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GROWTH OPPORTUNITIES AND THE LONG-TERM DEBT DECISION OF U.S. LODGING FIRMS

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ABSTRACT

The purpose of this paper is to further investigate a previously researched positive relationship between the long-term debt ratio and growth opportunities in the U.S. lodging industry. Research by Smith and Watts (1992) and Barclay and Smith (1993) finds that firms with more growth opportunities will use less debt, favoring internal financing sources. In the hospitality sector, Dalbor and Upneja (2001) confirmed this relationship for the restaurant industry.

However, as discussed by Gaver and Gaver (1993), future discretionary investments are not homogeneous. In fact, Wald (1999) finds a positive relationship between growth opportunities and the use of long-term debt for firms in the United Kingdom, France, Japan, and Germany. Moreover, Upneja and Dalbor (2001) find a similar relationship within the U.S. lodging industry. Accordingly, we attempt to address two major questions.

For one, is the positive relationship between growth opportunities and long-term debt really true? Did Upneja and Dalbor (2001) make an error in measuring the growth opportunities variable? In this paper, we measure the presence of growth opportunities in a few different ways, perform some sensitivity tests, and hope to confirm that in the lodging sector firms with significant growth opportunities use more long-term debt.

After confirming this relationship, we further hypothesize on the potential causes for this relationship. In other words, we attempt to discover why hotels borrow more in the presence of growth opportunities. This research could be used to reexamine the measurement of growth opportunities in the restaurant industry or assess the relationship between long-term debt and growth opportunities in the casino industry.