International Journal of Hospitality Management 125 (2025) 103990

Contents lists available at ScienceDirect

International Journal of Hospitality Management

journal homepage: www.elsevier.com/locate/ijhm

Setting the Course: CEO Beliefs as the North Star in the Hotel-OTA Relationship

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ARTICLE INFO

Keywords:
Upper echelons theory
Rate parity agreement
Hotel
Online travel agency
CEO

ABSTRACT

The upper echelons theory posits that a CEO's cognitive and perceptual processes, as well as their values and experiences, influence their decision-making and, consequently, their strategic choices. In the complex love-hate relationship between hotels and online travel agencies, the topic of rate parity agreements is controversial and heated, wherein a CEO's values, beliefs, and convictions potentially playing a critical role in guiding actions. This study tests this hypothesis by investigating how CEO political ideologies affect changes in hotel market value resulting from the dismissal of the U.S. rate parity lawsuit. The results reveal that the reduction in hotel companies' market value due to the lawsuit's dismissal is accentuated by CEO liberalism. Conservative CEOs seem to prioritize shareholder interests, aligning with investor expectations for value preservation amid online travel agencies' consolidation of market power. This study holds theoretical and managerial implications for the upper echelons theory, corporate governance, and market competition studies.

1. Introduction

In recent years, scholars in the fields of tourism and hospitality have shown considerable interest in examining the intricate relationship of competition and cooperation between hotels and online travel agencies (OTAs) (e.g., Chang et al., 2019; Gezhi et al., 2020; Guo et al., 2014; Kim et al., 2020; Ling et al., 2014; Liu et al., 2019; Nicolau and Sharma, 2019; Sharma and Nicolau, 2019; Tekin Bilbil, 2019). Although they have acted collectively against disruptive models like Airbnb, there is also intense rivalry between hotels and OTAs to gain control over the online booking market (e.g., Chang et al., 2019; Tekin Bilbil, 2019). OTAs have grown significantly over the past two decades due to advances in e-commerce, mergers and acquisitions (granting them a dominant market position), innovation, and the inclusion of most favored nation (MFN) clauses that impose restrictions on hotel pricing policies. This aspect is crucial since the widespread business practice including MFN clauses in hotel-OTA contracts have become subject of intense debate in various legal proceedings in Europe and the United States, yielding divergent outcomes.

In the European Union, the German National Competition Agency — also known as the *Bundeskartellamt* — initiated an investigation into the legality of rate parity agreements between Hotel Reservation Service (HRS) and its partner hotels in January 2010. In December 2013, the *Bundeskartellamt* determined that the inclusion of MFN clauses in contracts between hotels and OTAs amounted to a vertical agreement that resulted in a restriction of competition under European Union regulations. Consequently, HRS was compelled to remove MFN clauses that thus far enabled it to restrict the pricing policies of its affiliated hotels. Following HRS's appeal to the Higher Regional Court in Düsseldorf,[1] the judicial body dismissed its appeal in January 2015. Additionally, following a complaint by the Accord group and major French trade unions, a major player in the OTA market – Booking, reached an agreement with the European Commission and National Competition Agency of France (Autorité de la concurrence), Italy (Autorità Garante della Concorrenza e del Mercato), and Sweden (Konkurrensverket) to limit the scope of rate parity clauses in its contracts with European hotel

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[1] HRS argued in its appeal that this decision effectively increased the likelihood of a "billboard effect"—favoring customers using its platform to finalize bookings on hotel websites or other alternative sales channels.

https://doi.org/10.1016/j.ijhm.2024.103990
Received 25 November 2023; Received in revised form 12 October 2024; Accepted 4 November 2024

partners.

While European Union countries are inclined to ban MFN, U.S. legal authorities tend to adopt a very divergent position on the issue of MFN agreements. In a landmark ruling on February 18, 2014, a U.S. court affirmed the legality of MFN clauses imposed by OTAs on their hotel partners, asserting that these business practices did not pose a tangible threat to free competition. Sharma and Nicolau (2019) concluded that this judicial ruling led to a decline in the market value of publicly traded hotels, as investors believed that accepting rate parity constraints limited these companies' capability to compete with OTAs for control over the online booking market.

Although this study represents a significant advance for the academic literature, it does not allow for an exploration of how the beliefs of top executives (as the primary decision-makers) may influence the effect of the U.S. judicial ruling on business performance. The literature related to tourism and hospitality has theorized—based on the upper echelons theory (Hambrick and Mason, 1984)—that strategic choices made by organizations reflect the distinctive characteristics and idiosyncratic traits of decision-makers (e.g., Ahn et al., 2020; Kim et al., 2018). Consequently, CEOs' cognitions help to understand why companies do what they do (Hambrick, 2007). In this work, we aim to take a step further by analyzing the impact of CEOs' political ideology on the effect that external threats (in our case, the U.S. court ruling that it is legal for OTAs to include MFN clauses) have on the market value of hotel companies.

We focus on the political inclinations of CEOs because these convictions have a decisive influence on human behavior. Political ideology can be defined as a set of beliefs, values, and opinions that shape the lens through which individuals interpret situations presented to them (Erikson and Tedin, 2003; Jost et al., 2009; Tedin, 1987). These cognitions guide how individuals think society should function, including aspects related to economic policy, the system of government, individual and collective rights, or public policies (Kim et al., 2007). A growing body of scientific research has established differences between individuals with liberal and conservative political tendencies in heterogeneous aspects such as value prioritization (Jost et al., 2016), information processing (Jost, 2017; Jost et al., 2017; Pfattheicher and Schindler, 2016; Sterling et al., 2016), physiological structures and functions linked to brain activity (Amodio et al., 2007; Jost et al., 2014; Nam et al., 2017), psychological motivations driving individual behavior (Pyszczynski et al., 2003), and idiosyncratic traits that shape personality (e.g., conscientiousness, agreeableness, openness to experience, romantic, cultural, or aesthetic preferences, and consumption preferences) (Carney et al., 2008; DellaPosta et al., 2015; Eastwick et al., 2009; Hirsh et al., 2010; Klofstad et al., 2013; Sibley et al., 2012).

Based on these findings, upper-echelons theorists have analyzed the influence that CEOs' political beliefs have on the strategic choices of the companies they manage (e.g., Briscoe et al., 2014; Chin et al., 2013; Gupta et al., 2018; Nalick et al., 2023). How these executives perceive challenges and opportunities, and how they interpret information available to them is shaped by their own ideology. Given that CEOs wield significant influence within the organization (Nadler and Heilpern, 1998), their decisions weigh heavily on the success of their companies. In this context, it is expected that investors perceive that because of their political beliefs, CEOs may respond differently to adverse situations. One therefore expects that the political inclination of hotel CEOs would lead to asymmetric variations in how the market value of their companies is affected by the reaffirmation of the legal status of MFN in the United States.

Specifically, we find that when CEOs are more conservative, it is more likely that the dismissal of the U.S. lawsuit—which reaffirms the legality of rate parity agreements imposed by OTAs—will lead to a smaller decline in the stock prices of their hotel organizations. The underlying logic to explain this relationship is based on the greater predisposition of conservative CEOs to safeguard the financial interests of shareholders (as opposed to more liberal CEOs, who place much more importance on the need to meet the demands of other stakeholders by developing activities such as CSR). Greater risk aversion and lower tolerance for uncertainty are fundamental values in conservative ideological frameworks (Jost et al., 2017). Consequently, it is logical to assume that investors are more likely to perceive that CEOs with these political inclinations will allocate more resources to implementing mechanisms to counteract the adverse negative consequences resulting from the judicial decision favoring the OTA business model.

This research contributes to the emerging literature analyzing the effect of ideology on business behavior (Hutton et al., 2014; Unsal et al., 2016; Francis et al., 2016; Semadeni et al., 2022; Weng and Yang, 2024). Specifically, our study is one of the few works that demonstrate that CEO ideology not only impacts decision-making processes but also influences investor expectations regarding organizational behavior (e.g., Alnahedh and Alhashel, 2021; Bhagwat et al., 2020; Elnahas and Kim, 2017; Unsal et al., 2016). These studies—which analyze the impact of the political convictions of decision-makers on business performance—focus on examining how CEOs' ideological beliefs influence the effect of strategic decisions made by companies on stock prices. Our study extends this line of research by discovering (in the hospitality sector) that ideology also moderates the effect of an external threat on market value, as represented by cumulative abnormal returns. The significance of this conclusion not only advances upper echelons theory but also enhances our understanding of the impact that judicial decisions related to rate parity agreements have on the market value of hotels (e.g., Sharma and Nicolau, 2019).

The structure of this article unfolds as follows: in Section 2, we delve deeper into the relationship between OTAs and hotels and the competitive issues arising from the inclusion of MFN clauses in contracts between them. We also provide a theoretical review of key studies evaluating the impact of political ideology on business decisions and present our research hypothesis. In Section 3, we detail the methodology, offering a systematic account of the econometric techniques employed in this study. In Section 4, we present our results based on the estimated models. Finally, in Section 5, we draw our conclusions (highlighting theoretical and managerial contributions) and suggest future research avenues that could further enrich and corroborate our findings.

2. Rate parity clauses and CEOs' political ideology: theoretical background and research hypothesis

2.1. Impact of most favored nation (MFN) clauses imposed by Online Travel Agencies (OTAs) on the market value of hotels

A growing body of research has focused on online hotel reservations and online travel agencies (e.g., Abrate et al., 2019; Bigne et al., 2021; Chang et al., 2019; Giroux et al., 2022; Guo et al., 2014; Ji et al., 2023; Jo et al., 2022; Nicolau and Sharma, 2019; Raad et al., 2023; Sharma and Nicolau, 2019; Yang et al., 2023). OTAs act as intermediaries between travelers (demand side) and hotel establishments (supply side), creating a two-sided electronic market that facilitates transactions across the platform (Rochet and Tirole, 2003). The viability of this business model depends on the intermediary's ability to generate positive network externalities (Katz and Shapiro, 1985) by effectively connecting both sides of the market. To achieve this, OTAs invest substantial resources in enhancing their online platforms to differentiate themselves from other reservation platforms also used by hotel establishments (Sharma and Nicolau, 2019). Specifically, these

intermediaries often innovate and offer unique features appealing to tourists (such as the ability to compare prices of different hotel brands) that they would not find when completing reservations with hotels directly (Raad et al., 2023). OTAs have predominantly advocated for a system that incurs no direct cost to the final consumer (also known as the agency model).[2] Specifically, the hotel establishment has complete freedom to unilaterally set room prices (and any other services it offers). However, these intermediaries charge them a commission when transactions are finalized (which, according to Toh et al. [2011], can be as high as 30 % based on their bargaining power) in exchange for providing visibility and connecting them with new customers.

OTAs have claimed that by merely appearing on the platform, hotels would benefit from a "billboard," "halo," or "showrooming" effect, leading to a significant increase in their revenues by accessing a much broader and diverse audience (Anderson, 2009). Consequently, they argue that to prevent customers from taking advantage of their services for free (without formalizing the reservation through their platform), hotel rates on the OTA website must be no higher than those available to consumers on other channels, thus ensuring competitiveness (Ezrachi, 2015). It is important to note that hotels not only compete among themselves for customers but also with OTAs and offline travel agents to secure a prominent position in the room reservation platform market (Chang et al., 2019; Tekin Bilbil, 2019). This is the fundamental reason why they often include Most Favored Nation (MFN) clauses in their agreements with hotels. Two types of agreements can be formalized:

i. *Wide rate parity*: With this clause, the hotel cannot promote the same room at a lower price through any other OTA or alternative sales channel (including its official website or any other offline booking method). Thus, regardless of the chosen platform, the tourist pays an identical price for their accommodation.
ii. *Narrow rate parity*: This clause does not prevent the hotel from offering a lower rate for a room to different OTAs. However, the rate displayed on the hotel's website and other proprietary sales channels must be consistent with the price shown on the intermediary's platform with which the contract has been signed.

While these agreements, *a priori*, seem to represent a good deal for all parties involved, reality has shown that these contractual clauses pose significant challenges to free competition, benefiting OTAs at the expense of hotels (Vezzoso, 2018). Focusing on "wide rate parity, " two main problems can arise:

i. *Weakening of competition*: Compliance with the rate parity agreement implies that hotels have limited ability to adjust their rates when an OTA changes its commission fee. Imagine a room in Hotel A has a gross price of $300, and the commission paid to the OTA is 15 %. Due to the MFN clause, if the OTA decides to increase commissions by 3 %, hotel A would have limited action to increase the room rate (which now yields a lower profit margin) by the same percentage. In a competitive and dynamic environment, such restrictions clearly diminish the competitive tools available to hotels.
ii. *Deterrence of new entrants*: Suppose a highly innovative OTA wishes to enter the market and is willing to request lower commissions, hoping that hotels could pass on lower rates to consumers who book through the OTA owned channel. This strategy is likely to fail in markets where hotels have already agreed to MFN clauses with other OTAs. This is because these hotels – as stipulated by the MFN clauses – would have to extend the same lower cost to all other sales channels they utilize. As a result, the new OTA is dissuaded from entering the market (Baker and Chevalier, 2012; Gürkaynak et al., 2016). As it is practically impossible for the new intermediary to adopt an aggressive pricing strategy to compete with established OTAs, this situation provides a significant advantage to brands with greater recognition and visibility among travelers (e.g., Booking or Expedia). Moreover, in this context, OTAs have no incentive to reduce their commissions, which certainly does not bode well for hotels.

Although this may be less of a problem under narrow rate parity, competitive conflicts may still arise, making it difficult for hotels to offer lower prices on platforms that provide lower commissions to minimize the possibility of the "cannibalization effect." For example, if OTA1 sets a 20 % commission, OTA2 sets 10 %, and OTA3 sets 15 %, while the distribution cost through the hotel's website is 3 %, and the hotel sets a room rate of $200, it would be expected that without parity, prices would be $250 [200/(1–0.2)], $222 [200/(1–0.1)], and $235 [200/(1–0.15)] on OTAs 1, 2, and 3, respectively, and $206 on the hotel's website. If the hotel agrees to an MFN clause with OTA1, it cannot offer the same room through its website for less than $250. In this scenario, to avoid cannibalizing its own sales channel, the hotel may need to set prices on OTAs 2 and 3 at least equal to what appears on OTA1's platform.

All these problems are exacerbated further due to the multitude of mergers and acquisitions carried out by a few online travel agencies (e.g., Expedia or Booking Holdings) that have dominated the market. The practices adopted by OTAs have attracted legal scrutiny in Europe as well as the United States. For instance, Booking was investigated in France following a complaint by the hotel chain Accor and major sector unions for preventing affiliated hotels from offering room prices on its portal that were equal to or lower than those appearing on other alternative sales channels, both online and offline (whether from the hotel establishment itself or through the platform of another OTA). This requirement applies to different booking conditions, such as cancellation policies, maximum room capacity, or breakfast inclusion in the room price. Additionally, in Booking's case, these contracts compelled hotels to provide access to an equal or greater number of rooms than those provided to any of its competitors.

These practices have been considered anticompetitive in Europe (mainly in France, Italy, and Sweden), which have led OTAs to change their business policies by removing the broad rate parity clause. They have also allowed hoteliers to offer their rooms at a lower price than their platforms on other alternative sales channels. These channels include other intermediaries, the hotel's website, phone reservations, on-site bookings, and methods such as text messages, instant messaging, email marketing campaigns, or loyalty programs not publicly available on the internet. However, the resolution of this issue differs in the United States, where judicial authorities have not taken the same approach.

Sharma and Nicolau (2019) demonstrated that, following a U.S. court ruling on February 18, 2014, recognizing OTAs' imposed MFN clauses, the market value of hotels was negatively affected. This result shows that investors believe rate parity is detrimental to hotel profitability, making it more challenging for them to benefit from the "billboard effect" (ensuring customers who use OTAs' services finalize their reservations on their website), forcing them to accept reduced profits, pass on the commission increase to their room rates, and lose significant flexibility in their pricing policies (which is an essential competitive tool for hotel establishments). While Sharma and Nicolau's (2019) paper represents a significant advancement in the literature, the present study evaluates how CEOs' political ideology influences the impact of such external shocks (resulting from judicial rulings) on the market value of the tourism companies they lead.

[2] Until a few decades ago, the "merchant model" prevailed, where hotels (acting as wholesalers) transacted with travel agents (in exchange for advantageous prices) who had full control of the entire retail process. Specifically, these intermediaries had to set the rate to be charged to users, handle payment transactions, develop cancellation policies, and provide customer service.

2.2. Upper echelons theory and the influence of CEOs' political ideology on decision-making in hotel companies

The Upper Echelons Theory, introduced by Hambrick and Mason (1984), is rooted in the concept of bounded rationality (Simon, 1986). Unlike classical strategic management approaches (e.g., Porter, 1980; Peteraf, 1993), this theoretical framework considers that managers, especially CEOs (as the visible heads of organizations), face complexities and uncertainties that prevent them from making the best decision from a rational standpoint. In this context, when making strategic choices, decision-makers often resort to past experiences, mental shortcuts, and subjective interpretations that allow them to select from various alternative courses of action (Hambrick, 2007). Despite their efforts to appear rational, CEOs are constrained by the traits that make up their personality, which ultimately have a decisive influence on how they manage their companies. Based on these arguments, upper-echelons theorists challenge other more deterministic perspectives derived from organizational ecology (e.g., Hannan and Freeman, 1977) and institutional theory (e.g., DiMaggio and Powell, 1983), which suggest that top executives are affected by internal and external forces that shape their influence on decision-making.

Hambrick and Mason (1984), in their conceptual architecture, relied on the notion of situational strength (Mischel, 1977), which generates psychological pressure directly influencing individuals' behavior. In "strong situations," the clarity of stimuli allows people to act consistently regardless of their idiosyncrasies. However, "weak situations" (which CEOs mostly face) are characterized by complexity and causal ambiguity, where personal experiences and cognitive biases have a decisive influence on decision-making, allowing extensive room for personal interpretation. In this context, values, beliefs, and convictions play an important role.

The influence of this theory has led many scholars to attempt to explain executives' decisions based on their personal characteristics. While some studies have focused on demographic factors such as age (Serfling, 2014), gender (e.g., Krishnan and Park, 2005), or education (e.g., Cheng et al., 2010), other research has paid attention to CEOs' experience measured through variables such as prior involvement in other functional areas of the company (e.g., Saboo et al., 2017) or tenure in the position (e.g., Hambrick and Fukutomi, 1991). Although these papers have represented progress in the literature related to the Upper Echelons Theory, a select group of scholars has delved deeper into the impact of values and beliefs ingrained in the minds of executives. With this goal, some studies have analyzed personality-related traits like overconfidence (e.g., Malmendier and Tate, 2005; Simon and Houghton, 2003), sensation seeking (e.g., Sunder et al., 2017), or military background (e.g., Benmelech and Frydman, 2015). However, CEOs' political ideology has been recognized as one of the most influential elements in corporate decision-making (e.g., Briscoe et al., 2014; Briscoe and Joshi, 2017; Busenbark et al., 2023; Carnahan and Greenwood, 2018; Chin et al., 2013; Chin and Semadeni, 2017; Gupta et al., 2017, 2018, 2019; Kim, 2024; Nalick et al., 2023; Semadeni et al., 2022).

These beliefs usually become integral parts of individuals' lives from late adolescence (remaining stable over time) and exert a significant influence on their cognitions (especially concerning how society should be governed) and behaviors (Bartels, 2002; England, 1967; Jost et al., 2009; Sears and Funk, 1999). Individuals interpret events through their ideological lens, leading them to recognize instrumental benefits in decisions aligned with their value scale (e.g., Kunda, 1990; Gaines et al., 2007; Weick, 1979). Moreover, these beliefs not only lead to an absolute conviction about the truth of their own reasoning but also to a sense of moral superiority over alternative explanations (Haidt, 2012; Brewer, 1999). This interplay illustrates the multifaceted impact that ideology has on individual and collective actions.

Researchers have explored the effects of these political convictions on organizational conduct in a wide variety of areas. This includes tax evasion practices carried out by companies (Christensen et al., 2015), social activism (Briscoe et al., 2014), activities related to corporate social responsibility (CSR) (Chin et al., 2013; Gupta et al., 2017, 2019), innovation and marketing of new products (Kashmiri and Mahajan, 2017; Semadeni et al., 2022), human resources policies (Chin and Semadeni, 2017; Kalogeraki and Georgakakis, 2022), lobbying tactics (Nalick et al., 2023), mergers and acquisitions (Elnahas and Kim, 2017), and decisions related to resource allocation (Gupta et al., 2018). However, while it seems clear that these personal beliefs decisively influence CEOs' decision-making, can they also explain the extent to which the performance of hotels can be affected when external events occur? More specifically in the context of this paper, does the political ideology of hotel CEOs have a direct impact on how their organizations' market value affected by the U.S. court ruling recognizing price parity across different sales channels as legal?

2.3. Influence of CEOs' political ideology on the degree to which price parity agreements reduce the market value of tourism companies

The way investors process and interpret news about events affecting companies directly impacts their investment behavior. Specifically, this body of scientific research suggests that investors have limited rationality (because they are subjected to a vast amount of stimuli and investment possibilities), meaning their choices are conditioned by their own perceptual biases and preconceived ideas (e.g., Guo and Yu, 2024), in line with Behavioral Finance Theory. Given the enormous uncertainty and ambiguity these individuals face (Guo and Yu, 2024), they tend to rely (when making investments) on their instinct or their subjective impressions of how companies can address the problems and threats they face (e.g., Huang and Pearce, 2015; Scott et al., 2020). From these premises, it is plausible to assume that when investors assess the extent to which hotels might be negatively affected by the dismissal of the lawsuit over rate parity in the USA, it is highly likely they base their decisions on their beliefs about the CEOs' ability (as the ultimate decision-makers) to adopt measures that effectively address this adverse situation. Here, we understand that ideology plays a significant role due to its considerable influence on business decision-making. Some studies (e.g., Alnahedh and Alhashel, 2021; Bhagwat et al., 2020; Elnahas and Kim, 2017; Unsal et al., 2016) have already indicated that the political convictions of top executives not only affect the strategic actions taken by companies but also the expectations investors have about the companies' ability to generate profits through these strategic moves (e.g., mergers and acquisitions or corporate lobbying efforts). We extend these studies by considering that CEOs' ideology also shapes how investors think hotels can respond to threats from the environment (in our case, the judicial ruling validating the MFN clauses imposed by the OTAs), which ultimately influences their investment decisions.

To understand the extent to which ideological orientation moderates how organizational outcomes are affected due to external events, it is crucial to delve into the philosophical disparities among major political ideologies. Although there is a wide variety of ideological currents (e.g., nationalism, totalitarianism, fascism, anarchism, right-wing ideologies, left-wing ideologies, communism, socialism, collectivism, egalitarianism, or populism), the predominant perspective in political science literature considers the liberal-conservative spectrum as the most accurate representation of the complex beliefs and thoughts rooted in the human mind (Jost, 2006; Poole and Rosenthal, 1984; Schwartz, 1996). This classification has proven its utility and effectiveness in discerning individuals' political attitudes for more than two centuries to the present day (Jost, 2006).

Ideological conservatism (inspired by the defense of traditions) is rooted in the psychological need to reduce uncertainty, maintain the status quo, avoid threats, fear losses, and value financial and job security (Jost et al., 2003). As Jost et al. (2003) state, "[this] does not mean that liberals crave uncertainty and risk, but they do seem to be less troubled by them and less preoccupied with their management in comparison with conservatives" (p. 383). The literature linking political psychology

with upper echelons theory indicates that conservative CEOs exhibit greater risk aversion and less tolerance for uncertainty, leading them to place more importance on safeguarding shareholders' financial interests and maximizing the market value of the companies they lead (Chin et al., 2013). Liberal CEOs, on the other hand, conceive the responsibility of a company in broader terms, which involves meeting the needs of multiple stakeholders and society at large (Briscoe et al., 2014; Chin et al., 2013; Gupta et al., 2017, 2019; Kim, 2024).

Based on these findings, we argue that it is highly plausible that investors (as potential shareholders) perceive conservative-leaning CEOs as more likely to protect their financial interests (even if there are no objective reasons to support this thesis) when hotels have to deal with the adverse scenario resulting from the U.S. judicial ruling favoring the competitive interests of OTAs in the online booking market. In this scenario, there should be a smaller decline in the market value of hotels managed by conservative CEOs.

This argument does not imply that liberal CEOs do not strive to deal with unfavorable situations affecting the companies they lead. Logically, all executives try to adopt measures aimed at preventing their companies from entering a crisis when the environment becomes threatening. What we mean is that investors are likely to subjectively perceive conservative CEOs as being more capable of effectively handling such adverse events for the interests of the hotels they manage. Moreover, according to Behavioral Finance Theory, investors do not always act rationally and their decisions can be swayed by perceptions, biases, and heuristics. Consequently, in this context, investors' perceptions are influenced by their biases regarding conservative leadership, leading them to expect that such CEOs will take specific actions to protect the company's performance. This perception, even if not entirely rational or based on concrete evidence, can affect investment decisions and market reactions, aligning with the principles of Behavioral Finance Theory. Therefore, investors may believe CEOs with conservative leanings are more inclined to seek mechanisms, strategies and solutions to counteract the adverse situation their companies encounter due to the U.S. judicial approval of OTAs' MFN clauses. Examples of mechanisms that hotels can adopt to mitigate the impact of the legitimization of rate parity agreements include direct booking benefits, such as monetary discounts when customers sign up for the hotel's loyalty program, as well as non-monetary perks like free parking or dining coupons for spending at the hotel's food and beverage outlets. Although these mechanisms can be viewed as hotels providing added value to customers who book directly, in essence, the hotel is offering a lower rate than OTAs—whether through monetary discounts or other non-monetary incentives, which, at the end of the day, can be seen as a way to circumvent the MFN clauses they may have previously signed. Consequently, the following hypothesis is stated:

The dismissal of the U.S. lawsuit claiming anticompetitive implications due to the existence of MFN clauses imposed by OTAs leads to a greater decrease in the market value of hotel companies when they are led by more liberal CEOs (compared to those led by conservative CEOs).

3. Data, methodology, and variables

In order to look into how a CEO's political ideology affects changes in hotel market value resulting from the U.S. rate parity lawsuit dismissal, we use the event study methodology. The event study methodology is a statistical and econometric technique used in finance to assess how stock prices react to corporate events, such as earnings announcements, mergers and acquisitions, or regulatory changes. While its origins are in finance, the approach's principles of analyzing how events affect asset prices can be applied to different domains to understand the effects of a specific event on the market value of a firm. Examples of these other domains include marketing, management, and, relevant to our research, legal studies (Bhagat and Romano, 2002; Johnson and Johnson, 2016; Kim and Nicolau, 2019).

The event study methodology is primarily based on the efficient market hypothesis, a foundational concept in finance that suggests that financial markets are informationally efficient, meaning that all available information is quickly and accurately reflected in asset prices. The basic idea behind an event study is to compare the performance of an asset before and after a particular event occurs. For this purpose, we follow the set of steps presented next, which are in alignment with the recommendations provided by McWilliams and Siegel (1997):

Event date and firms: The date is the day the rate parity lawsuit was dismissed, i.e., February 18, 2014. We analyzed prominent U.S. hotel companies that were publicly traded on the U.S. stock market on that date. Importantly, note that we will obtain the political ideology of the CEOs through the Federal Election Commission, therefore, we need to restrict our list of hotels to those hotels listed on the stock market that are based in the U.S.; otherwise, their CEOs do not appear in the Federal Election Commission. The companies included are Choice Hotels, Extended Stay, Hilton, Hyatt, Intercontinental Hotels, Marriott International, Starwood Hotels, and Wyndham.[3]

Establishing the event timeframe: Following McWilliams and Siegel's guidance (1997), we maintained short event windows within the (−5, +5) interval. This allowed us to capture expected responses preceding the announcement and delayed reactions due to shareholder reevaluation.

Computation of abnormal returns: In the computation of abnormal returns, we utilized the market model for abnormal returns estimation as expressed in Eq. (1):

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}, \tag{1}$$

In this equation, R_{mt} represents the returns of the market portfolio on day t, α_i shows the returns of firm i, β_i indicates the market sensitivity of the firm, and ε_{it} represents the random component.

Abnormal returns for firm i were subsequently computed according to Eq. (2), utilizing parameter estimates $\widehat{\alpha}_i$ and $\widehat{\beta}_i$, which were derived from ordinary least squares regressions over a period M of 255 days[4] leading up to the event:

$$AR_{it} = R_{it} - (\widehat{\alpha}_i + \widehat{\beta}_i R_{mt}), \tag{2}$$

Computing average cumulative abnormal returns: To determine the average cumulative abnormal returns (ACAR), we calculated them over a period of k days within the event window. We assessed the impact of the rate parity lawsuit dismissal on hotel stock prices using the formula outlined in Eq. (3):

[3] While we acknowledge that eight firms constitute a small sample, it is important to note that: 1) we find that our results align well with previous literature, reinforcing the validity of our findings; and 2) small samples in event studies are not uncommon and, in fact, have been utilized effectively in various research contexts. The nature of event studies, focusing on the immediate impact of specific events on stock prices, allows for meaningful insights even with a limited number of observations. The essence of an event study is to capture market reactions to particular events, and prior research has demonstrated that a few observations can be sufficient to detect significant effects (e.g. Kökény, Kenesei and Neszveda (2022) employ 11 firms, and Corbet, Efthymiou, Lucey and O'Connell (2021) just 1 firm). Moreover, to ensure the robustness of our findings and as further elaborated later, we supplement our classical regression models with Bayesian regression models. This complementary approach allows us to incorporate prior knowledge and quantify uncertainty in a more nuanced manner, providing a thorough assessment of the robustness of our results. To sum up, despite the small sample size, our results are consistent with existing literature, and our methodological rigor, including the use of Bayesian regression models, reinforces the credibility of our findings.

[4] Eventus (from Wharton Research Data Services) uses 255 days by default to approximate the number of trading days in a calendar year. As the trading days per year in the U.S. markets have ranged between 250 and 253, the empirical application estimates the model with these two alternative estimation periods.

$$ACAR_t = \left(\frac{1}{N}\right) \frac{1}{[(M-2)(M-4)]^{\frac{1}{2}}} \sum_{i=1}^{N} CAR_{it}, \quad (3)$$

where

$$CAR_i = \left(1 \Big/ k^{1/2}\right) \sum_{t=1}^{k} SAR_{it} \quad (4)$$

and SAR_{it} are the standardized abnormal returns, shown as

$$SAR_{it} = AR_{it}/S_{it}, \quad (5)$$

$$S_{it} = S_i \sqrt{1 + \frac{1}{T} + \frac{(R_{mt} - R_m)^2}{\sum_{i=1}^{T}(R_{mt} - R_m)^2}}, \quad (6)$$

In this context, S_i represents the pre-event residuals' standard deviation. We assessed the statistical significance of $ACAR_t$ by employing Cowan's generalized sign test (1992) and Giaccotto and Sfiridis's Jackknife test (1996).

Regression Analysis: We performed regression analysis to investigate how the CEO's political ideology influenced the potential abnormal returns following the dismissal of the rate parity lawsuit. CAR_i was used as the dependent variable, while the CEO's political liberalism and other control variables were employed as independent variables within the regression model:

$$CAR_i = \theta_0 + \theta_1 CEO'sliberalism_i + \sum_{i=1}^{I} \rho_i CV_i + \mu_i.$$

In this equation, μ_i represents the error term, θ_0 is the constant, θ_1 is the parameter of primary interest, which measures the CEO's political liberalism, and ρ_i represents the parameters for the control variables.

When dealing with a small number of observations, it is wise to explore alternative modeling approaches, such as Bayesian regression models, to assess the robustness of the findings (Assaf and Tsionas, 2018; Follett and Vander Naald, 2020). These models differ from traditional frequentist methodologies in a fundamental aspect. Regressions estimated by classical regression models assume that the coefficients are unknown but fixed magnitudes. Based on this premise, p-values are calculated, and thresholds (usually 1 %, 5 %, or 10 %) are set to determine statistical significance. Bayesian models, on the contrary, posit that these parameters are random, enabling the estimation of their complete posterior distribution, making probabilistic statements, and "quantifying the degree to which observed data support or conflict with a hypothesis" (Lavine and Schervish, 1999, p.19).[5]

To ensure we estimate the best combination of control variables (considering the available degrees of freedom), we utilized a genetic algorithm (Bozdogan, 2003; Calcagno and de Mazancourt, 2010). Optimal selection of regressors enhances the explanatory/predictive power of the model, prevents overfitting (by minimizing complexity), and ensures parsimonious estimation (Scrucca, 2013). First, the genetic algorithm randomly creates 100 binary numeric sequences representing different regression models (which we can call "chromosomes") with various combinations of variables (referred to as "genes"). These vectors have as many elements as possible variables that could potentially be included in the regression. Each element takes the value 1 if the genes to which they refer are present in the chromosome's genetic material (i.e. if the variables they identify are included in the model) and 0 otherwise.

Once we have randomly created this population, we generate new populations through two procedures: crossover and mutation. Crossover, which occurs with an 80 % frequency, combines the genetic information of two parent chromosomes, reproducing to create a new regression model that may be selected by the genetic algorithm. Mutation, occurring with a 10 % probability, randomly alters the numeric value of some genes in the new chromosomes resulting from the crossover of two parental models (Leung et al., 2003; Scrucca, 2013). Only the best regressions in a population (those that fit the data better) can reproduce and transfer their genome to their descendants. The fitness function used to select the best chromosomes is the Akaike Information Criterion (AIC), as it is one of the most frequently used indicators in the scientific literature for evaluating the suitability of models in regression analysis (e.g., Wan and Song, 2018). Additionally, as we aim to select the combination of variables that best fits the data, we implemented an elitist approach, including in each new population generated by the genetic algorithm, the 5 % of the regressions from the previous population with the lowest AIC. This stochastic search process, iteratively repeated over 300 generations, culminates in selecting the model that minimizes the AIC.

Dependent variable: The dependent variable, CAR_i, indicates how each company responds to the rate parity lawsuit dismissal and is derived from Eq. (4).

Key independent variable: CEO's political liberalism. To assess the political inclinations of CEOs, we employed a widely recognized measure used in previous studies (Chin et al., 2013). This measure is constructed based on the contribution records of these top executives from the preceding ten years, as reported by the Federal Election Commission. To create this index, we calculated four distinct metrics:

a) Behavioral commitment: This metric divides the number of CEO's donations to the Democratic Party by the total number of donations made to both political parties.
b) Financial commitment: This metric is calculated as the dollar amount of donations to the Democratic Party divided by the dollar amount of donations to both political parties.
c) Persistence of commitment: This metric is measured through the ratio of years during which the executive made donations to the Democratic Party in comparison to the total number of years in which donations were made to any party within the preceding ten-year period.
d) Scope of Commitment: The scope of commitments is the ratio of various Democratic recipients who received donations to the total number of unique recipients who received donations from both parties.

In line with the approach used by Chin et al. (2013), we included 0.1 to all numerator values and 0.2 to all denominator values to accommodate situations where no political donations to any party were recorded. This approach allows us to categorize CEOs who do not make any partisan donations as ideologically neutral (resulting in variables with a value of 0.5) (Chin et al., 2013). Afterward, we calculated the mean of these four measures to create the variable "CEO's Political liberalism." The reliability measure, Cronbach's alpha coefficient, stands at 0.93, signifying a high degree of consistency in our index, as per Fornell and Larcker (1981). This metric ranges from 0 to 1, where a

[5] For estimation, we employ the Markov chain Monte Carlo (MCMC) method to simulate the posterior distribution of the coefficients of the variables included in the regression. Specifically, we utilize the Gibbs algorithm (which assumes that each random variable in a joint probability model is sampled according to its complete conditional distribution) due to its capability to explore these probability regions in a shorter period. Since there are no studies that have empirically evaluated how political ideology shapes the impact of an external event on the market value of hotel companies, we opted, following the recommendations of StataCorp (2023), to use fairly uninformative priors to avoid introducing subjectivity into the estimation process. In this study, we consider the regression coefficients to follow a Gaussian distribution with a mean of 0 and a standard deviation of 100. The normal distribution was also used for μ_i, but its variance $\sigma_\mu^2 \sim igamma(0.01, 0.01)$. To ensure convergence, we simulated four Markov chains. We discarded the first 50,000 iterations (burn-in period) to achieve a stationary posterior distribution. In addition, to minimize autocorrelation, we use 1 out of 25 iterations calculated for each of the four estimated sequences. The MCMC sample size is 10,000 (for further methodological details see Wakefield, 2013).

score of 1 indicates a pronounced liberal inclination, and 0 denotes complete conservatism. We conducted a thorough data verification procedure, diligently examining various details about each CEO, including their names, middle names, employment history, and addresses. This comprehensive review aimed to exclude contributions made by individuals who shared similar names with the CEOs in our sample. Our verification process involved cross-referencing information from multiple sources, such as LinkedIn, the websites of the hotel companies where they served as CEOs, and various media outlets, to confirm the identity of each donor.

It is highly unlikely that the measure of political ideology calculated in this study is affected by the Democratic Party being in power in the USA in February 2014 (when the judicial resolution dismissed the lawsuit against the MFN clauses imposed by OTAs in their agreements with hotels) because we do not calculate ideology based on donations made by CEOs to committees linked to political parties at that specific point in time. Following the approach proposed by Chin et al. (2013), to calculate ideology, we retrospectively consider all donations made by the CEO over a 10-year interval from the date of the judicial resolution (i.e., if the lawsuit is dismissed on February 18, 2014, we consider all donations made by the CEOs between February 18, 2004, and February 18, 2014). Thus, we observe the CEOs' behavior across multiple election periods to ensure we are accurately capturing their true political convictions (although in 2014 the Democratic Party held power, this was not the case in 2004 when the government was controlled by the Republican Party). Evaluating contributions over a prolonged period allows for a reliable measurement of the CEOs' ideology while alleviating concerns about unmeasured confounding factors. Furthermore, this approach minimizes the risk of assigning ideology scores based on random or symbolic behaviors (Chin et al., 2013). For instance, imagine a CEO primarily donates to committees linked to the Republican Party. If we only consider donations made on the day of the judicial resolution, and on that day the CEO makes a small donation to the Democratic Party, we might erroneously conclude that the CEO has strong liberal political leanings. Since ideological beliefs do not typically change radically, considering donations made by CEOs over a long time interval helps capture their political beliefs much more accurately (Bonica, 2019).

Control variables: Three control variables are employed: i) Age. The CEO's age is measured by a quantitative variable that reflects the age of the CEO at the time of the event; ii) Revenue. We incorporate revenue as a factor to ensure that the performance of the organizations has no undue impact on the market value of tourism companies; and iii) Assets. We factor in total holdings to ensure that the size of the organizations does not unduly affect the market value of tourism companies; iv) CEO tenure. To control for the CEO's power within the company, we measure CEO tenure as the number of years they have held the position (Gupta et al., 2019); v) Asset productivity. To measure the efficiency with which hotel assets contribute to revenue generation, we have divided total revenue by total assets (Wieczorek-Kosmala, 2021).

Table 1 shows the descriptive statistics of the variables used.

4. Results

Table 2 shows the cumulative abnormal returns across different timeframes, covering five days before and five days after the dismissal of the rate parity lawsuit. We observe that the event day presents a statistically significant negative reaction. This observation lends support to the result that the dismissal of the lawsuit led to a reduction in the market value of hotel companies, which is in line with that obtained by Sharma and Nicolau (2019) with a larger sample of hotels trading on the U.S. stock market (they did not have to restrict said sample to hotels based in the United States). Hotel investors seemed to anticipate challenges in competing with OTAs as they feared that rate parity's persistence would leave hotels in a vulnerable position, compelling them to accept unfavorable terms from OTAs. This power dynamic would favor OTAs, potentially impacting hotel profitability because hotels would need to make pricing adjustments, possibly deviating from their profit-maximizing strategies (Vezzoso, 2018). The results are robust across the three estimation periods indicated in the methodology, namely 255, 253 and 250 days.

The variables selected by the genetic algorithm are those included in Tables 3 and 4[6]. Before analyzing the results of the regression estimated in Table 3, we ensure that the Breusch-Pagan test does not suggest heteroskedasticity ($F = 4.266$; $p = 0.371$). Additionally, all the variance inflation factors (VIFs) are below the recommended threshold of 10 according to Hair et al. (2013). Thus, we are confident that collinearity is not an issue in this study.

Table 3 shows the results of a regression model where the dependent variable is CAR(0,0). The parameter associated with CEO liberalism is significant and negative, which supports the hypothesis that the dismissal of the U.S. lawsuit claiming anticompetitive implications due to the existence of MFN clauses imposed by OTAs leads to a greater decrease in the market value of hotel companies when they are led by more liberal CEOs (compared to those led by conservative CEOs). In line with the arguments presented by Jost et al. (2003) and Chin et al. (2013), it seems that conservative CEOs, driven by a desire to reduce uncertainty and maintain the status quo, are more likely to prioritize shareholder financial interests and maximize the market value of their companies. This leads investors to believe that conservative CEOs will actively seek ways to mitigate the negative impact on their companies resulting from U.S. judicial validation of OTAs' MFN clauses, which enforce price parity in the online hotel booking market.

The CEO's age has a significant and positive parameter, meaning that older CEOs are perceived to better "protect" their companies from the rate parity lawsuit dismissal. It seems that the experience that they bring to their roles is valued by the market (Al-Najjar, 2017). Not only may seasoned CEOs have faced more challenges in the past, allowing them to apply their experience to mitigate the negative impact of adverse events, but they may have had more opportunities to establish strong relationships with key stakeholders; relationships that can be leveraged to maintain confidence and support for the firm.

The variable "Assets" is significant and positive, which means that hotels with larger assets experienced a lower reduction in their market value following the dismissal of the rate parity lawsuit. Apart from the fact that larger hotels often benefit from economies of scale (Ivanov et al., 2016), they are expected to wield more negotiating power with OTAs due to their size and the volume of business they bring (Toh et al., 2011), which could lead to more favorable terms in rate parity agreements. Furthermore, larger hotel chains are better positioned to develop direct booking platforms, reducing their reliance on OTAs. For these reasons, investors may have more confidence in larger hotels' ability to navigate the dismissal of the rate parity lawsuit, leading to more favorable stock valuations.

The variable "Revenue" is not significant, meaning that the reduction in the market value of hotels is not contingent upon their revenue. Note that, while strong asset positions can signify long-term viability and a reduced likelihood of financial distress, the levels of revenue can be more variable and subject to short-term fluctuations (Elliott and Elliott, 2019). Thus, revenue may not have the same long-term impact on market value as the structural stability and financial strength represented by assets. If anything, following the dismissal of the rate parity lawsuit, investors might have attributed more importance to the overall financial stability and sustainability of the hotels, which assets reflect, rather than focusing on immediate revenue levels.

The robustness of our findings is corroborated by the Bayesian

[6] Given that the genetic algorithm did not select either CEO tenure or Asset productivity, we can consider these variables irrelevant for explaining the abnormal returns (CARs) derived from the dismissal of the lawsuit challenging the MFN clauses in the USA on February 18, 2014.

Table 1
Descriptive statistics and correlation matrix.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. CAR	1	0.265	0.603	0.095	0.039	−0.685	−0.031
2. CEO liberalism	0.265	1	0.646	0.007	0.061	−0.489	−0.293
3. Age	0.603	0.646	1	−0.562	−0.216	−0.899	0.131
4. Assets	0.095	0.007	−0.562	1	0.542	0.409	−0.373
5. Revenue	0.039	0.061	−0.216	0.542	1	−0.164	0.511
6. CEO Tenure	−0.685	−0.489	−0.899	0.409	−0.164	1	−0.447
7. Asset productivity	−0.031	−0.293	0.131	−0.373	0.511	−0.447	1
Mean	−1.561	0.447	53.833	9759.898	6008.741	5.333	0.805
SD	1.146	0.214	3.656	8901.222	5183.561	2.658	0.669
Min	−3.394	0.104	50	647.27	757.97	2	0.271
Max	−0.062	0.735	60	26125	13796	8	2.010

Table 2
Effect of rate parity lawsuit dismissal on hotel market value.

Window	Cumulative abnormal returns CAR	Cowan (1992) test			Giaccotto and Sfiridis (1996) test		
		M=255	M=253	M=250	M=255	M=253	M=250
(−5,+5)	0.57 %	1.073	1.071	1.060	0.282	0.270	0.284
(−4,+4)	1.00 %	1.073	1.071	1.060	0.661	0.654	0.662
(−3,+3)	0.13 %	1.073	1.071	1.060	−0.160	−0.173	−0.157
(−2,+2)	−0.77 %	−0.261	−0.262	−0.273	−1.151	−1.169	−1.147
(−1,+1)	0.16 %	−0.261	−0.262	−0.273	−0.111	−0.117	−0.110
(0,0)	−1.41 %	−2.261[a]	−2.263[a]	−2.274[a]	−3.206[a]	−3.220[a]	−3.213[a]

[a] =p-value<0.05

Table 3
Effect of CEO's political ideology on market response to the rate parity lawsuit dismissal (classical regression).

Variable	Parameters	Std. Error	t-Value	VIF
Constant	−32.5014[a]	0.8624	−37.6867	
CEO liberalism	−5.1081[a]	0.2364	−21.6033	2.6237
Age	0.5921[a]	0.0168	35.1845	3.8824
Assets	0.0002[a]	0.00001	27.4058	2.8472
Revenue	−0.00004	0.00001	−5.4211	1.4441
R-squared:	0.9993			
Adjusted R-squared:	0.9963			
F-statistic:	336.4[a]			

Note: Following the approach proposed by Franco et al. (2020) and Hsu and Jang (2009), we have not transformed the Assets variable in the analyses developed in the study. The variable Revenues has not been transformed either (Wieczorek-Kosmala, 2021).

[a] =p-value<0.05

Table 4
Effect of CEO's political ideology on market response to the rate parity lawsuit dismissal (Bayesian regression).

Variable	Parameters	Probability of parameter	$\widehat{R}$	Efficiency	VIF
Constant	−32.0621	99 %	1.0009	1.0000	
CEO liberalism	−5.0162	97 %	1.0042	0.9907	2.623
Age	0.5838	99 %	1.0013	1.0000	3.882
Assets	0.0002	98 %	1.0055	0.9916	2.847
Revenue	−0.00004	88 %	1.0114	1.0000	1.444
σ_w^2	2.3783	100 %	1.0084	0.9606	

Note: Following the approach proposed by de Franco et al. (2020) and Hsu and Jang (2009), we have not transformed the Assets variable in the analyses developed in the study. The variable Revenues has not been transformed either (Wieczorek-Kosmala, 2021).

regression model, which yielded parameter estimates comparable to those obtained in the classical regression analysis. First, it seems clear that there is no problem of pseudo-convergence because the Gelman-Rubin test ($\widehat{R}$) provides magnitudes below the threshold of 1.2 set as a limit in the literature (Brooks and Gelman, 1998). Moreover, the efficiency associated with the estimation of each of the parameters is very high (in all cases it is well above 90 %), which means that the Markov chains are able to explore at high speed the stationary posterior distribution of the coefficients of each of the variables used. This circumstance allows us to be confident that the model is well specified and that there is no high autocorrelation. On the other hand, we observe a high probability that the estimated parameters have the sign we expect (in column 2 of Table 4, except for the variable Revenue, all the percentages are above 95 %) and the means of their posterior distributions (see column 1 of Table 4) are analogous to the coefficients obtained with the classic regression analysis. This convergence of results across both models underscores the reliability and robustness of our findings, offering increased confidence in the relationships between variables identified in our study.

5. Conclusions

On February 18, 2014, the rate parity lawsuit was dismissed, which meant that these agreements could continue as they were. OTAs continued to enforce rate parity clauses in their contracts with hotels, which constrains the hotel's ability to offer lower prices on their own websites compared to OTAs, thus impacting the hotel's pricing strategies and their ability to compete for direct bookings. In this context, this study analyzes how a CEO's political ideology affects changes in hotel market value resulting from the dismissal of the U.S. rate parity lawsuit. The results reveal that the significant negative reaction on the day the rate parity lawsuit was dismissed—leading to a reduction in hotel companies' market value—is accentuated by CEO liberalism, as conservative CEOs prioritize shareholder interests, aligning with investor expectations for value preservation amid OTAs' market power.

The result that CEO political ideology influences the market value of hotel companies following the dismissal of the rate parity lawsuit has several theoretical implications. Firstly, it informs the upper echelons theory in the sense that CEO characteristics matter to investors' reactions. This theory posits that executives' individual characteristics, such as values, experiences, and cognitive frames, shape their decision-

making and, consequently, organizational behavior. Our result underscores the theory's central premise that CEO characteristics are pivotal in understanding how investors respond to external events affecting the company. The finding highlights the specific characteristic of CEO political ideology as a significant determinant, thereby suggesting that the ideological orientation of CEOs influences investors' reactions. This result is consistent with the efficient market hypothesis, which suggests that investors incorporate all relevant information, including CEO characteristics, into their market evaluations. CEOs not only seem to fulfill their expected roles as leaders setting the course for their companies but that their beliefs also act as the guiding North Star for their decisions and, as we find in our study, for the investors' expectations in the hotel-OTA relationship. Taken together, the results link CEO ideology with market value through investor perceptions in accordance with the efficient market hypothesis.

Second, the study's findings indicate that investors perceive CEO political ideology as a significant factor in evaluating the potential impact of external events on a company's market value. This insight can inform research on investor behavior and decision-making. Investors seem to take into account CEO political ideology as a cognitive cue when making investment decisions, which is in line with the broader field of behavioral finance, which examines how psychological factors influence investor choices. Specifically, our result aligns with the idea that psychological factors, including cognitive biases, heuristics, and non-financial attributes of company leaders, can influence investor sentiment and actions because, in our study, investors seem to subconsciously associate CEO political ideology with the CEO's approach to facing external challenges and uncertainties.

Regarding managerial implications, the result highlights the need for boards of directors and governance committees to be mindful of the CEO's political ideology and its potential impact on the market value of the firm; market value that is influenced by the CEO's political ideology. According to the efficient market hypothesis, all available information, including leadership characteristics such as political ideology, is reflected in stock prices as investors make decisions based on their interpretation of such information. Consequently, companies need to be aware that investors may consider CEO political ideology when evaluating the potential impact of external events on said market value. This underscores the importance of transparent and effective communication with investors to mitigate any potential concerns related to leadership characteristics. Related to this managerial implication and derived from the fact that investors consider a CEO's political ideology when making their investment decisions, it may be worth establishing feedback mechanisms that can help companies gauge investor sentiment related to CEO characteristics. The analysis of this feedback would help the company identify if the information about the CEO has been conveyed properly and, at the same time, address any concerns that investors may have.

This study opens potential avenues for future research, such as:

i. exploration of more nuanced measurements of CEO political ideology. While this study categorized CEO political ideology as liberal or conservative, a more granular approach could provide deeper insights into the relationship between CEO ideology and corporate outcomes;
ii. related to the previous future research line, and to solve one main research limitation of this study related to the single country analyzed, the investigation of whether the impact of CEO political ideology on market value is consistent across different countries would help determine the extent to which our results are robust. For this research, alternative categorizations would be necessary to reflect the spectrum of political ideology in different countries;
iii. extending the research to other hospitality and tourism industries beyond hotels could shed light on whether the relationship between CEO ideology and market value is consistent across subsectors, as different industries may have varying sensitivities to CEO characteristics. In fact, this would help in the second research limitation of this study as it focuses only on the hotel industry;
iv. the use of qualitative research methods could help gain deeper insights into how CEO political ideology influences decision-making processes within organizations. This approach can help uncover the underlying mechanisms at play;
v. conducting perception studies to understand how investors perceive CEO political ideology and whether this perception influences their investment decisions could provide valuable insights into investor behavior;
vi. and investigating how other external events—different from the rate parity lawsuit dismissal—such as other regulatory changes, interact with CEO ideology to influence market value would offer relevant insights into the resilience of companies to external shocks.

CRediT authorship contribution statement

Francisco Mas: Writing – review & editing, Writing – original draft, Supervision, Methodology, Investigation, Conceptualization. **Juan Luis Nicolau:** Writing – review & editing, Writing – original draft, Validation, Supervision, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Campayo-Sánchez Fernando:** Writing – review & editing, Writing – original draft, Validation, Supervision, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Abhinav Sharma:** Writing – review & editing, Writing – original draft, Validation, Supervision, Methodology, Investigation, Formal analysis, Data curation, Conceptualization.

Declaration of Competing Interest

None.

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