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Abstracts of Presentations at the 2018 Annual iAHFME Research Symposium

Merger Success: A Comparative Study between Hospitality and Nonhospitality Firms
Yuan Li and Manisha Singal

ABSTRACT
Despite the fact that the acquirers often cite synergy and growth as the number one reason for undertaking M&As, empirical evidence in general suggests that targets, instead of acquirers, are better off after the acquisition. In contrast, limited studies in the hospitality industry have shown that both bidders and targets are better off after the merger, leading Canina et al. (2010) to conclude that M&As are more successful in the hospitality industry than in other industries. While existing studies in the hospitality industry have predominantly focused on the announcement effect of M&A deals, few scholars have examined the factors that affect M&A performance. Therefore, the purpose of this research is to determine whether hospitality M&As create value for acquiring shareholders and to identify the antecedents of systematic success, if any. Specifically, we take on a comparative approach to contrast M&A performance of hospitality and nonhospitality firms and to pinpoint factors that may explain the potential performance variance within and between the two types of firms. In particular, we examine the role that industry relatedness, relative size, target type, and payment method play on the performance of M&As in the hospitality industry. In doing so, we answer the call by Canina, Kim, and Ma (2010) to conduct a thorough analysis of the factors contributing to the success of hospitality mergers, which will not only advance our knowledge of M&As but also benefit practitioners in the hospitality as well as other industries in making M&A decisions.

The Financial Implications of the Asset-Light and Fee-Oriented Strategy in the Hospitality Industry
Yuan Li and Manisha Singal

ABSTRACT
Combining both franchising and management contracts arrangements, an asset-light and fee-oriented (ALFO) strategy allows companies to expand their business with little capital investment. ALFO has a long history in the hotel industry and has turned hotel companies from owners to franchisors/operators over the past three decades. Despite its transformational impact on hospitality firms, only a handful of studies have examined its financial impact on firm performance. Given that ALFO lifts profitability and reduces capital expenditures, naturally, one would ask how hospitality firms spend their money if they are making more (from higher profits) and spending less (on fixed assets). Since little is known about whether and to what extent shareholders of fee-oriented firms directly benefit from this strategy and since the ultimate goal of managers is to maximize shareholder value, in this study we examine the relationship between ALFO and returns to shareholders. Specifically, we examine how ALFO affects the stock returns, stock prices, and earnings per share of publicly traded hotel firms. In addition, we investigate how ALFO affects firm financial policies, such as payout policies and stock repurchase plans, which can have a direct impact on stockholder wealth. We contribute to the literature by examining this popular but understudied strategy from a shareholder’s perspective.
Hotel Asset and Equity Risk before, during, and after the Global Financial Crisis

Marilyn F. Johnson, Mark S. Johnson, and Antoinette C. Tessmer

ABSTRACT
In this paper, we use asset betas and equity betas over the period January 2000 through December 2015 to investigate the operating and financial risk of hotel industry REITs and C-Corps. We conclude that, on average over our sample period, the operating risk of C-Corps exceeds that of REITs. One interpretation of this result is that management contracts between REITs and C-Corps allocate more operating risk to C-Corps than to REITs. We also find that, on average, during our sample period, the equity betas of C-Corps exceed those of REITs. However, the difference between the average equity risk of the two sectors is much smaller than the sectors’ difference in operating risk. Because equity betas capture both operating and financial risk, these results imply that REITs have significantly less operating risk than C-Corps and offset their lower business risk with higher financial leverage. During the global financial crisis, operating risk increases in both hotel industry subsectors, and the amount by which C-Corp asset betas exceed REIT asset betas is roughly proportionate to that observed in noncrisis periods. During the financial crisis, however, REITs experienced a greater increase in financial leverage than did C-Corps, with the result being that the normal relation reverses, i.e., during the global financial crisis, REIT average equity betas significantly exceeded the average equity betas of C-Corps.

Strategic Effect of Degree of Operating Leverage on Value Premium of Lodging Firms

Akshaya Pawar, Raju Gholap, and Atul Sheel

ABSTRACT
The potential association between a firm’s strategic use of its degree of operating leverage (DOL) and its value premium has been a subject of considerable interest and debate among researchers in the past (Carlson, Fisher, & Giammarino, 2004; Garcia-Feijoo & Jorgensen, 2010). Existent finance literature also discusses the trade-off between DOL and degree of financial leverage (DFL) (Dugan & Shriver, 1992; Mandelker & Rhee, 1984). While most researchers focus on cross-sectional research in this area, Huffman (1989) further documented variation in the DOL and DFL across industries. The lodging sector of the hospitality industry is unique in many ways (Lee and Jang, 2007; Madan, 2007; Singal, 2015). This paper evaluates the impact of DOL on the value premium of lodging firms, the trade-off between DOL and DFL in these firms, and how this important lever can be used by management to make strategic business decisions.
Why Local Independent Restaurant?: The Role of Signals and Information

Michael S. Lin, Amit Sharma, and Yuxia Ouyang

ABSTRACT

A local independent restaurant refers to a restaurant that is typically owned locally and serves in a specific area and is not part of a corporate chain or franchised restaurant. Local independent restaurants are significant contributors to the local economy, and such entrepreneurship could fuel economic innovation and prosperity. Research has also shown that consumers would be willing to pay higher prices for local foods. However, it is unclear whether such a phenomenon would exist at the restaurant level. That is, would individuals place a higher value on the local restaurants? In order to answer this question, the researchers conducted an online state choice experiment (n=328) through the Amazon M-Turk platform. Results indicate that local independent ownership, local sourcing, and food quality significantly influenced individuals’ choices, and increased WTP for a meal. Higher food quality signal in a local and independently owned restaurant was associated with a 40% WTP price premium than in a national chain restaurant. Findings of this study contribute to our understanding of signaling factors’ relative influence on an individual’s decisions. The study also offers management implications for restaurant owners on how to effectively promote signals to target potential consumers.