INTERNATIONAL HELLENIC UNIVERSITY

School of Economics & Business
Department of Organisation Management, Marketing and Tourism

John Rices, Muhammad Mustafa Raziq, Nigel Martin, Peter Fieger & Bridget Rice

Full Paper — Published Version

The debt crisis and the adoption of Asset-Light and Fee-Orientated (ALFO) arrangements at Marriott: 1980-1995

Journal of Tourism, Heritage & Services Marketing

Suggested Citation: Rice, J., Raziq, M.M., Martin, N., Fieger, P., & Rice, B. (2023). The debt crisis and the adoption of Asset-Light and Fee-Orientated (ALFO) arrangements at Marriott: 1980-1995. Journal of Tourism, Heritage & Services Marketing, 9(1), 58–66. https://doi.org/10.5281/zenodo.8054968

Persistent identifier:
DOI: 10.5281/zenodo.8054968

CASE STUDY

The debt crisis and the adoption of Asset-Light and Fee-Orientated (ALFO) arrangements at Marriott: 1980-1995

John Rice
University of Sharjah, United Arab Emirates

Muhammad Mustafa Raziq
University of Sharjah, United Arab Emirates

Nigel Martin
Australian National University, Australia

Peter Fieger
University of New England, Australia

Bridget Rice
Zayed University, United Arab Emirates

Abstract:

Purpose: *This case study examines Marriott Corporation's large and successful spinoff between 1993 and 1995 and the concomitant adoption of a corporate ALFO strategy enabled by the transfer of assets and debt between the two entities. As an example of corporate restructuring, it involves changing ownership, operational structure, or business activities within a corporation in order to improve shareholder performance.*
Methods: *Key directional changes in Marriott's history that have changed the structure of the business is used to examine the spinoff and ALFO strategy adaptation.*
Results: *Marriot have been characterised by a small number of significant and foresightful innovations. There was a great deal of importance attached to the company's move away from food service and towards accommodation in the future. During the early stages of the company's existence, the company was located near Marriott's Bethesda headquarters and was headed by the founder's oldest son. There is no doubt that these investments have been probing in nature in the recent past, but they are significant in terms of scale and commitment in the future.*
Implications: *Marriott's success can be attributed to the fact that the company has a flexible corporate strategy that focuses on high growth and high yield business opportunities, as well as the willingness to dispose of assets that don't provide this outcome. As a result of this focus, the company was able to grow globally from the 1990s onwards. Ultimately, it can be said that the company's success can be attributed to the fact that it has adapted appropriately and successfully to changing operational and industry realities over the course of many decades, especially as exigencies in the asset and debt markets rendered the portfolio structure it had developed over so many decades unsustainable.*

Keywords: *Business history, Capability development, Lodging industry, Financing models*

JEL Classification: *B1, N80, Z30*

Biographical note: John Rice (jrice@sharjah.ac.ae) is Professor of Business at the College of Business Administration, University of Sharjah with a PhD in strategic management from Curtin University. He has previously worked at a number of Australian universities and has taught from undergraduate to doctoral levels in Europe, North America and Asia. He is an active researcher in the areas of sustainability, innovation and human resource management issues – especially as these intersect with business strategy. Muhammad Mustafa

ISSN: 2529-1947. UDC: 658.8+338.48+339.1+640(05)
http://doi.org/10.5281/zenodo.8054968
Published online: 10 June 2020
www.jthsm.gr

Raziq (mraziq@sharjah.ac.ae) is currently serving as Associate Professor at the University of Sharjah and the NUST Business School. He has a PhD in Strategic Management from Massey University, New Zealand. His research interests lie at an intersection between strategy and international business/management. He is also very much interested in research on leadership and organization. Mustafa is currently serving as Associate Editor for The Bottom Line and Innovation & Management Review. Nigel Martin (nigel.martin@anu.edu.au) is a Senior Lecturer of Business and Information Systems at the Australian National University. Nigel's research areas span business and technology management, management information systems, energy and climate policy, and environmental sustainability and regulation. In particular, he focuses on the application of information analysis to resolve complex engineering and technology related problems and issues. Nigel has written widely on these areas, with his research published in a number of leading academic journals including Accounting, Accountability Journal, Personnel Review, Renewable Energy, Journal of Environmental Management, Journal of Cleaner Production, and Behaviour and Information Technology. Peter Fieger (pfieger2@une.edu.au) holds a doctorate in economics of education through UNE Business School and is Senior Lecturer at Federation University, Australia. His primary research interests lie in research methods, econometric analysis, survey design and sampling strategies. He has published in leading journals in areas ranging from applied economics to organisational performance measurement. He has previously taught at the Auckland University of Technology and provides advanced statistical support for survey design and analysis for UNE Business School staff and higher degree students and also provides ad-hoc statistical advice for units relating to statistical research methods. Bridget Rice (bridget.rice@zayed.ac.ae) has a doctorate in business administration and serves as Assistant Professor at Zayed University's Abu Dhabi campus. She has interests in healthcare management, innovation and sustainability. She has worked at universities in Australia and the United Arab Emirates and has published in Employee Relations, Leadership & Organizational Development Journal and Personnel Review. Corresponding author: John Rice (jrice@sharjah.ac.ae).

1 INTRODUCTION

Marriott Corporation could be considered a modern iteration of a Chandlerian great American enterprise (Chandler, 1992). Today, Marriott is one of the world's largest lodging providers. In harnessing the economies of scale and scope available to it, and in assiduously building entry barriers to protect economic rents, Marriott Corporation is an exemplar of how a firm in a competitive industry can achieve long term corporate growth and sustained competitive advantage.

Marriott's successes can generally be attributed to its leadership of significant sectoral innovations within the lodging industry, both in relation to marketing strategies but also relating to capital structure reform (Marriott & Brown, 2013). The growth of Marriott over its more than 90-year history shows more evidence of an ability to radically reframe these marketing strategies and capital structure at key historical junctures, rather than an accumulating commitment to a singular strategy more common in the examples of Chandler. As such, Marriott provides an exemplar of an agile organisation that has been able to actively, and with great foresight, manage the emergence of its unique resources and organisational capabilities.

Marriott pioneered the Asset-Light and Fee-Oriented (ALFO) strategy, now almost universally applied in the global hotel industry. By divesting ownership of hotels and relying on franchising and management contracts, the brand expanded to become the world's biggest hotel chain. In terms of the ongoing business relationships associated with the ALFO arrangements, Marriott collects fees for use of its brand, marketing, and reservation systems from hotel owners. Franchisees pay an initial fee for the right to use the Marriott brand, plus ongoing royalties and other fees. Franchisees (or their subcontracted agents) are responsible for day-to-day operations, while Marriott provides support services.

For Marriott, advantages of the ALFO strategy include reduced financial exposure to real estate and asset depreciation, leveraging of local expertise during geographic expansion, and lower direct labor and capital costs. Potential drawbacks for Marriott include failure to adhere to standards by franchisees who are beyond the direct contractual control of the firm, and potential franchisee financial instability. Overall, however, the adoption of an ALFO strategy has been a source of significant success for Marriott, allowing the firm maintain profitability during periods of tourism sector contraction while growing a global portfolio of locations with relatively modest capital outlays (García-Gómez, Demir, Díez-Esteban & Bilan, 2021).

2 CORPORATE RESTRUCTURING, SPINOFFS AND VALUE CREATION

This paper investigates a large and successful spinoff conducted between 1993 and 1995 by Marriott Corporation and the concomitant adoption of an ALFO strategy that was facilitated by the sequestration of the assets and debt from one entity to another (Fernández-Barcala, González-Díaz & López-Bayón, 2022). It is an example of corporate restructuring which aims to improve shareholder performance through the change in ownership, operational structure, or organization of certain assets or business activities within a corporate entity. Types of restructuring include mergers, acquisitions, divestitures and spinoffs (Chon & Singh, 1993; DePamphilis, 2019; Korol & Spyridou, 2020; Nuryyev et al, 2021; Papana & Spyridou, 2020; Giousmpasoglou & Dinh, 2022).

A spinoff occurs when assets or operations are transferred to form a new, generally independent entity. Both entities emerge with separate management teams, board of directors if applicable, and shareholders (Garvin, 1983; Misirlis et al., 2018; Capone, Malerba & Orsenigo, 2019; Samitas et al, 2020; Spyridou et al, 2023). Spinoffs have been a popular restructuring method adopted in many jurisdictions, and studies often, albeit not universally, show that they create value for both the parent company and the new entity's shareholders (Aggarwal & Garg, 2019).

While spinoffs and mergers are mirror images of one another, both are mooted to create new shareholder value. In the case of mergers, benefits are said to accrue from scale or scope economies, or other forms of synergies between entities (Daley, Mehrotra & Sivakumar, 2007; Vassiliadis et al, 2013; Vlasic et al., 2019). By extension, for spinoffs, it would be assumed that these benefits are absent from the initial entity, or that any benefits that do exist do not compensate for the coordination costs involved in managing the diverse portfolio of businesses (Cusatis, Miles & Woolridge, 1993; Hubbard, Rice & Galvin, 2015; Priporas et al, 2018; Chatzigeorgiou et al., 2019; Nella, A., & Christou, 2021).

One common explanation for the success of spinoffs is that they provide the dual (or multiple) post-transaction entities with greater strategic focus. This strategic focus may incline the entities to greater clarity and purpose with regards to the development and deployment of a successful strategic plan. Relatedly, problems may be evident when diversified firms attempt to co-specialize in even complementary strategic arenas due to a variety of factors, including historical path dependencies inclining thinking and resourcing towards one over the other, capital resourcing asynchronicity and boundedness (the notion that organizational units tend to look first to their own operational and strategic imperatives before considering wider effects (Sigala et al., 2002; Schmidt & Braun, 2015).

Strategic management thinking is fundamentally focused on both the internal organisation and the external competitive environment. As part of the dynamic-capabilities view (DCV), firms build, integrate, and reconfigure their resources based on path-dependent processes to adapt to changing environments (Teece, Pisano, & Shuen, 1997, Makadok, 2001). By adapting to changing competitive conditions within their competitive milieu, firms can adapt to changing competitive conditions. Conceptually, the DCV is complementary, but independent to, the resource-based view (RBV) (Winter, 2003) due to its focus on dynamism internally and externally (Galvin, Rice & Liao, 2014; Christou et al., 2021). As a processual model, the DCV is evolutionary in nature, opposed to the innate static nature of the RBV.

At its most generally applied level, the DCV provides a basis for understanding how these resources are built and evolve over time. As applied to corporate strategy generally, and diversification in particular, the DCV focuses on the dual elements of related versus unrelated diversification (with the former preferred due to the capacity of firms to leverage capabilities in closely related competitive domains) and also capability surplus, in whole or in part, facilitating the extension of the organisation's operational focus with relatively low real and encountered costs (Schmidt & Braun, 2015).

This paper builds on the DCV to examine, in long view, significantly capability transformations undertaken by Marriott over its lifetime as a hospitality and lodging provider. In a practical sense these strategic changes were only possible through the decoupling of the major asset and debt bundles from the more entrepreneurial and fast moving consumer-focused business activities. It is framed primarily as a case study, but with reference to relevant extant theory both to contrast Marriot's approach with orthodox theory and also to examine how it has been an exemplar of capability-driven success.

3 MARRIOTT - THE EARLY DAYS

The corporation's founder, John Willard Marriott, was born in rural Utah in 1900 (O'Brien, 1977). His family were farmers, and Bill (as he came to be known) was raised tending sheep and other animals. It was a simple, frugal and austere existence, and Bill was entrusted with significant responsibilities from an early age (Gregersen & Black, 2002; Marriott, 2013).

Like most residents of Utah (then and now) the Marriotts were Mormons . Like all religiously attentive male Mormons who were able, Bill undertook a two-year, unpaid mission in New England in the north-East of the United States. Returning to Utah's State capital - Salt Lake City - in the summer of 1921, he passed through Washington, D.C., the nation's capital. While there:

"... [H]e walked from Capitol Hill to the Washington Monument, toiled up the steps to the top, walked back down again, and strolled over to the Lincoln Memorial. Everywhere he went tourists and pedestrians sweltered and sweated in the sultry, humid air. On the way back to his hotel, he just stood there in the street watching the crowds, he couldn't get over it: a push cart peddler would come along the street selling lemonade and soda pop and ice cream, and in minutes he would be cleaned out and on his way to stock up with another cartload" (O'Brien, 1977, p. 87).

Bill's innate entrepreneurial tendencies were sparked. After returning to Utah to study (he graduated from the University of Utah in 1926) and to marry his bride Alice, he returned to Washington, D.C. in 1927. Almost certainly driven, in whole or part, by his early rural poverty, he saw opportunities to develop a new business that would create wealth for his family's future.

Specifically, he noticed back home in Salt Lake City that customers were lined up to buy A&W root beer . This sweet beverage that does not contain caffeine (a stimulant banned by the Mormon church) was not available east of the Mississippi River – a region that contained most of the nation's population. If A&W was that popular in Utah, perhaps it would be popular in Washington, D.C. too.

Bill became the main franchisee to sell A&W root beer in Washington, D.C., and founded a root beer shop with nine stools. n the cooler weather, Bill's wife, Alice, began selling Mexican food she had learned from the nearby Mexican embassy. There were soon two more locations of The Hot Shoppes, which were dubbed 'The Hot Shoppes'.

Early on, Bill learnt something of entry barriers and idiosyncratic resource assemblage. As is the case today, American carbonated soft drink firms relied on local franchisees with exclusive production and distribution arrangements to incentivise local sales efforts. The rights to market A&W within the capital region provided a surety that Marriott's efforts in building the business could not be countered by similarly entrepreneurial minded food providers.

The good times, however, were not to last. The Great Depression hit in October, 1929, and Marriot lost his three stores and his life savings when his bank went bankrupt.

Irrepressibly he soon opened two more and then many more around Washington, D.C. In 1932, Bill and Alice had the first of their two children, also named John Willard and also to be known as Bill (henceforth denoted Bill Snr and Bill Jnr). Ever the entrepreneur, as the Hot Shoppes grew, Bill Snr looked for opportunities to diversify and started selling boxed lunches to airline passengers in 1937. Marriott's fast-food restaurants boomed during and after World War II, when millions of well-paid workers flooded into the country.

Hotel accommodation was Marriott's first diversification in 1957. Located just outside Washington, D.C., in Arlington, Virginia, the Twin Bridges Marriott Motor Hotel had 365 rooms with two double beds and a television. At the time of its establishment, this was one of the largest hotels in the country. As the Cold War took hold in post-WWII America, both the Pentagon (the first headquarters of the US military) and Washington National Airport were in the process of growing as the Cold War took hold.

When categorising this primary diversification in the corporation's history, it can be seen as radical in terms of operations, but less so in terms of issues like geography and customer knowledge. The new hotel was some ten miles from Marriott's Bethesda headquarters, facilitating close and direct monitoring of the business by senior management. As a preferred provider of accommodation for the corporation's own burgeoning workforce visiting Bethesda, strong occupancy was also guaranteed. As such the move into accommodation services was, in hindsight, rather low risk for the company.

During Marriott's early years, the company made two major sectoral diversification decisions, from fast food to airline catering, and then to accommodation. After years of being a fast food company, the company made a major move by diversifying into accommodation. Indeed, the accommodation diversification can be seen, in hindsight, as a risky venture for the company.

The new accommodation venture was entrusted to Bill Jnr, who was at the time 25 years old.

Bill Snr was a tough boss for Bill Jnr. In an interview in 2013, Bill Jnr said of his father:

"He was an interesting mentor in that he would rarely praise. Nothing was ever good enough. He was a perfectionist, and very critical, very tough. He would never really come right out and tell me what I ought to do. He tried to make me figure out what I should do" (New York Times, 2013).

Bills Snr's wife Alice played a strong part in clearing the way for Bill Jnr's emerging leadership role, both in 1957 (when he was appointed head of the nascent hotels division) and also in 1964, when Bill Jnr became President of the rapidly growing Marriott Corporation at the age of 32, and in 1972 when he became CEO.

During the 1950s and 1960s, steady growth was evident. The Hot Shoppes operated 45 stores and four hotels in 1964. A catering business in Venezuela was purchased by Marriott in 1966, marking Marriott's entry into the international market. A New York Stock Exchange listing occurred in 1968. A quadrupling of the company's size occurred between 1964 and 1970.

4 BILL JNR'S LEADERSHIP YEARS

With the advent of conventions in the 1970s and airline travel in general, Marriott's accommodation business focused on two related and emerging trends. Among the former is the Marriott in Atlanta's upmarket Buckhead district - a convention hotel with 349 guest rooms and 30,000 square feet of convention space, and among the latter is the Los Angeles Airport Marriott, which opened in 1973 with 1004 guest rooms.

As such, growth was the new aim for Marriott Corporation. Bill Jnr's ascendancy to the CEO role marked a change in Marriott Corporation's attitude to both growth and debt. Bill Jnr began raising bank loans and corporate debt to expand the company, perhaps prompted by Sheraton's and Hilton's expansion. Marriott had a history of mortgageing individual properties prior to Bill Jnr's appointment, which limited the corporation's liability in the event of financing problems. Due to his desire to grow rapidly, Bill Jnr left much of his father's legendary caution behind.

In 1971, at the beginning of Bill Jr's tenure, the company was divided into three divisions, namely food operations, catering to airlines, and hotels. The Corporation spent $3 billion in new capital during the 1970s' in order to expand its hotels division aggressively, with room numbers increasing by 17% each year. It was the first time that sales exceeded $1 billion in 1977

Marriott also diversified into related tourism sectors – generally with little success. Bill Jnr noted one of his worst decisions was to enter the cruise line industry:

"... one of the biggest ones was when we bought Sun Line Cruise Ships back in 1973. The mistake we made, we hooked up with a Greek partner who only could run the ships in Greece. That was about a 6-month season. He tried to get into the Caribbean but couldn't on a regular basis. It was the right time to enter the cruise ship business, because 1973, '74, Carnival [Cruise Lines] was just starting up.

We would've done great if we had had a partner who wanted to work the ships in the Caribbean, but we didn't. As the story goes, the Greek Cyprus war broke out a year after we bought this company, and our cruise ship was sailing into port as he sat at his Athens office. He was asked what he should do by the captain. I just got a call from the army, he said. Our ship is to be commandeered for troop transportation. War will be short. Call me later after you sail the Aegean Sea for another couple of days.

By the time the ship got back into port, the war was over, the Greek government never took his ship, but it was that kind of a mess we had on our hands with this Greek partner who just wasn't able to have a vision outside of Greece. And had he had the vision to really organize and locate the ships in the Caribbean, we would have had a fantastic business today, and we missed that opportunity." (Marriott, 2009).

In the wider US economy, other storms were brewing. During the 1970s, America faced an 'energy shock', and in 1979 President Jimmy Carter encouraged everyone to do what they could to save oil. Marriott's hotels depend on people flying and driving, and a downward slide in travel has negatively affected the company. During the erly stages of Ronald Regan's presidency, the economy soon recovered, airlines deregulated, and more Americans travelled for holidays. A combination of government stimulus policies and lower taxes led to an economic boom that put Marriott's hotels at an economic disadvantage.

Bill Jnr, ever the optimist, saw new opportunities in the early 1980s. Real estate investments became more profitable in 1981 after the Economic Recovery Tax Act 1981 allowed investors to write off $9 of their investments for every $1 invested in new projects.

These tax changes, and general economic buoyancy in the US, led to significant supply-side changes in the availability of hotels, resorts and convention accommodation. Marriott was a key player in this investment boom, but not the only player, and its competitors also added significant new capacity in the first half of the 1980s. Marriott also moved to create new product categories or service/price segmentation within its portfolio (the mid-priced Courtyard hotels were launched in 1983) that were developed using partnerships with property investors (Wind, Green, Shifflet & Scarbrough, (1989).

In 2009 (Marriott, 2009), Bill Jnr was quoted about the Courtyard hotels launch:

"[In 1983] we decided that we could go into what we called the limited-service business, which was a small hotel. I was opposed to it; I didn't understand it. None of the big hotel chains were doing it. Everybody was either building big box hotels like this or they were building roadside motels. We went out to our customers and we said, what do you really want in your next hotel stay? They said, 'a better room at a lower price'. And I said to our people, you mean we spent a million dollars in research to find out – [laughter] – that people want a better room at a lower price? And they said, yes.

So we designed a little hotel with no meeting space, very limited restaurant service, no bell service, no room service. It was called Courtyard. It was a lower-priced hotel and a great room, and we've got 800 of them now, and all the other hotel chains have followed us into this segment".

The corporation also borrowed heavily to acquire restaurant chains (Gino's in 1982) and smaller competitors (for example, the Howard Johnson chain of hotels and restaurants was acquired in 1985 after a bidding war against three other suitors).

Marriott also moved into timeshare – a business model where customers buy certain weeks use of a property within a year, shared with others, while also paying maintenance costs to the parent manager. This became an important and profitable element of the Marriott business.

In 2013 (Marriott, 2013), he noted of those years:

"Marriott had to transform itself into a deal-savvy organisation. Once again, our "order" adapted to the change. We found ourselves easing into the let's-make-a-deal mindset that characterised much of 1980s business. Our legal and finance departments quickly mastered the intricacies of syndications, limited partnerships and other real estate investment vehicles.

Large-scale deal making meant debt. My father [Bill Snr] had always viewed debt as an evil to be avoided at all costs. ...Borrowing money was anathema. But to achieve the magnitude of growth that would move Marriott to the next level, debt financing was vital. I talked; he listened; he grimaced; I borrowed".

The 'magnitude of growth' that Bill Jnr refers to was known as the 20:20 rule. Marriott sought to grow revenues by 20 percent per annum while retaining 20 percent returns on equity. This growth was possible off a small base in the 1970s, but as Marriott grew larger and larger, maintaining this compound growth was a challenge (Kennedy, 1988).

In hindsight, much of the debt-fueled success of the 1980s was illusory and destined to end in a crisis. On Monday 19 October, 1987, (Black Monday) the US stock market fell 22.6%, with the drop more acutely experienced by firms that were heavily indebted and held illiquid assets, like Marriott (Amihud, Mendelson & Wood, 1990). The problems became serious in 1990 as many doubted the firm would survive, and the share price dropped from around USD33 in early 1990 to a low of USD8.375 in October of the same year.

The growth at all costs mantra had caught up with the company, as Bill Jr later noted (Marriott, 2009):

"Well, we got going in the '80s primarily. We were building hotels and selling them to investors. We sold them to limited partnerships, we sold them to the Japanese, we sold them to big insurance companies, and – when the crash came in 1990 in the real estate business – we had about $3 billion worth of hotels on our books that we couldn't sell. We had contracts, the contracts were broken, the people walked away from them. We had about $300 million of cash flow to service $3 billion of debt. We were in trouble, we really were.

Bill Shaw did a great job as our CFO back then, of really hunkering down, and we got enough cash out of the company to keep going, and worked it out with the banks and we were fine. But that was really a scary, concerning time. We had the Gulf War going on, people stopped traveling, we had a recession, and we had the real estate bust."

The debt troubles had shaken Bill Jnr . He suffered two heart attacks in late 1989, perhaps in part due to pressure emerging from the company's debt troubles. In turn he looked for new ways to grow that did not involve owing billions of dollars to bond holders and banks. Various restructuring strategies were adopted by the company to reduce costs and maintain growth. Reducing capital expenditures, streamlining administrative processes and downsizing the company were some of the most important strategic actions. It was, however, a significant innovation in the way the business was structured, the first of its kind at the time. .

Marriott would develop hotels with investors' funds, transfer ownership but retain the rights to manage the hotel businesses. This reduced the capital invested by Marriott, but ensured that which was invested maintained high returns. Also, Marriott would seek to move the physical assets on its books – and the related debt – to a new business .

Bill Jnr saw the opportunity to grow the business by separating the develop/build/own functions of the business and the management of the hotels, harnessing this flood of money into real estate development . In hindsight, this structural separation of complex and hitherto integrated corporate activities was a fundamentally important development for Marriott.

Contemporaneous accounts (Wayne, 1985) show both the corporate commitment to this approach, and the differentiation this commitment provided for Marriott:

"Marriott sets itself apart from its industry through its clever use of financing, which results in Marriott typically managing its hotels, but not owning them. Other hotel

companies have used similar financial strategies to reduce risk, but none so aggressively as Marriott, which sells most of its hotels to outside investors and then manages the property under a contract. This has given Marriott a way to flatten the curves of a cyclical business and generate cash for capital-intensive projects".

Extending this process further, the company rehired former SVP of finance Stephen Bollenbach as its new CFO in early 1992 with a view to further financial and structural adjustment. Bollenbach was known for his financial restructuring skills, and had delivered similar arrangements in previous firms. Bollenbach's finance team devised Project Chariot using a corporate spinoff strategy.

Project Chariot and the separation of the corporation into two related entities was the basis of significant litigation soon after its announcement. Put simply, bondholders who had purchased debt securities issued by Marriot felt deceived inasmuch as they had not been informed that much of the income generating activity of the corporation was to be hived off into a separate legal entity. The judgement in one case (among around 20) is informative of the internal discussions and activities within Marriott during the first half of 1992 (PPM America, Inc. v. Marriott Corp., 853 F. Supp. 860 (D. Md. 1994),

Bollenbach became Marriott's Chief Financial Officer (hereinafter "CFO") on March 1, 1992. Plaintiffs contend that Bollenbach was hired by Marriott for the purpose of developing a plan whereby Marriott might dispose of its depressed real estate holdings. It is undisputed that Marriott's strategy throughout the 1980's was to purchase real estate, build hotels on the real estate, and then sell the hotel properties while retaining management contracts. The parties agree that Marriott's strategy of selling real estate while retaining management contracts was well publicized and was well understood by the securities markets. The parties further agree that this strategy, which had served Marriott profitably through the 1980's, began to falter in 1990 when the real estate market became depressed and Marriott could no longer easily dispose of its real estate holdings.

This assessment by Judge Alexander Harvey II is supported by contemporaneous media reporting on the role of Bollenbach. The judgment goes on to note:

In January of 1992, Marriott began to court Bollenbach, an acknowledged expert in the field of corporate restructurings. In the late 1980's, Bollenbach had successfully engineered a number of major restructurings.

Bollenbach had recent experience in the hospitality sector and had facilitated a similar transaction at his previous employer, Promus Corporation, that had seen a split of high yield/growth businesses from low growth real estate assets with related debt liabilities into two legal entities.

The judgment goes onto note that:

On February 13, 1992, Bollenbach met with Matthew J. Hart, Marriott's Treasurer. They discussed the problems being encountered by Marriott in its efforts to sell its real estate properties. Hart indicated that he intended to assign various Marriott individuals to analyze various possible solutions, and Hart and Bollenbach at this early date discussed the possibility of a "spin-off" of Marriott's real estate. Bollenbach officially began working for Marriott on March 1, 1992.

Subsequently, Marriott separated into two businesses in 1993 – Marriott International Incorporated (MII) and Host Marriott Corporation (HMC). MII was scoped to manage or franchise over 750 hotels, inns and senior living communities, while also delivering food catering, facilities and vacation timeshare management operations.

The outcome of Project Chariot, finally delivered after the transactions completed in 1995, was successful beyond the expectations of Marriott. While much can be attributed to contextual improvements exogeneous to the plan, the arrangements showed a degree of perspicacity in relation to how and when the US economy would improve.

First, the US economy was showing clear signs of recovery by 1995, with this seen in the valuations of Marriott's real estate division. By the time the spin-off transaction was finalised, real estate assets had returned to pre-recession valuations. Second, the spin-off provided an exit strategy for management from what was innately an over-complex business spanning real estate development, real estate asset management and hotel operations. By allowing management time to focus solely on the core hotel management business, there was evidence that performance in this area would benefit. Furthermore, the new entity, Host Marriott, was seen as appealing to investors in real estate assets as the underlying market for these improved.

Finally, the combined debt/equity ratio was optimised through the transaction across both businesses. Prior to the spin-off debt levels had reached USD4.8 billion, and debt/equity was around 40%. As the spinoff concluded, debt was reduced to around USD3.3 billion, with most held by Host Marriott, but given sectoral norms in the REIT industry, at comfortable levels. This in turn allowed Host Marriott access the debt capital markets at lower rates while allowing Marriott International to focus on opportunities associated with global brand expansion (Parrino, 1997).

In the other spun-off business, HMC would own 141 hotels and 16 senior living communities, continue the operations of its Travel Plaza business, and manage the delivery of real estate holdings and development projects. HMC was seen as a property company, with stable returns, and MII was seen as a vehicle to develop and leverage Marriott's hotel management capabilities.

An example of the high-yield businesses developed within MII was Marriott Vacation Club International (MVCI). Marriott had been working in the timeshare sector for some time, but in 1995 this division was created to develop and market timeshare arrangements. This element of the business grew strongly, and was eventually spun off itself in 2011 as Marriott Vacations Worldwide Corporation.

Importantly, HMC had total real estate holdings to the value of $3.3 billion, with 60% of these holdings being wholly unencumbered. In addition, the majority of holdings were blue chip real estate and strong cash flow performance assets.

On reflection, the spin-off of HMC benefitted from several key industry and economic factors as follows.

First, business conditions at the time of the restructure were characterized by political pressure to reduce leverage, the credit crunch and associated high yield bond market collapse (1991-1992), and the installation of anti-takeover legislation by the US government (Jensen, 1991; Comment & Schwert, 1995; Holmstrom and Kaplan, 2001). Importantly, this confluence of factors supported the aims of a stable restructure, while also protecting Marriott from hostile M&A activity.

Second, the spin-off, including the pre-emptive corporate downsizing and ongoing wage restraint, allowed the two firms to capitalize on the growth in international services trade throughout the 1990s (Wolff, 2003). This was particularly valuable as the lodgings industry exhibited improved fundamentals, profitability and growth in post-restructure timeframes (Su, 1998).

Third, the restructure occurred at the beginning of an improving US economic cycle with controlled inflation, stable unemployment and growth, and a lift in productivity through the 1990s (Mankiw, 2001). This has provided the two firms with an opportunity for growth and expansion. As an example, MII has acquired new businesses, including the Ritz Carlton chain in 2005, which has been transformed from a loss-maker into one of Marriott's star businesses.

Later named Host Hotels & Resorts, the spun-off listed vehicle continued to be one of Marriott's largest partner owners. Chaired by Bill Jnr's younger brother Richard, and with Stephen Bollenbach (the former Marriott Corporation CFO as CEO) Host continued to grow strongly as asset and debt markets became more favourable. While still a major partner owner for Marriott, Host expanded its portfolio to include hotels run by MII competitors Starwood , Hilton, Accor and Swissôtel, among others.

Many Corporations since have used these arrangements to maintain growth while concurrently lowering financial risk through 'deleveraging'. It has been a strategy that Marriott has developed and refined. Fundamentally, this separation strategy works as the business of owning properties and the business of running them require different but related capabilities and balance sheet characteristics (Lussi, Masset, Weisskopf & Blal, 2023).

The Marriott family's Mormon faith is more than an interesting family context in the case of Marriott Corporation. The social and ethical rectitude of Mormonism pervades the business – informing the manner in which people are treated and the way in which ethical behaviour should guide operational and strategic decisions. For example, at various times, Marriott grappled with the ethics of providing alcohol, in-room adult entertainment and casino gambling to its patrons – all frowned upon by the Mormon faith. Bill Snr made the (at the time) brave decision to open his restaurants in de facto segregated Virginia to black customers in 1960. These internal debates point to a serious consideration of the ethics of running the organisation.

It is perhaps worth considering the relevance this ethical stance had on investors, especially as the company restructured its operations in the 1990s. In an industry replete with speculators with questionable ethics, dealing with Marriott in terms of timeshare investments and real estate development and ownership may well have been seen as relatively less risky. Contemporaneous accounts speak of real estate investors being 'burned' by over optimistic projections among hotel operators (Greger & Withiam, 1991), although there is no evidence of this trend among Marriott managed properties.

However, the separation of the businesses between 1993 and 1995 did creates winners and losers – the latter especially including Marriot bondholders who were concerned that the security that lay behind their bonds was eroded by the transactions (Parrino, 1997). Indeed, on the announcement of the transaction bond values dropped from around 1.1 times face value to 0.8. A number of court cases ensued, notably PPM America, Inc. v. Marriott Corp., 853 F. Supp. 860 (D. Md. 1994), which while generally found in favor of Marriott, extracted some concessions for bond holders in the final transaction.

5 CONCLUSIONS

Key directional changes in Marriott's history have been characterised by a small number of significant and foresightful innovations that have changed the structure of the business. The move from food service to accommodation was an important one for the future of the company. The initial operations were close to Marriott's Bethesda headquarters, and were headed by the founder's oldest son. These investments into the lodging sector can be seen today as probing in nature, but significant in scale and commitment. This has been a characteristic of Marriott's portfolio innovation throughout its history.

Other portfolio innovations are seldom mentioned, but could also be seen as probing and significant. Examples of these were diversifications into theme parks and cruiselines. The fact that Marriott was able to abandon these ventures when they proved too challenging a fit for its corporate strategy points to a single mindedness in its pursuit of the dual aims of growth and profitability.

Clearly, the most significant innovation of Marriott has related to its far-reaching and bold financial management of its balance sheet as a result of 1992's Project Chariot plan. Driven as much by necessity as opportunity, the radical deleveraging of the emergent Mariott International in the mid-1990s was both effective in reducing debt and pointed to a new way of operating that Marriott has embraced since.

At the time, one analyst commented (Wayne, 1985):

"The fact that Marriott was able to take a cyclical business and make it uncyclical is positive, and the fact that they've taken a very capital-intensive industry - hotels - and made it noncapital-intensive is masterful."

Freed of the challenges of managing both a portfolio of real estate and a hotel business, Marriott has been exemplary in its success in the latter. The core of the Marriott business today is service provision. A typical Marriott is owned by a franchisee, REIT or pension fund or sovereign investor and managed by Marriott. This allows for high returns on capital invested. Franchisees pay steeply for Marriott's expertise, but are generally both loyal and satisfied as the Marriott brand brings in the customers, and switching to an alternative manager can be expensive and risky. As Marriott controls the creation of management contracts, it has been able to reduce its operational risks when the industry struggles, with accentuating its upside when the industry booms (Demir, Díez-Esteban & García-Gómez, 2019).

For Marriott ALFO created benefits relating to the economic and scale advantages of franchising with limited risks or liabilities. This business model approach reduced real estate costs while allowing the company to invest in its brand, its loyalty program, its platforms, and its operational technologies (Li & Singal, 2019).

Marriott's success can be seen as due to a flexible corporate strategy that focuses on high growth/yield businesses and a willingness to dispose of assets that cannot provide this outcome. This focus enabled the company to grow globally from the period of the 1990s onward. Its success can be seen in terms of its decisions to respond to changing operational and industry realities appropriately and successfully, especially as exigencies in asset and debt market made the portfolio structure it had developed over many decades unsustainable.

There is a danger to attribute Marriott's success to the success of these two innovations when luck was the primary driver (c.f. Barney, 1986). This would discount the fact that Marriott has shown its ability to exit ventures successfully (most notably fast food and other later ventures) throughout its history. Developing new ventures while concomitantly exiting old ventures has been the basis of the corporation's success.

Teece (2007) has explicated dynamic capabilities as the organisation's capacity in relation to sensing (an assessment of external threats and opportunities within and outside the firm), seizing (the effective mobilization of resources to appropriate value from those perceived opportunities) and transforming (continuous processes of renewal). Evidence from this case shows that Marriott has been able to concomitantly and consecutively undertake all three key activities, developing and renewing a corporate portfolio that is now a dominant player in the global lodging industry.

REFERENCES

Aggarwal, P., & Garg, S. (2019). Restructuring through spin-off: impact on shareholder wealth. Managerial Finance, 45(10/11), 1458-1468.

Amihud, Y., Mendelson, H., & Wood, R. (1990). Liquidity and the 1987 stock market crash. Journal of Portfolio Management, 16(3), 65-69.

Barney, J.B. (1986). Strategic factor markets: Expectations, luck, and business strategy. Management Science, 32(10): 1231-1241.

Capone, G., Malerba, F., & Orsenigo, L. (2019). Spinoffs in context: entry and performance across different industries. Industrial and Corporate Change, 28(2), 259-282.

Chandler, A. D. (1992). Organizational Capabilities and the Economic History of the Industrial Enterprise. The Journal of Economic Perspectives, 6(3), 79-100.

Chatzigeorgiou, C., Christou, E., & Simeli, I. (2019). Confidence and loyalty for agrotourism brands: The Lesvos paradigm. Tourismos: An International Multidisciplinary Journal of Tourism, 14(1), 151-166.

Chon, K. S., & Singh, A. (1993). Current economic issues facing the US lodging industry. International Journal of Contemporary Hospitality Management, 5(3), 350-372.

Comment, R., & Schwert, G.W. (1995). Poison or Placebo? Journal of Financial Economics 39, 3-44.

Crawford-Welch, S., & Tse, E. (1990). Mergers, acquisitions and alliances in the European hospitality industry. European Business Review, 2(1), 10-16.

Christou, E., Fotiadis, A. & Alexandris, K. (2021). Restarting tourism, travel and hospitality: The day after. Thessaloniki, Greece: International Hellenic University, ISBN: 978-618-84798-9-0. https://doi.org/10.5281/zenodo.5159065

Cusatis, P., Miles, J. & Woolridge, J. (1993) Restructuring through spinoffs: The stock market evidence. Journal of Financial Economics, 33(3): 293-311.

Demir, E., Díez-Esteban, J. M., & García-Gómez, C. D. (2019). The impact of geopolitical risks on cash holdings of hospitality companies: Evidence from emerging countries. Journal of Hospitality and Tourism Management, 39, 166-174. doi:10.1016/j.jhtm.2019.04.004

DePamphilis, D. (2019). Mergers, acquisitions, and other restructuring activities: An integrated approach to process, tools, cases, and solutions. Academic Press.

Fernández-Barcala, M., González-Díaz, M., & López-Bayón, S. (2022). Choosing contracts to support ALFO strategy: Insights from comparing franchised and managed hotels. Industrial Marketing Management, 105, 94-108. doi:10.1016/j.indmarman.2022.05.015.

Galvin, P., Rice, J. & Liao, T.-S. (2014) Applying a Darwinian model to the dynamic capabilities view: Insights and issues, Journal of Management and Organization, 2014, 20(2), 250–263.

García-Gómez, C. D., Demir, E., Díez-Esteban, J. M., & Bilan, Y. (2021). The impact of COVID-19 outbreak on hotels' value compared to previous diseases: the role of ALFO strategy. Heliyon, 7(8), e07836.

Garvin, D. A. (1983). Spin-offs and the new firm formation process. California Management Review, 25(2), 3-20.

Giousmpasoglou, C., & Dinh, D. (2022). Using contactless mobile payment in the Vietnamese restaurant industry. Journal of Tourism, Heritage & Services Marketing, 8(1), 3–15. https://doi.org/10.5281/zenodo.6581331

Greger, K. R., & Withiam, G. (1991). The View from the Helm Hotel Execs Examine the Industry. Cornell Hotel and Restaurant Administration Quarterly, 32(3), 18-35.

Gregersen, H. B., & Black, J. S. (2002). JW Marriott, Jr., on growing the legacy. The Academy of Management Executive, 16(2), 33-39.

Gupta, A. K., & Govindarajan, V. (2000). Managing global expansion: A conceptual framework. Business Horizons, 43(2), 45-54.

Holmstrom, B., & Kaplan, S.N. (2001). Corporate Governance and Merger Activity in the US: Making sense of the 1980s and 1990s. National Bureau of Economic Research (Working Paper Series 8820). Cambridge, MA.

Hubbard, G., Rice, J. & Galvin, P. (2015) Strategic Management, Pearson.

Jensen, M. C., (1991) Corporate control and the politics of finance, Journal of Applied Corporate Finance 4, 13–33.

Kennedy, C. (1988). How Marriott Corporation grew five-fold in ten years. Long Range Planning, 21(2), 10-14.

Korol, T., & Spyridou, A. (2020). Examining Ownership Equity as a Psychological Factor on Tourism Business Failure Forecasting. Frontiers in Psychology, 10, 3048

Li, Y., & Singal, M. (2019). Capital structure in the hospitality industry: The role of the asset-light and fee-oriented strategy. Tourism Management, 70, 124-133. doi:10.1016/j.tourman.2018.08.004

Lussi, S., Masset, P., Weisskopf, J. & Blal, I. (2023). Cross-dimensional measures of asset lightness and fee orientation in lodging groups. International Journal of Hospitality Management, 109 doi:10.1016/j.ijhm.2022.103391

Mankiw, N.G. (2001). US Monetary Policy during the 1990s. National Bureau of Economic Research (Working Paper Series 8471). Cambridge, MA.

Marriott, B. (2013). Marriott's Executive Chairman on Choosing the First Nonfamily CEO. Harvard Business Review, 91(5), 45-48.

Marriott, J. W. (2009) https://www.economicclub.org/events/jw-marriott-jr, Transcript of Speech.

Marriott, J.W & Brown, K. A. (2013) Without Reservations: How a Family Root Beer Stand Grew into a Global Hotel Company, Diversion Books, New York.

Misirlis, M., Lekakos, G., and Vlachopoulou, M. (2018). Associating Facebook measurable activities with personality traits: A fuzzy sets approach. Journal of Tourism, Heritage & Services Marketing, 4(2), 10–16. http://doi.org/10.5281/zenodo.1490360

Nella, A., & Christou, E. (2021). Market segmentation for wine tourism: Identifying sub-groups of winery visitors. European Journal of Tourism Research, 29, 2903.

New York Times (2013) http://www.nytimes.com/2013/05/26/business/bill-marriott-jr-on-inclusive-decision-making.html?_r=0, accessed 3 December, 2022.

Nuryyev, G., Spyridou, A., Yeh, S., & Lo, C.-C. (2021). Factors of digital payment adoption in hospitality businesses: A conceptual approach. European Journal of Tourism Research, 29, 2905. doi:10.54055/ejtr.v29i.2416

O'Brien, R. (1977) Marriott: The J. W. Marriott Story, Deseret Book Company, Salt Lake City, Utah.

Papana, A., & Spyridou, A. (2020). Bankruptcy Prediction: The Case of the Greek Market. Forecasting, 2(4). doi:10.3390/forecast2040027

Parrino, R. (1997). Spinoffs and wealth transfers: The Marriott case. Journal of Financial Economics, 43(2), 241-274.

Priporas, C.-V., Vassiliadis, C. A., Stylos, N., & Fotiadis, A. K. (2018). The Effect of Sport Tourists' Travel Style, Destination and Event Choices, and Motivation on Their Involvement in Small-Scale Sports Events. *Event Management,* 22(5), 745-765. doi:10.3727/152599518X15299559637707

Samitas, A., Kampouris, E., Polyzos, S., & Spyridou, A. (2020). Spillover Effects between Greece and Cyprus: A DCC Model on the Interdependence of Small Economies. Investment Management and Financial Innovations, 17(4), 121-135. doi:doi:10.21511/imfi.17(4).2020.12

Schmidt, T., & Braun, T. (2015). When cospecialization leads to rigidity: Path dependence in successful strategic networks. Schmalenbach Business Review, 67, 489-515.

Sigala, M., Christou, E. & Baum, T. (2002). The impact of low cost airlines on business travel. Proceedings of AIEST Conference (Vol. 44, pp. 313-334), Salvador-Bahia, Brazil.

Sohn, J., Tang, C. H., & Jang, S. S. (2013). Does the asset-light and fee-oriented strategy create value? International Journal of Hospitality Management, 32(1), 270-277. doi:10.1016/j.ijhm.2012.07.

Spyridou, A., Polyzos, E., & Samitas, A. (2023). Green Assets are not so Green: Assessing Environmental Outcomes using Machine Learning and Local Projections. doi:10.2139/ssrn.4448447

Teece, D. J. (2007). Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance. Strategic Management Journal, 28(13), 1319-1350.

Teece, D., Pisano, G. & Shuen, A. (1997). Dynamic capabilities and strategic management. Strategic Management Journal, 18: 509-533.

Vassiliadis, C., Fotiadis, A., & Piper, L. (2013). Analysis of rural tourism websites: the case of Central Macedonia. *TOURISMOS: An International Multidisciplinary Refereed Journal of Tourism*, 8(1).

Vlasic, D., Poldrugovac, K. & Jankovic, S. (2019). The competitive pricing in marina business: Exploring relative price position and price fluctuation. Journal of Tourism, Heritage & Services Marketing, 5(1), 3–8. http://doi.org/10.5281/zenodo.2640935.

Wayne, L. (1985) Marriott Stakes Out New Territory, New York Times, Finance Desk, 22 September 1985.

Wind, J., Green, P. E., Shifflet, D., & Scarbrough, M. (1989). Courtyard by Marriott: Designing a hotel facility with consumer-based marketing models. Interfaces, 19(1), 25-47.

Winter, S.G. (2003). Understanding dynamic capabilities. Strategic Management Journal, 24(10): 991-995.

Wolff, E.N. (2003). What's behind the rise in profitability in the US in the 1980s and 1990s? Cambridge Journal of Economics, 27: 479-499.

SUBMITTED: DEC 2022
REVISION SUBMITTED: FEB 2023
ACCEPTED: MAY 2023
REFEREED ANONYMOUSLY

PUBLISHED ONLINE: 10 JUNE. 2023