Dividend Policy in the Lodging Industry

Linda Canina
Cornell University
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ABSTRACT

In the real world, where market imperfections such as taxes, agency costs, and information heterogeneity exist, the possibility arises that dividends may affect the value of the firm. As a result, dividend policy is an important topic faced by corporate financial managers and an important factor for investors to consider when forming their investment portfolios. This paper analyzes the factors underlying the dividend policies of lodging firms. In addition, it tests whether the market perceives changes in dividends as information about the value of the firm. In a world that is characterized by informational asymmetries between managers and investors, cash dividend payments may be used to convey information from corporate insiders to the company's shareholders. For example, dividend initiations and increases may convey management's confidence that the firm is profitable enough to fund its investment projects and to support the new dividend payment level. An alternative explanation is that dividend initiations and increases may reduce agency costs between managers and shareholders, resulting in an increase in the value of the firm. For example, as a result of cash dividend payments, managers will not invest in negative NPV projects. Therefore, the announcement of a dividend initiation or increase should be associated with a stock price increase.