



Article Title

Does International Diversification Discount Exist in the Hotel Industry?

Citation

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Abstract

The primary objective of this study was to investigate the value of international diversification in hotel firms. The results show that although diversification discounts exist, the relationship between international diversification and excess value is curvilinear (U-shaped), suggesting that highly diversified hotel firms could still benefit from international diversification. The comparison between absolute market premium (excess market value) and relative market premium (excess Q) also indicates that international diversification can increase the value of intangible assets, but a firm's ability to leverage its intangible assets through international diversification differs because of industry characteristics. Implications for the hotel industry are also discussed.

Conclusion

This study found that on average there is valuation discount associated with international diversification in the hotel industry. However, the relationship between international diversification and excess value was curvilinear (U-shaped), suggesting that highly diversified hotels could still benefit from international diversification. Furthermore, the results also indicated that the effect of international diversification was stronger on absolute market premium (excess market value) than relative market premium (excess Q), suggesting that international diversification can increase the value of intangible assets. The results also show that international hotel firms had lower excess market value, but higher excess Q, than international software firms, suggesting software firms could leverage their intangible assets through international diversification more efficiently due to their heavy reliance on intangible assets such as patents, innovation ability, and systematic knowledge. In addition, this study revealed that the level of diversification does not moderate the effect of advertising on the value of international diversification.

