs.

As a result, the book value includes past expenses, whereas the market value includes fair values. The book value and the market value of these tangible assets will be different since the fair values of these assets may change over time. FASB's proposal that intangible asset investments be expensed as incurred is another reason for the disparity. Intangible asset investments should not be capitalised and reported as investment cash outflows, but rather expensed as incurred, which results in a direct deduction from operational cash flows in the current period. Literature has shown a connection between operating cash flow and company value. Preliminary studies have shown a link between operational cash flow and company value. The real amount of operational cash flows is fraudulently reduced by combining intangible asset investments with other operating expenditures, which offers false information to financial analysts and investors (Wahjudewanti, Tjakraatmaja, & Anggoro, 2021). As a result, publicly listed companies are unwilling to engage in intangible assets with current operational cash flows because of this misunderstanding of intangible asset investments. Although the future advantages may totally outweigh present cash withdrawals, this is especially true for enterprises that lack strong operating cash flow generation skills. Cash is king in the fast-casual restaurant industry (Shi, & Li, 2019). Casual dining businesses rely heavily on their operating cash flows to stay afloat on a day-to-day basis. Given the misclassification of intangible asset investments, future study may focus on casual dining restaurants and how they allocate operational cash flow to intangible asset investments.

\X. Summary

Four research questions are examined in this chapter (Pereira, *et al.* 2021). We discuss the consequences for the hotel sector in terms of both theory and management practise. This research has some limitations. Finally, recommendations are provided for further research.

XI. Conclusion

This research sheds light on how the hotel sector values its intangible assets. Two hypotheses were supported, one was not, and one remained unresolved because of multiple regression models' concerns with multicollinearity. (Rico, *et al.* 2020) However, there are certain distinctions between casual dining restaurants and fast service restaurants when it comes to the importance of R&D, training, advertising, labour and pension in the hospitality business.

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