Three Essays on Corporate Governance in the Hospitality Industry

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ABSTRACT

The hospitality industry, with its dynamic business environment, has experienced unprecedented disruption and reconfiguration due to the emergence and success of sharing economy firms and online travel agencies. This turbulence calls for effective governance structures that can motivate managers to act in their shareholders' best interests. Despite the importance of effective corporate governance for firm performance and the topic receiving extensive scholarly attention in the management and finance literatures, there seem to be several gaps and mixed findings in the hospitality academic field.

To facilitate scholarly advancement, identify gaps in the current knowledge base, and provide direction for future research, in the first essay I undertake a systematic review of research on corporate governance in the hospitality literature. Based on 115 peer-reviewed articles published since 1961, I identify 21 themes explored by scholars, and find that topics related to institutional ownership, executive compensation determinants, board size, and merger and acquisition (M&A) outcomes are commonly examined, whereas topics related to family ownership, debt, and regulation/law are seldom explored. This review contributes to the literature by taking stock of what we know and offering a one-stop-shop for scholars to understand and extend corporate governance literature published in the hospitality field.

While evidence in the general business literature suggests that targets, instead of acquirers, are better off after the acquisition, limited studies in the hospitality industry have shown that both bidders and targets are better off after the merger, suggesting that M&As are more successful in the hospitality industry than in other industries. In the second essay, I

empirically examine whether this is indeed the case and what may explain the potential discrepancy in merger performance. Using a comparative study design and a comprehensive sample over 41 years, I find that overall acquirers gain from M&As, and hospitality M&As outperform non-hospitality M&As. Bidders in the hospitality industry are more likely than non-hospitality bidders to acquire large, related targets, using an all-cash mode of payment. Except for industry relatedness, relative size, cash payment, and unlisted target are all positively related to merger performance. This study contributes to the literature by identifying several factors that can explain the differences in M&A performance between hospitality and non-hospitality firms.

Despite the fact that M&As are frequently pursued as a growth strategy in the hospitality industry, their effect on chief executive officer (CEO) compensation has not been systematically examined. Considering that CEO compensation is an important topic related to firm performance, management, and social responsibility, in the third essay I examine the relationship between M&As and CEO compensation in a sample of hospitality firms consisting of 1,514 firm-year observations over a period of 27 years. The regression analyses find that CEO compensation is significantly higher in the year after large acquisitions; well-governed firms identified via tenure, the Entrenchment-index, and board independence pay their CEOs higher post-acquisition than poorly-governed firms; the fraction of equity-based compensation is unrelated to M&A propensity; and the fraction of cash-based compensation is negatively related to M&A propensity. The additional analyses indicate that CEOs are rewarded for positive stock returns but not penalized for negative stock returns, and even more so in well-governed firms after acquisition. This study finds that M&As and corporate governance are determinants of CEO compensation and the form of CEO compensation matters to acquisition decisions in hospitality

firms. The findings are of importance for shareholders and the board of directors to design compensation plans that align the interests of managers and shareholders.

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GENERAL AUDIENCE ABSTRACT

The hospitality industry, with its dynamic business environment, has experienced unprecedented disruption and reconfiguration due to the emergence and success of sharing economy firms and online travel agencies. This turbulence calls for effective governance structures that can motivate managers to act in their shareholders' best interests. Despite the importance of effective corporate governance for firm performance and the topic receiving extensive scholarly attention in the management and finance literatures, there seem to be several gaps and mixed findings in the hospitality academic field.

To facilitate scholarly advancement, identify gaps in the current knowledge base, and provide direction for future research, in the first essay I undertake a systematic review of research on corporate governance in the hospitality literature, and find that topics related to institutional ownership, executive compensation determinants, board size, and merger and acquisition (M&A) outcomes are commonly examined, whereas topics related to family ownership, debt, and regulation/law are seldom explored. This review contributes to the literature by taking stock of what we know and offering a one-stop-shop for scholars to understand and extend corporate governance literature published in the hospitality field.

In the second essay, I empirically examine whether M&As are more successful in the hospitality industry than in other industries and what may explain the potential discrepancy in merger performance. I find that overall acquirers gain from M&As, and hospitality M&As outperform non-hospitality M&As. Bidders in the hospitality industry are more likely than non-hospitality bidders to acquire large, related targets, using an all-cash mode of payment. Except

for industry relatedness, relative size, cash payment, and unlisted target are all positively related to merger performance. This study contributes to the literature by identifying several factors that can explain the differences in M&A performance between hospitality and non-hospitality firms.

In the third essay I examine the relationship between M&As and CEO compensation in a sample of hospitality firms, and find that CEO compensation is significantly higher in the year after large acquisitions; well-governed firms identified via tenure, the Entrenchment-index, and board independence pay their CEOs higher post-acquisition than poorly-governed firms; the fraction of equity-based compensation is unrelated to M&A propensity; and the fraction of cash-based compensation is negatively related to M&A propensity. The additional analyses indicate that CEOs are rewarded for positive stock returns but not penalized for negative stock returns, and even more so in well-governed firms after acquisition. This study finds that M&As and corporate governance are determinants of CEO compensation and the form of CEO compensation matters to acquisition decisions in hospitality firms. The findings are of importance for shareholders and the board of directors to design compensation plans that align the interests of managers and shareholders.

DEDICATION

This work is dedicated to my father, Lin Li, and my mother, Hongxia Lu

for their unconditional love and support throughout my life.

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But seek first the kingdom of God and his righteousness, and all these things will be added to you (Matthew 6:33).

I am heartily thankful to my parents, for their love and support at all times. Thank you for believing in me. Lastly, I offer my regards and blessings to all of those who supported me in any respect during the completion of the project.

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CHAPTER 1: INTRODUCTION

The public corporation is characterized by the separation of ownership and control (Berle & Means, 1932). Capital intense owners rely on the expertise of managers to manage the firm. Ideally, managers as agents of the owners should strive to maximize firm value on behalf of owners; however, due to their lack of ownership in the firm, managers may consume perquisites that reduce firm value but satisfy their own desires. The issue is worsened when accompanied by diffuse ownership, a situation in which ownership of the firm is divided among a number of small shareholders. To assure returns on their investment, owners adopt a set of mechanisms to deter managerial self-interest. "Corporate governance, then, encompasses the set of institutional and market mechanisms that induce self-interested managers (the controllers) to maximize the value of the residual cash flows of the firm on behalf of its shareholders (the owners)" (Denis, 2001, p. 192).

Since corporate governance aims to control managerial opportunism and ensure optimal managerial decisions, it is essential to all firms, large and small, private and public, regardless of their industry membership. However, the one-size-fits-all governance practices do not enhance the value of all firms (Coles, Daniel, & Naveen, 2008); instead, 36% of the variance in firm profitability is accounted for by industry effects, and such effects are stronger in lodging and services than in manufacturing (McGahan & Porter, 1997). Since most research assumes homogeneity among industries when discussing corporate governance and its best practices, it is important to rule out industry effects by focusing on a single industry—the hospitality industry.

Despite the fact that existing literature has examined a variety of governance mechanisms in the hospitality industry, the findings are inconsistent. These mixed findings retard progress for future scholarship and confuse practitioners in an industry that is going through tremendous

reconfiguration and facing significant disruptions. The ever-changing business environment calls for effective governance structures that can motivate managers to act in the shareholders' best interests. For these reasons, in this dissertation I comprehensively examine issues related to corporate governance in the hospitality industry and fill several research gaps in the areas of mergers and acquisitions (M&As) and chief executive officer (CEO) compensation in an effort to facilitate scholarly advancement on this important topic.

1.1. Importance of problem

The topic addressed in this dissertation is important because the hospitality industry has several unique characteristics that may affect what corporate governance mechanisms are adopted and how they may affect the outcomes of the firm. While the industry was historically composed of mainly small family-owned firms such as mom and pop restaurants and inns, it has undergone significant changes in the past several decades. For example, in 2015 Shanghai Jin Jiang International Hotels Group purchased French Lourvre Hotels Group for $1.3 billion; in 2016 Marriott International completed a $13 billion acquisition of Starwood Hotels and Resorts; in 2017 Park Hotels announced an acquisition of Chesapeake Lodging Trust for $2.7 billion; and in 2018 Wyndham Worldwide Corporation bought La Quinta Holdings for $1.95 billion.

As industry landscape changes, corporate governance practices change accordingly. For example, prior research in the management and finance fields finds that CEO compensation increases substantially in acquiring firms following an acquisition (Moeller, Schlingemann, & Stulz, 2004); as firm size increases, the equity stakes in the firm owned by managers decrease while the agency costs associated with equity ownership increases (Jensen & Meckling, 1976); and as a firm grows and diversifies over time, its board size and independence increase (Boone, Field, Karpoff, & Raheja, 2007).

Since it is usually cheaper and faster for firms to expand and gain market shares via M&As than via organic new property development, the trend of M&As is likely to continue in the hospitality industry. Although prior research in the management and finance literatures suggest that M&As, in general, do not create value for acquiring firms (Sundaram, 2004), limited research in the hospitality industry suggests that M&As may benefit acquirers and targets alike (Canina, Kim, & Ma, 2010). Given the high level of industry consolidation and the significant economic impact of M&As, it is both a timely and relevant question as to whether M&As create value for hospitality firms.

Unlike other industries, the hospitality industry has a distinct business model consisting of franchising and management contracts. Under a franchising agreement, the parent company owns the brand and operating processes, while the franchisees own the properties. In the case of management contracts, the brand, the management company, and the owner can all be different. The coexistence of company-owned, franchised, managed, and partially owned properties further complicates ownership and control and leads to additional agency related problems like franchisee free-riding (Guilding, 2003).

Additionally, the hospitality industry is experiencing significant disruptions from innovative business models, such as online travel agencies (OTAs) like Expedia, user-generated contents websites like TripAdvisor, and sharing economy firms like Airbnb. These innovative firms have not only created a new market of their own but also invaded the existing market of traditional firms (Blal, Singal, & Templin, 2018). The resulting heightened competition calls for better managers and better corporate governance to ensure managerial efforts in gaining competitive advantage. However, due to the low levels of executive compensation, hospitality firms may have difficulty acquiring the best talents in the labor market (Upneja & Ozdemir,

2014). The significant pay gaps between executives and average workers in hospitality firms (Ruggless, 2018; Ting, 2018) also require further justification as to how CEO compensation is determined.

Taken together, the unique challenges faced by the hospitality industry can require different decision-making processes and corporate governance practices from those in other industries. As the industry evolves, it is possible that governance practices worked well in the past may not work so well in the future. In addition, existing literature on corporate governance in hospitality is fragmented and lacks a coherent theme. Therefore, a study of corporate governance related issues in the hospitality industry contributes to the literature by organizing previous findings, offering new insights, and providing specific guidance to industry practitioners.

1.2.Theoretical foundation

The overarching theory in corporate governance research is agency theory, although a few studies have explored the effectiveness of other theoretical backgrounds such as resource dependence theory, institutional theory, and stewardship theory (Daily, Dalton, & Cannella, 2003). Due to the separation of ownership and control in public corporations, owners as financiers of equity rely on the expertise of managers to operate the firm. Under the assumptions that managers and shareholders have divergent interests and risk-taking propensities (Eisenhardt, 1989), managers will pursue personal interests rather than act in the shareholders' best interests. Because of partial ownership in the firm, managers can consume higher levels of perquisites that increase their own welfare but decrease firm value and shareholder wealth (Jensen & Meckling, 1976). This type of agency problem worsens in large corporations as managerial ownership in the firm decreases, and the diffusion of ownership among numerous shareholders increases.

Nevertheless, agency costs can be reduced through monitoring and bonding activities (1976). Firms can employ various internal and external governance mechanisms to align the interests of managers and shareholders and to motivate managers to increase shareholder wealth. Internal mechanisms include the board of directors, executive compensation, executive ownership, bylaws, charter provisions, debt, and concentrated ownership, whereas external mechanisms include law and regulation, the market for corporate control, director and executive labor market, and product market competition (Denis, 2001; Gillan, 2006). While internal mechanisms encourage a shareholder orientation and active monitoring of executives, external mechanisms like the market for corporate control serves as the last resort when internal mechanisms have failed (Daily et al., 2003).

1.3. Overview of literature

Corporate governance mechanisms like the board of directors, executive compensation, ownership structure, governance provisions, and the market for corporate control are among the most studied topics in the corporate governance literature. While dispersed shareholders as a whole have the incentive to monitor top management of their firms, individually, they may be too small and powerless to monitor management actions or simply choose not to because of the free-rider problem. As a result, a board of directors who has the ability, authority, and expertise to oversee management is elected by shareholders to hire, fire, compensate, monitor, and advise top management on their behalf (Baysinger & Butler, 1985). Examples of the board of directors related topics include board size, board independence, busyness of the board, staggered/classified board, and board diversity. Regardless of the specific topic examined, this stream of research generally focuses on two questions—what determines the board's makeup and what determines its actions (Adams, Hermalin, & Weisbach, 2010)?

Executive compensation is a top management related governance mechanism frequently studied in the literature. Top managers like CEOs and chief financial officers (CFOs) who are imperfectly monitored may pursue personal interests that reduce shareholder value (Eisenhardt, 1989), especially when they lack financial interest in the outcome of their decisions (Fama & Jensen, 1983) and are unable to diversify their employment risk (Eisenhardt, 1989). To align the interests of shareholders and managers, outcome-based compensation contracts are utilized to reward managers for reaching performance outcomes that are beneficial for both parties. Although executive compensation is expected to be positively associated with firm performance, empirical evidence in the hospitality industry is mixed (Gu & Choi, 2004; Guillet, Kucukusta, & Xiao, 2012; Upneja & Ozdemir, 2014). This has led to some scholars to conclude that pay-for-performance relationship is not always implemented in the hospitality industry (Kim & Gu, 2005) and others to call for more studies on this topic (Upneja & Ozdemir, 2014).

Managerial ownership, or insider ownership, represents the total stock holdings of executives and/or directors in the firm. Managerial ownership provides equity incentives for managers to increase stock prices by directly linking managers' wealth to shareholders' value. Shareholdings by large shareholders like institutions and families can also provide governance to the firm. Compared with small shareholders, concentrated shareholders have the incentive and ability to actively monitor the management of the firm.

One type of governance mechanism that has recently gained attention from hospitality researchers is corporate governance provisions adopted by the firm. While these provisions are beneficial to management, they are generally considered harmful to shareholders. Although research in the management and finance literatures suggests that some if not all corporate governance provisions are negatively related to firm value and stock returns (Bebchuk, Cohen, &

Ferrell, 2009; Gompers, Ishii, & Metrick, 2003), limited research in the hospitality literature finds that corporate governance provisions may improve firm performance (Guillet & Mattila, 2010; Madanoglu, Kizildag, & Ozdemir, 2018).

In terms of external governance mechanisms, the market for corporate control in the form of M&As is arguably one of the most studied topics in the literature. When internal governance mechanisms fail to align the interests of managers and shareholders, managers will pursue private benefits, resulting in underperformance of the firm and causing stockholders to sell their shares. This consequently lowers share prices, making it attractive for outside firms to take over the firm, replace its management, and create value for themselves (Manne, 1965). In other words, the market disciplines ineffective managers and protects shareholders from poor management (Jensen, 1986; Jensen & Ruback, 1983). In general, evidence from the business literature shows that acquirers lose value and targets gain value around M&A announcements (Sundaram, 2004). Interestingly, limited evidence in the hospitality industry seems to suggest that both acquiring and target firms gain value (Canina et al., 2010).

1.4. Research questions

Despite the importance of effective corporate governance for firm performance and the topic receiving extensive scholarly attention in the management and finance literatures, there lacks an integrated research agenda for corporate governance scholars in the hospitality academic field. To help facilitate scholarly advancement, identify gaps in the current knowledge base, and provide direction for future research, as a starting point of this dissertation I conduct a systematic review of corporate governance studies in the hospitality literature (Essay 1). Based on a comprehensive sample of 115 peer-reviewed articles published in the hospitality and tourism journals since 1961, I identify 21 themes explored by scholars, and find that topics related to

institutional ownership, executive compensation determinants, board size, and M&A outcomes are commonly examined, whereas topics related to family ownership, debt, and regulation/law are seldom explored. Even among the frequently studied topics, there are theoretically and practically important questions that have not been answered in the existing literature. I then attempt to answer two of these questions in the rest of the dissertation.

In the second essay, I aim to answer the first research question, "Does M&A performance differ between hospitality and non-hospitality firms?" While evidence in the general business literature suggests that targets, instead of acquirers, are better off after the acquisition, limited studies in the hospitality industry have shown that both bidders and targets are better off after the merger, suggesting that M&As are more successful in the hospitality industry than in other industries. Using a comparative study design and a comprehensive sample over 41 years, I empirically examine whether this is indeed the case and what may explain the potential discrepancy in merger performance. I find that overall acquirers gain from M&As, and hospitality M&As outperform non-hospitality M&As. Hospitality bidders are more likely than non-hospitality bidders to acquire large, related targets, using an all-cash mode of payment. Except for industry relatedness, relative size, cash payment, and unlisted target are all positively related to merger performance. This study contributes to the literature by identifying several factors that can explain the difference in M&A performance between hospitality and non-hospitality firms.

The third essay of this dissertation aims to answer the second research question, "How are M&As related to CEO compensation in the hospitality industry?" Despite the fact that M&As are frequently pursued as a growth strategy in the hospitality industry, their effect on CEO compensation has not been systematically examined. Considering that CEO compensation is an

important topic related to firm performance, management, and social responsibility, I examine the relationship between M&As and CEO compensation in a sample of hospitality firms consisting of 1,514 firm-year observations over a period of 27 years. The regression results indicate that CEO compensation is significantly higher in the year after large acquisitions; well-governed firms identified via tenure, the Entrenchment-index, and board independence pay their CEOs higher post-acquisition than poorly-governed firms; the fraction of equity-based compensation is unrelated to M&A propensity; and the fraction of cash-based compensation is negatively related to M&A propensity. In addition, CEOs are rewarded for positive stock returns but not penalized for negative stock returns, and even more so in well-governed firms after acquisition. The findings suggest that M&As and corporate governance are determinants of CEO compensation and the form of CEO compensation matters to acquisition decisions in hospitality firms. This study broadens our understanding of CEO compensation practices and the links between different corporate governance mechanisms in the hospitality industry.

1.5. Contribution

This dissertation makes several contributions to the hospitality literature on corporate governance. Although existing literature has examined a variety of corporate governance related topics, there lacks an overall evaluation of the effectiveness of corporate governance mechanisms adopted by hospitality firms. While review papers have been frequently used by scholars to consolidate and integrate extant findings, to the best of my knowledge, no study has reviewed corporate governance related articles in the hospitality literature. In contrast, a number of studies have reviewed articles on topics like consumer behavior and marketing (Kim, Bai, Kim, & Chon, 2018). Since corporate governance plays an vital role in firm performance and different corporate governance practices may work differently in different types of firms (Coles

et al., 2008), it is important to understand how corporate governance works in hospitality firms. This dissertation thus fills the gap in the hospitality literature by systematically reviewing research on corporate governance in the hospitality industry. Specifically, using a framework of internal and external mechanisms, I organize existing studies into 21 themes, identify trends, patterns, and gaps in the literature, and provide recommendations for future research to focus on fruitful areas like theory development and expansion of themes.

This dissertation also contributes to the M&A literature within the hospitality field. M&As as a preferred growth strategy in the hospitality industry have received wide attention from scholars, practitioners, the media, and the public alike. Given the prevalence of this strategy and its economic significance, a number of hospitality studies have examined the performance of M&As via announcement effects. However, these studies are often based on a small sample of firms (e.g., Canina, 2001; Hsu & Jang, 2007) and the findings are usually compared against large-sample evidence from the management and finance literatures (e.g., Jarrell & Poulsen, 1989; Jensen & Ruback, 1983). To claim M&A success in hospitality firms, I find it necessary to utilize a comparative study design that applies the same data collection and analytic techniques to both hospitality and non-hospitality transactions. Such design enables detection of any asymmetric effect of deal characteristics on M&A performance, and furthers scholars' understanding of what may contribute to the performance disparity between industries.

Moreover, this dissertation contributes to the hospitality literature on CEO compensation, which is one of the most controversial topics in corporate governance as the sky-high CEO pay often spurs public debate on compensation fairness. According to a 2017 report (Kefgen, 2017), CEOs in the hotel industry make an average of $5.7 million a year or about 100 times more than the typical worker. The huge pay gap calls for studies to identify what determines CEO

compensation. Although agency theory suggests that CEO compensation should be linked to firm performance, empirical evidence in the hospitality industry is mixed. One compensation determinant that is often studied in the management and finance literatures but has yet to be explored in the hospitality industry is M&A activity. Linking CEO pay to M&As, this dissertation contributes to the literature by offering a plausible explanation for the not-so-strong pay-performance relationship in the hospitality field. This dissertation also contributes to the literature by examining the association between different components of CEO compensation and the likelihood that a firm will conduct M&As. Unlike prior research in the hospitality literature that focuses on the prediction of target firms using firm characteristics (Gu & Yuh, 2001; Kim & Arbel, 1998), this dissertation focuses on the prediction of acquiring firms using compensation-related characteristics.

1.6. Structure of the dissertation

This dissertation consists of five chapters. Following the introduction, Chapter 2 presents a systematic review of research on corporate governance in the hospitality literature. Chapter 3 aims to answer the question of whether M&As are more successful in the hospitality industry than in non-hospitality industries, and Chapter 4 aims to answer the question of whether M&A activity is associated with CEO compensation. In Chapter 5, I summarize the main findings of this dissertation and outline the limitations and avenues for future research.

CHAPTER 2. A SYSTEMATIC REVIEW OF RESEARCH ON CORPORATE GOVERNANCE IN THE HOSPITALITY LITERATURE

2.1. Introduction

The public corporation, characterized by the separation of ownership and control (Berle & Means, 1932), calls for the adoption of a set of governance mechanisms that deter managerial self-interest and assure owners a return on their investment (Shleifer & Vishny, 1997). Common mechanisms adopted include instituting a board of directors to provide strategic oversight, incentive alignment in the structure of executive compensation, and restructuring through M&As. Although academic literature in corporate governance is prolific in the finance and management disciplines (Bebchuk & Weisbach, 2010; Denis, 2001), gaps still exist within individual industries and regulatory contexts. Industry context plays an important role in determining governance mechanisms because it is associated with unique competitive dynamics, threats of disruption, and variations in profitability (McGahan & Porter, 1997). For example, the hospitality and tourism (HT) industry currently faces disruption to its traditional business model from the emergence of online travel agents, home-sharing firms like Airbnb offering alternatives to traditional hotels, and consolidation of large players like Marriott and Starwood altering the competitive landscape.

Research that focused on corporate governance in the hospitality industry, therefore, assumes great importance due to not only its dynamic external environment but also its unique characteristics. Compared to other industries, the hospitality industry has higher competition, higher leverage, and greater capital intensity (Singal, 2015) that affect managerial decision-making, and may, in turn, affect how and what corporate governance mechanisms are adopted. Similarly, the higher risk borne by hospitality managers will ultimately manifest in executive

compensation structures (Ozdemir, Kizildag, & Upneja, 2013) that are part of internal governance mechanisms. Moreover, while the hospitality industry was historically composed of mainly small family-owned firms, the industry has undergone significant consolidation, resulting in a few large companies such as Marriott after its acquisition of Starwood. As firm size increases, managerial ownership decreases (Demsetz & Lehn, 1985), and consequently, agency costs arising from divergent interests between managers and shareholders increase (Jensen & Meckling, 1976), leading to the institution of corporate governance mechanisms.

Although a variety of corporate governance mechanisms have been studied in the hospitality literature, the findings are inconclusive. For example, while Guillet et al. (2012) showed that executive equity compensation is positively related to firm value, Li and Singal (2019) showed that the relationship is insignificant. Similarly, while Ozdemir and Upneja (2012) found that board size is unrelated to CEO pay, Al-Najjar (2017) found that the relationship is positive. The mixed findings retard progress for future scholarship and do not provide clear guidelines to practitioners.

To facilitate scholarly advancement, I conduct a systematic literature review of research on corporate governance in the hospitality literature. A systematic review study helps scholars identify currently under-studied topics by providing a comprehensive review of topic-specific research and its implications for industry practitioners (Kim et al., 2018). By taking stock of what we know, delineating trends and topics being studied, and identifying research gaps to be filled, I provide a one-stop-shop for scholars to understand and extend corporate governance literature published in the HT journals thus far.

My review of 115 articles over the period 1961-early 2019 finds that: although a majority of the articles are atheoretical, agency theory is very often used as a theoretical underpinning; of

the 21 themes identified, institutional ownership, compensation determinants, board size, and M&A outcomes are examined extensively, while family ownership, debt, and law have received scant attention; and secondary data and quantitative empirical methodologies are employed in most studies. Based on the review, I suggest that future research focus on theory building and include institutional theory, fill gaps related to board structure determinants, pay-performance sensitivity, merger success, family ownership, debt, and law, to name a few, and consider using primary data from surveys and interviews in addition to secondary data for a richer understanding of both the mechanisms and effectiveness of corporate governance in the HT industry.

2.2. Definition of corporate governance

The extant literature provides multiple definitions of corporate governance. For example, corporate governance "encompasses the set of institutional and market mechanisms that induce self-interested managers (the controllers) to maximize the value of the residual cash flows of the firm on behalf of its shareholders (the owners)" (Denis, 2001, p. 192). "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer & Vishny, 1997, p. 737). "In nearly all modern governance research governance mechanisms are conceptualized as deterrents to managerial self-interest" (Daily et al., 2003, p. 372).

Regardless of one's perspective, governance mechanisms are classified into two groups: 1) those internal to firms (i.e., board of directors, executive compensation and ownership, bylaws and charter provisions, debt provisions, and concentrated ownership) and 2) those external to firms (i.e., law and regulation, the market for corporate control or M&As, director and executive labor market, and product market competition; Gillan, 2006). While internal mechanisms

encourage a shareholder orientation and active monitoring of executives, external mechanisms like the market for corporate control serve as the last resort when internal mechanisms have failed. For this paper, the literature on both internal and external mechanisms of governance are reviewed.

2.3. Methodology

I conducted a systematic literature review based on prior research along the lines of Kim et al. (2018) and Manoharan and Singal (2017). The data collection process consisted of three stages. In Stage 1, I performed a keyword search for articles on corporate governance published until March 2019 using terms such as corporate governance, board size, acquisition, and executive compensation in three commonly used databases—*Hospitality and Tourism Complete* from *EBSCOhost*, *ABI/INFORM Global* from *ProQuest*, and *Google Scholar*. I did not specify the beginning year of publication or the journal names to allow a historical perspective of the research in the hospitality context and to cast a wide net for articles to be included in the review. In Stage 2, I repeated the keyword search on the websites of the HT journals identified in Stage 1. In Stage 3, I combed through the reference list of each identified article to ensure inclusion of all relevant articles. Since corporate agency problems are derived from the separation of ownership and control in publicly-traded firms, articles focusing on private companies and non-profit organizations were excluded. Only peer-reviewed articles using samples from publicly-traded HT firms were retained for data analysis. My final sample consisted of 115 peer-reviewed articles published in 22 HT journals ranging from 1961 to early 2019.

Following prior research (Manoharan & Singal, 2017), I analyzed articles along six dimensions: (1) topical theme, (2) year published, (3) journal, (4) country context, (5) methodology, and (6) theoretical framework used. Initially, the articles were grouped into two

broad categories, those focusing on i) internal mechanisms and ii) external mechanisms. After carefully reviewing the key concepts, subjects, research objectives, and findings of each article, I further classified the articles into seven general themes examined in prior research (Daily et al., 2003; Gillan, 2006) and 21 specific themes identified in this review process. Then, I analyzed the trend of research interest in corporate governance topics by year and summarized the publication of articles by journal. I also categorized articles based on the country context of research as well as research methods employed, i.e., quantitative, qualitative, literature review, and conceptual papers. Lastly, I grouped the articles according to their theoretical underpinning as the advancement of knowledge relies on theory building. This process allowed me to take stock and critique existing research and identify gaps that will be useful to address in future research.

2.4. Findings

2.4.1. Overview of corporate governance studies in the hospitality and tourism literature

2.4.1.1. Internal corporate governance mechanisms

2.4.1.1.1. Ownership structure

Table 2.1 shows the frequency of the themes studied in the 115 selected articles. Starting with internal governance mechanisms, I found that ownership structure is a dominant theme, and institutional ownership is by far the most studied topic in this category, covered by 13 out of 67 articles. The agency-theoretic perspective suggests that the concentration of ownership in the hands of institutional investors will increase monitoring of managers and decrease agency problems related to ownership diffusion. Supporting this view, early studies indicated that institutional shareholders have a positive impact on hospitality stock price movements (Chen, Kim, & Liao, 2009; Leung & Lee, 2006) and firm performance (Tsai & Gu, 2007a, 2007b).

However, depending on the country context, the effect may vary. For example, while Al-Najjar (2015) found that institutional shareholders hurt firm performance in Jordan—an emerging market with weaker corporate governance, Wang, Xu, Scott, and Ding (2014) showed that institutional shareholders are less effective in China in HT sectors with excessive government intervention. The findings suggested that developing countries may lack the required market and operational environment found in developed economies for institutional shareholders to provide oversight (Wang et al., 2014). Alternatively, the findings may support the "efficiency abatement" view of institutional ownership, which posits that institutional shareholders are passive, collusive or myopic and thus, are value-reducing to the firm (Sundaramurthy, Rhoades, & Rechner, 2005).

Since institutional ownership affects firm performance and is an important source of financing, research has examined what may influence institutional shareholders' investment in hospitality stocks. In general, the results indicated that institutional investment is positively related to firm size in the U.S. (Oak & Dalbor, 2008; Tsai & Gu, 2007a, 2007b). However, there are mixed findings. For example, while some studies found that institutions prefer lowly leveraged restaurant (Tsai & Gu, 2007a) and casino (Tsai & Gu, 2007b) firms, others found that institutions prefer highly leveraged lodging firms (Oak & Dalbor, 2008). Linking institutional ownership to advertising expenditures, Oak and Dalbor (2010) showed that institutions tend to invest in U.S. hotel firms with greater brand equity. In Taiwan, Yeh (2018) found that foreign institutions are more likely to invest in tourism firms with smaller boards and higher director ownership.

The next major theme related to ownership structure is managerial ownership (9.6%), which is often studied from two conflicting theoretical perspectives. The "alignment of interest"

perspective argues that managerial ownership reduces agency problems by aligning the interests of managers and shareholders, whereas the “entrenchment” perspective postulates that managerial ownership increases agency problems when managers with sufficient ownership become entrenched. Consistent with both views, research showed that managerial ownership is curvilinearly related to firm investment (i.e., capital expenditure; Kim & Jang, 2018), performance (i.e., return on assets, return on equity, and Tobin's q; Chen, Hou, & Lee, 2012; Park & Jang, 2010), and strategic risk-taking (i.e., franchising; Rhou, Li, & Singal, 2019), and there is an optimal level of managerial ownership beyond which entrenchment sets in. In other research, Paek, Xiao, Lee, and Song (2013) linked managerial ownership to a non-traditional outcome variable of corporate social responsibility (CSR) and found that the effect of managerial ownership on CSR varies from one CRS dimension to another.

Research on large shareholders, state ownership, and family ownership contributes to 2.6%, 2.6%, and 0.9% of the total articles, respectively. Defined as shareholders who own more than 5% of the shares outstanding, large shareholders, or blockholders, are found to be positively related to firm performance (Yeh & Trejos, 2015), negatively related to debt financing (Choi, Chatfield, & Chatfield, 2018), and unrelated to credit ratings (Altin, Kizildag, & Ozdemir, 2016). As for state ownership, it is only examined in the context of the Chinese tourism industry, where state ownership is prevalent. Specifically, state ownership has a direct impact on airlines’ financial performance (Chen, Chen, & Wei, 2017), no impact on hotel firms’ performance, and a moderating effect on the relationship between institutional ownership and tourism firm performance (Wang et al., 2014). Despite the pervasiveness of family ownership in the hospitality industry, only one study (2014b) examined its role and found that hospitality firms

with founding family ownership and control are financially stronger and thus are more likely to make strategic investments in CSR than non-family firms.

Overall, research on ownership structure demonstrated that ownership structure matters for hospitality firm performance. However, depending on the type of ownership, the specific firm and performance measures used, and the country context chosen, the effect of ownership structure on firm performance may vary.

2.4.1.1.2. Executive compensation

Research on the determinants and consequences of executive compensation contributes to 9.6% and 7.8% of the reviewed papers, respectively. The majority of these studies focused on the relationship between executive compensation and firm performance (i.e., the pay-performance relationship) as agency theory suggests that linking executive compensation to firm performance effectively aligns the interests of managers and shareholders. Suggestive of this argument, Gu and Choi (2004) found a positive relationship between profitability and CEO cash compensation in casino firms. However, findings involving other performance measures are mixed. For example, in the restaurant sector, Kim and Gu (2005) showed that stock returns are unrelated to levels of cash compensation, whereas Madanoglu and Karadag (2008) showed that stock returns are positively related to changes in cash compensation. To further understand the determinants of cash compensation in restaurant firms, Kim and Kim (2011) employed a quantile regression approach and concluded that the pay-performance relationship only exists at lower quantiles of executive compensation and does not exist above the 0.3 quantile.

While early studies on the pay-performance relationship predominantly focused on cash-based compensation, equity-based compensation has gained increased research attention in recent years. Upneja and Ozdemir (2014) argued that the determinants of cash and equity

compensation are different, i.e., cash compensation is linked to accounting-based performance, and equity compensation is linked to market-based performance. Empirically, the evidence on the latter is inconclusive. While some studies showed that executive equity compensation is positively related to firm value in restaurant (Guillet et al., 2012) and lodging (Upneja & Ozdemir, 2014) firms, others showed that it is unrelated to stock returns in lodging firms (Upneja & Ozdemir, 2014).

Due to the differences in performance and compensation measures, it is difficult to compare findings across studies directly and conclude whether and to what extent the pay-performance relationship is practiced in the hospitality industry. To address this issue, Li and Singal (2019) re-examined the pay-performance relationship in the overall HT industry by including multiple commonly used compensation (i.e., cash and equity) and performance measures (i.e., ROA, stock returns, and Tobin's q) in both cross-sectional and panel regression models. Their time-series results suggested that CEO cash compensation is positively related to ROA, whereas equity compensation is unrelated to firm performance.

Overall, evidence on the pay-performance relationship indicates that executive compensation is not always determined by firm performance and does not always result in superior performance, suggesting that there may be other determinants and consequences of executive compensation. Since executive compensation is set by the board of directors, some studies have explored the relationship between board structure and CEO compensation. Specifically, Al-Najjar (2017) found that both board size and independence are positively related to CEO pay in the UK HT industry, while Ozdemir and Upneja (2012) showed that only board independence is positively related to CEO pay in the U.S. lodging sector. From an agency theory perspective, equity-based compensation reduces the risk-aversion of managers. Consistent with

this view, studies found that equity compensation is positively related to strategic risk-taking in restaurant firms (Seo & Sharma, 2018) and firm risk in lodging firms (Ozdemir et al., 2013). One understudied determinant of executive compensation is executive-related factors like tenure, which has a negative impact on equity pay in the restaurant sector (Guillet et al., 2012).

In other research related to executive compensation, Denizci (2007) found that hospitality firms in the U.S. are not significantly more likely to reprice stock options than non-hospitality firms after a decrease in stock prices, and Skalpe (2007) showed that female CEOs in Norway are paid significantly less than male CEOs, especially in the HT industry where females CEOs are more likely to be employed by smaller firms.

In general, existing research on executive compensation indicates that there is some relationship between compensation and performance, although the strength of the relationship depends on the specific compensation and performance measures used and the sector of the firms examined.

2.4.1.1.3. Board characteristics

The third major theme examined in the literature is board characteristics (16.7%) like board size (8.8%) and board independence (7.9%), which are often studied in conjunction with each other. Although agency theory suggests that small and independent boards are better than large and related boards, empirical evidence is mixed. Supporting agency theory, studies have found that firm performance is negatively related to board size (Yeh & Trejos, 2015) and positively related to board independence (Yeh, 2013) in HT firms in Taiwan. Partially supporting agency theory, Al-Najjar (2014) concluded that large boards increase profitability, yet small boards enhance stock returns in HT firms in five Middle Eastern countries. Contradicting agency

theory, Ozdemir and Upneja (2012) showed that CEO pay is unrelated to board size and positively related to board independence in lodging firms in the U.S.

Overall, the results seemed to suggest that agency theory alone is not adequate to explain board structures in all contexts, leading to some research to explore the effectiveness of other theories in explaining the relationship between board structure and firm performance. Consistent with both resource dependence theory and agency theory, Wang, Chen, Fang, and Tian (2018) found that there is a curvilinear (inverted-U shaped) relationship between board size and firm performance, i.e., board size increases hotel performance up to the size of 10 (supporting resource dependence theory) and decreases hotel performance beyond the size of 10 (supporting agency theory) in Taiwan. Song, Van Hoof, and Park (2017), on the other hand, studied the board independence-firm performance relationship from a stewardship theory's perspective and concluded that board independence is inversely related to Tobin's q and therefore, inside directors are more beneficial to firm performance than outside directors in restaurant firms in the U.S.

CEO duality, a topic covered by 6.1% of the papers, refers to the situation when a CEO is also the chairman of the board. While agency theory posits that CEO duality decreases the governance power of the board, stewardship theory postulates that CEO duality encourages CEOs to better serve their companies. Supporting agency theory, Ozdemir and Upneja (2012) found that CEO duality is positively related to cash compensation in the U.S. lodging sector. Consistent with stewardship theory, research found that CEO duality is positively related to restaurant performance in the U.S. (Guillet, Seo, Kucukusta, & Lee, 2013) and hotel performance in Taiwan (Yeh, 2013), and positively moderates the effect of geographic diversification on hotel performance in the U.S. (Song & Kang, 2019). Contradicting

stewardship theory, Choi et al. (2018) found that CEO duality increases the debt ratios of U.S. lodging firms. The overall evidence seemed to suggest that each theory can explain some outcomes of CEO duality.

Board diversity is a theme examined in 4 studies, where findings are mixed. Using educational background and external experience as proxies of human capital and external network ties as proxies of social capital, Ooi, Hooy, and Som (2015) found that diversity in social capital is positively related to tourism firm performance, whereas diversity in human capital is negatively related to tourism firm performance in four Asian countries/regions. Although resource dependence theory suggests that female directors are beneficial to the firm because they have diverse viewpoints, skills, and resources, Yeh and Trejos (2015) found that the ratio of female directors is unrelated to ROA and negatively related to Tobin's q in hotel firms in Taiwan. Contradictory to the argument that older directors and directors that are busy with multiple directorships are less effective in monitoring CEOs and controlling CEO compensation, Ozdemir and Upneja (2012) found that neither directors' age nor their busyness is related to CEO pay in the U.S. lodging sector.

Board meetings (1.7%), audit committee (1.7%), and board classification (0.9%) together are covered by 5 out of the 115 papers. The studies show that the frequency of board meetings has no influence on CEO pay in HT firms in the UK (Al-Najjar, 2017), or corporate environmental responsibility in HT firms across different countries (Tan, Habibullah, & Tan, 2017). One important but under-studied board characteristic in the hospitality literature is board classification, which refers to a governance practice that only a fraction of the directors is elected every year instead of all at once. Although classified boards are said to reduce shareholder rights,

Moon and Sharma (2014) found that they do not decrease firm performance and instead, mitigate the negative impact of debt ratios on restaurant firm performance in the U.S.

To summarize, research on board characteristics has mainly focused on the effect of board structure on firm performance in the hospitality industry. In general, the findings are mixed and do not always support agency theory's predictions. As a result, alternative theories are identified to explain some of the complex phenomena.

2.4.1.1.4. Corporate governance provisions and debt

Research on governance provisions (7%) focused on the effect of the GIM-index and the Entrenchment Index (E-index) on the firm. The GIM-index, based on 24 prevalent governance provisions, proxies for the level of shareholder rights in large U.S. firms (Gompers et al., 2003), whereas the E-index, based on 6 of the 24 governance provisions, represents the most relevant governance provisions affecting firm performance (Bebchuk et al., 2009). Using univariate analysis, Guillet and Mattila (2010) described and compared the GIM-index of hotel, restaurant, and casino firms. They found that although the adoption of corporate governance provisions results in a higher GIM-index and is generally seen as weakening corporate governance, hospitality firms with weaker shareholder rights tend to be larger with better performance. Given the descriptive nature of this study, the seemingly contradictory results could be due to the fact that other firm performance determinants were not controlled for. However, Altin et al. (2016), using a regression model, also concluded that hospitality firms with higher GIM-index enjoy higher credit ratings. To further demonstrate that governance provisions are not necessarily harmful to the firm, Madanoglu, Kizildag, and Ozdemir (2018) identified three combinations of governance provisions that can lead to superior financial performance and six configurations of

governance provisions, including the E-index, that can cause poor financial performance in restaurant firms.

Existing research using the E-index as a proxy for the quality of corporate governance generally supports the argument that poor corporate governance (i.e., higher E-index) is associated with lower firm performance and stock returns. For example, while Madanoglu and Karadag (2016) found that the E-index is negatively related to Tobin's q of restaurant firms, Dogru (2018) showed that shareholders' reactions to hotel investments are more favorable in well-governed firms with lower E-index than in poorly-governed firms with higher E-index.

A study by Park and Jang (2013) examined the role of debt in controlling the agency problem of free cash flow and found that debt leverage directly mitigates the negative effect of unrelated diversification on firm performance in U.S. restaurant firms.

In summary, hospitality research on the GIM-index suggests that the adoption of corporate governance provisions can be value-increasing rather than value-decreasing. In contrast, findings on the E-index indicate that the items in the E-index are likely to be associated with suboptimal firm performance.

2.4.1.2. External corporate governance mechanisms

One paper on external corporate governance mechanisms discussed the implications of changes of the legal framework on corporate governance of hospitality firms in the Czech Republic (Frischmann, 2015). All other papers focused on M&As (40.9%), especially the outcomes of M&As (17.4%) in terms of stock performance (Canina, 2001; Kwansa, 1994), sales growth (Park & Jang, 2011), and customer satisfaction (Lee & Geddie, 2006).

Kwansa (1994) found that target shareholders in the hotel sector gained an average of 31.5% during a 61-day period surrounding the announcement date of an acquisition in the 1980s,

whereas Canina (2001) found that in the 1980s and 1990s the abnormal returns to target firms on the announcement day and the day following it were 8.9089% and 1.3406%, respectively. During the period January 1, 2000 to September 20, 2006, the overall announcement day abnormal return was positive for both acquirers (0.07%) and targets (4.25%) in the lodging sector (Canina, 2009a), although it is much lower for international acquisitions than for domestic acquisitions, especially to the acquiring firms.

Using a sample of lodging M&As for the period 1980-2006, Ma, Zhang, and Chowdhury (2011) found that abnormal returns were negative to bidders of listed firms and positive to bidders of unlisted firms. Even after controlling for several deal and firm characteristics, the five-day abnormal returns remained significantly higher to bidders of unlisted firms than bidders of listed firms. In addition, abnormal returns to lodging bidders stayed positive twelve months after the merger announcement and were higher when the deal was paid with stock rather than cash (Yang, Qu, & Kim, 2009).

Interestingly, Hsu and Jang (2007) showed that during the period 1985-2000 acquiring lodging firms did not benefit from M&As in the short term and experienced lower equity values and profitability in the long term. Although restaurant firms experienced positive sales growth in the year following M&A, the positive effect completely disappeared within three years after M&A (Park & Jang, 2011). In addition, when exploring the effects of financial constraint and corporate governance, Dogru (2017) found that financial constraint plays a more prominent role in hotel firms' short-term abnormal returns than corporate governance does.

One stream of research on M&As in the hospitality literature explored the motives and antecedents of M&As and the determinants of M&A success (10.4%). Using a Logit model, Kim and Arbel (1998) and Gu and Yuh (2001) identified several firm characteristics, such as size and

capital expenditure, that can help predict merger targets in hospitality. Employing a property-level dataset, Kim and Canina (2013) sought to infer the lodging managers' motives to undertake M&As by examining the relationship between the offer premium paid to the target and the change in operating performance of the acquirer's and the target's properties before and after the acquisition. Their results indicated that offer premiums are positively related to changes in the acquirers' performance, and thus, lodging M&As are motivated by value creation rather than managerial self-interest or market discipline.

From a macroeconomic perspective, Kim, Zheng, and Arendt (2019) found that factors such as overall activity, market value, cost of debt, and inflation contributed to the M&A waves in the restaurant and lodging segments in the period 1980-2010. Restaurant firms are more likely to undertake M&As when the economic outlook is positive and when the cost of debt is low. Using the Delphi technique, Kim and Olsen (1999) showed that the most important objective for lodging acquirers is to accelerate firm growth. To achieve merger success, acquirers need to pay adequate attention to both the pre- and post-acquisition strategies (Kim & Olsen, 1999).

Ten papers (8.7%) provided some kind of review (e.g., Canina et al., 2010; Kim & Zheng, 2014), overview (e.g., Kantor, 1970; Price, 1961), and/or recommendation related to M&As (e.g., Crawford-Welch & Tse, 1990; Linowes, 1970), four papers (3.5%) covered method of payment, and two papers (1.7%) reported insider trading in the hospitality industry. Oak, Andrew, and Bryant (2008) pointed out that 75% of hospitality acquisitions from 1980 to 2000 were paid with cash, compared to 43% in other industries. They found that the use of cash financing is positively related to the acquirer's debt ratio for both hotels and restaurants and positively related to firm size for restaurants only. Oak and Andrew (2006) argued that since insiders such as managers have private information about the method of payment prior to the

acquisition payment announcement and can use this information to estimate the fundamental value of a firm, they can take advantage of this information asymmetry to maximize their own benefits. Indeed, the findings showed that informed trading exists in the short run prior to an acquisition in the hospitality industry.

To summarize, research on external governance mechanisms has almost exclusively focused on M&As. The overall evidence seems to suggest that M&As are value-increasing to both bidder and target shareholders, a little different from findings from the general business literature that finds only target shareholders benefitting from merger announcements. Nevertheless, little is known about what contributes to the positive returns to acquiring shareholders in the hospitality industry and whether the combined bidder and target returns are positive as well.

2.4.2. Publication by year

Table 2.2 shows the trajectory of corporate governance articles published by year. The earliest articles found were published in 1961 in the *Cornell Hotel and Restaurant Administration Quarterly* (Binns, 1961; Price, 1961; Watson, 1961). While 23 (20%) articles were published over a span of 40 years from 1961 to 2000, 91 (80%) articles were published since 2001. The evident increase in the number of publications since 2001 reflects the growing interest in effective corporate governance from the public, government regulatory agencies, and scholars possibly following the notorious collapse of Enron in 2001.

Figure 2.1 displays the trend in corporate governance research by topic and period of publication. Although research interest in M&As remains fairly constant during the sample period, interest in other topics like board characteristics and corporate governance provisions has increased significantly in recent years. Despite the fact that the HT industry is highly leveraged

Table 2.1 Corporate governance articles by theme

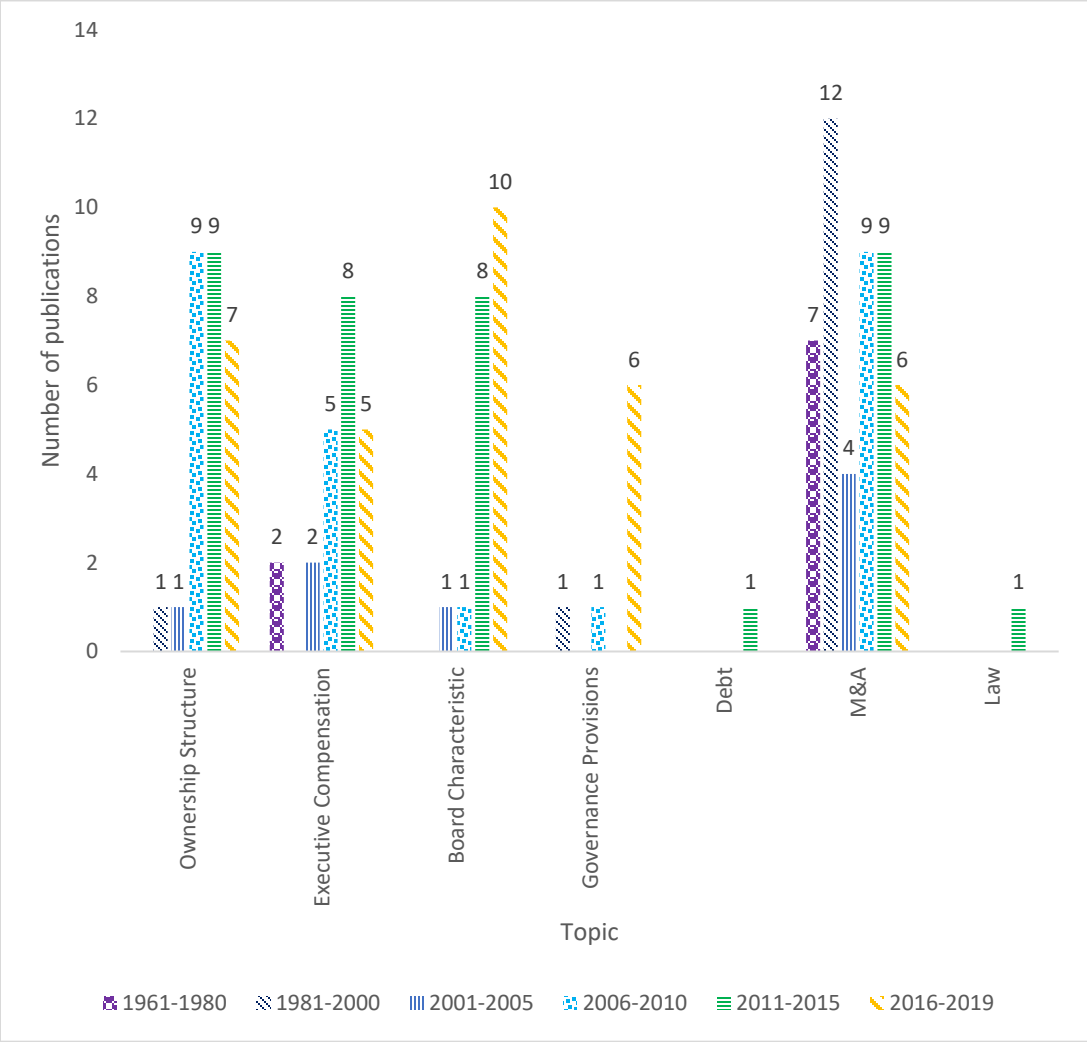
Categories/Sub-Categories/Themes	Number of publications		
Internal mechanisms			*67*
Ownership structure		27	
Institutional ownership	13		
Managerial ownership	11		
Large shareholder	3		
State ownership	3		
Family ownership	1		
Executive compensation		22	
Compensation determinant	11		
Compensation consequence	9		
Stock option repricing	1		
Gender pay gap	1		
Board characteristics		20	
Board size	10		
Board independence	9		
CEO duality	7		
Board diversity	4		
Board meeting	2		
Audit committee	2		
Board classification	1		
Corporate governance provisions	8	8	
Debt	1	1	
External mechanisms			*48*
The market for corporate control		47	
M&A outcomes	20		
M&A antecedents	12		
M&A review and recommendation	10		
M&A method of payment	4		
Insider trading	2		
Law	1	1	
Total	146[a]		

[a] The total exceeds the number of articles reviewed (N = 115) as 19 studies examined multiple themes in their research.

Table 2.2 Publication by year

Year of publication	Number of publications
2016-2019	26
2011-2015	33
2006-2010	25
2001-2005	8
1981-2000	14
1961-1980	9

Figure 2.1 Publication of topics by year



and regulated, topics related to debt and law have received scarce attention from hospitality researchers.

2.4.3. Publication by journal

Of the articles reviewed in this study, 80.9% were published in the *International Journal of Hospitality Management* (18.3%), *Cornell Hospitality Quarterly* (17.4%), *The Journal of Hospitality Financial Management* (16.5%), *International Journal of Contemporary Hospitality Management* (9.6%), *Journal of Hospitality & Tourism Research* (8.7%), *Tourism Management*

(6.1%), and *Tourism Economics* (4.3%). The remaining 19.1% of the articles were distributed among 15 different journals, as shown in Table 2.3.

Table 2.3 Publication by journal

Journal Name	Number of publications
International Journal of Hospitality Management	21
Cornell Hospitality Quarterly (formerly Cornell Hotel and Restaurant Administration Quarterly)	20
The Journal of Hospitality Financial Management	19
International Journal of Contemporary Hospitality Management	11
Journal of Hospitality & Tourism Research (formerly Hospitality Education and Research Journal)	10
Tourism Management	7
Tourism Economics	5
Journal of Foodservice Business Research	4
International Journal of Hospitality & Tourism Administration	3
Tourism and Hospitality Research	2
Tourismos: An International Multidisciplinary Journal of Tourism	2
Annals of Tourism Research	1
Current Issues in Tourism	1
Czech Hospitality & Tourism Papers	1
FIU Hospitality Review	1
International Journal of Tourism Sciences	1
Journal of China Tourism Research	1
Journal of Hospitality and Tourism Insights	1
Journal of Hospitality and Tourism Management	1
Journal of Hospitality & Leisure Marketing	1
Journal of Quality Assurance in Hospitality & Tourism	1
Praxis: Journal of Applied Hospitality Management	1
Total	115

2.4.4. Region of study

Table 2.4 shows the geographic contexts of corporate governance studies in the hospitality industry. The majority of studies (73.9%) were based in the U.S. About 10% of the studies were conducted in East Asian countries and regions such as Taiwan and China, 5.2% in European counties such as the UK and Norway, 1.7% in Middle Eastern countries such as Jordan and Egypt, 0.9% in Canada, and 0.9% in countries covered by the Datastream database.

2.4.5. Research methods

Table 2.5 presents an overview of the nature of the studies included in this review. Not surprisingly, 77.4% of the papers were quantitative, and 2.6% were qualitative. Literature review and mixed methods papers each accounted for 1.7% of the sample, while the remaining 16.5% of the papers were conceptual and practitioners' papers.

Table 2.4 Publication by region

Region/country	Number of publications
US	85
East Asia (Taiwan, China, Hong Kong, Malaysia, and Singapore)	11
Europe (UK, Norway, and Czech)	6
Middle East (Jordan, Bahrain, Egypt, Kuwait, and Oman)	2
Canada	1
Global	1
Total	106[a]

[a] The total articles does not match the number of articles reviewed (N = 115) as 9 articles were literature review, conceptual discussion, and practitioner papers.

Table 2.5 Publication by research method

Research method	Number of publications
Quantitative	89
Qualitative	3
Literature review	2
Mixed methods	2
Others (narrative, write up, conceptual, and practitioner papers)	19
Total	115

2.4.6. Theories and frameworks

As indicated in Table 2.6, the dominant theory in corporate governance research was agency theory (34.8%), followed by resource dependence theory (6.1%), information asymmetry theory (5.2%), entrenchment theory (4.3%), stewardship theory (4.3%), and signaling theory (2.6%). The rent extraction theory, prospect theory, merger activity-economic prosperity theory, inefficient-management theory, stakeholder theory, upper echelons theory, transaction cost theory, social loafing theory, and free cash flow theory each appeared in two of the 115 articles

reviewed. While 23 other theories were used, 43.5% of the reviewed studies either did not specify their theoretical underpinning or are atheoretical and descriptive in nature.

Table 2.6 Publication by theory/framework

Theory/Framework	Number of publications
Agency theory	40
Resource dependence theory	7
Information asymmetry theory	6
Entrenchment theory	5
Stewardship theory	5
Signaling theory	3
Rent extraction theory/Managerial power approach	2
Prospect theory/Behavioral agency model	2
Merger activity-economic prosperity theory	2
Inefficient-management theory/Market discipline theory	2
Stakeholder theory	2
Upper echelons theory	2
Transaction cost theory	2
Social loafing theory	2
Free cash flow theory	2
Miscellaneous	23
No theory	50
Total	157[a]

[a] The total exceeds the number of articles reviewed (N = 115) as 36 studies used multiple theories and frameworks.

2.5. Discussion and future research

In this study, I conducted a systematic literature review of research on corporate governance in the hospitality literature based on a sample of 115 peer-reviewed articles published in 22 HT journals around the world since 1961. My goals were to summarize what we know and identify future research topics. While the previous section presented the current state of research development on corporate governance, this section discusses some research areas where scholars can extend the literature and close the research gaps.

2.5.1. Expansion of theoretical frameworks

This review shows that agency theory plays a dominant role in guiding hospitality research on corporate governance, which is also the case in the general business literature given

that corporate governance mechanisms are designed to combat agency problems in public corporations. Even though some studies in my sample did not specify their theoretical framework, it is clear that those focusing on the pay-performance relationship and the impact of ownership structure on firm performance derived their research questions from agency theory. Despite its dominance, agency theory is inadequate for explaining all aspects of corporate governance issues (Daily et al., 2003), which may explain why hospitality scholars have used a variety of theories in exploring agency problems.

The institutional theory (DiMaggio & Powell, 1983) has gained attention in the general business field but has not been applied to corporate governance research in the hospitality context. It posits that not all organizational decisions are made based on economic rationality, and some are made to attain legitimacy, resources, and survival capabilities (Meyer & Rowan, 1977). Under the coercive, normative, and mimetic pressures arising from external institutions such as regulatory agencies, professional associations, and leading companies in the industry, firms become isomorphic in their organizational structures, strategies, and processes to conform to regulations, establish legitimacy, and mitigate uncertainty (DiMaggio & Powell, 1983). For example, due to the coercive pressures from the SEC, all corporate audit committees are comprised of only outside directors. Even when high coercive and mimetic pressures are absent, Chinese companies compelled by normative imperatives still appoint more outside directors (Peng, 2004). Isomorphism processes and institutional theory thus can be used to explain the development of boardroom rules like structures and norms (Aguilera & Cuervo-Cazurra, 2004).

In addition, institutional theory can be used in conjunction with agency theory to explain complex corporate governance phenomena. For example, Young, Stedham, and Beekun (2000) found that while agency theory explains the relationship between CEO duality and CEO

evaluation process adoption, institutional theory explains the relationship between the level of market competition and CEO evaluation process adoption. Since the hospitality industry is extremely vulnerable to changing environmental factors (e.g., regulatory changes, heightened competition, and economic downturns) and highly reliant on brand equity and resources supplied by trade organizations, institutional theory can serve as an additional tool for corporate governance scholars to better understand different areas of governance practices in the hospitality industry.

Further, institutional theorists suggest that because there are cross-national differences in institutional environments, corporate governance practices are more similar within and more different across countries (Aguilera & Jackson, 2003). Since HT is a global industry and many hospitality firms are operating internationally, scholars can conduct comparative research to identify cross-country similarities and differences in corporate governance practices and to inform international business managers of the findings. As most existing studies were conducted in the U.S. and a few East Asian countries, scholars may also expand the contexts of hospitality corporate governance research and compare and contrast different results.

2.5.2. Expansion of themes

2.5.2.1. Board-related themes

Board characteristic is a topic that has gained considerable attention in the hospitality literature since 2011. While the current research has examined several important areas like board size, board independence, and CEO duality, few studies have explored topics like gender diversity in top management teams. In general, women hold few corporate board seats around the world. To change this situation, several countries have either unofficially recommended higher representation by women on the board or passed legislative laws to mandate a minimum

percentage of female directors. These legislative initiatives are based on the view that the presence of women on boards could enhance the effectiveness of boards by tapping broader talent pools for their directors or increase the level of independence of the board because women do not belong to the "old boys club." Supporting this view, Adams and Ferreira (2009) found that when the board is more gender diverse, CEO turnover is more sensitive to stock performance, and directors receive more equity-based compensation. However, their findings on the relationship between gender diversity and the level and composition of CEO pay are inconsistent.

The issue of diversity is especially relevant in the hospitality industry, where interpersonal interactions between diverse workforce and customers are essential for fostering personalization in service delivery and driving guest satisfaction. While diversity initiatives translate into superior financial performance in the U.S. hospitality industry compared to the non-hospitality industries (Singal, 2014a), much of the diversity and diversity management research has focused on gender diversity in employees rather than the board of directors and top management teams (Manoharan & Singal, 2017). Although one study found that gender diversity in the boardroom of hotel firms in Taiwan does not improve firm performance (Yeh & Trejos, 2015), more studies are needed to verify whether this is also the case in hospitality firms outside of Taiwan and whether there are positive changes in firm performance when more female executives are added to the top management teams. Since the issue of poor representation of women in senior level jobs and on corporate boards has gained growing attention from businesses, regulators, and shareholders, future research can explore topics related to female executives and directors and their impact on firm performance and other organizational outcomes in the hospitality industry.

Board classification is another characteristic of the board that is currently under-researched in the hospitality literature. There are costs and benefits associated with classified boards. By insulating directors from disciplinary takeover threats, classified boards could enable directors to pursue self-interests that are different from shareholders and allow self-interested directors to block acquisition attempts or discourage potential directors from making offers that may benefit shareholders (Bates, Becher, & Lemmon, 2008). In other words, classified boards may cause managerial entrenchment and consequently, destroy firm value. In contrast, insulating directors from control contests might secure stability and continuity in board compositions, enable directors to focus on creating long-term shareholder value, and increase the bargaining power of the target firms during takeover attempts (Bratton & Wachter, 2010). Although Moon and Sharma (2014) found that classified boards are harmless to restaurant firm value, anecdotal evidence showed that firms like McDonald's eventually declassified its board after fighting against shareholders' request for declassification. Future research can investigate why some firms like Shake Shack and Wynn Resorts keep a classified board and others like McDonald's, Marriott, and Las Vegas Sands moved away from it, and their respective impact on the firm.

While the effect of board structure on firm performance, cost of debt, and CEO compensation is relatively well researched in the hospitality literature, few studies have examined the forces that drive board size and composition, a topic covered by a number of studies in the general business literature. To understand the determinants of board structure, Boone, Field, Karpoff, and Raheja (2007) grouped existing theories into three non-mutually exclusive testable hypotheses (i.e., the scope of operations hypothesis, the monitoring hypothesis, and the negotiation hypothesis) and empirically tested them using a sample of industrial firms that went public in the U.S. between 1988 and 1992. They found that board

structures evolve as firms grow and diversify over time, which supported the scope of operations and negotiation hypotheses and partially supported the monitoring hypothesis.

Since the hospitality industry is composed of a mix of small and large, young and mature, simple and complex firms that compete at different scales, it offers an ideal context to test the various hypotheses related to board structure formation. As larger, more seasoned, and more diverse firms tend to have larger and more independent boards (Boone et al., 2007), it is likely that large firms like Marriott and McDonald's will have different board structures from smaller chains like Red Lion Hotels and Fogo de Chão. Future research can examine how the scope and complexity of a firm affect its board structure in the hospitality industry. In addition, research shows that firms in financial distress have substantial difficulty attracting and retaining outside directors with much needed expertise to help maintain their survival (Hambrick & D'Aveni, 1992). Since financial distress and bankruptcy associated with heavy debt financing is a salient issue in the hospitality industry (Singal, 2015), future research can explore the relationship between financial health and board structure of hospitality firms.

2.5.2.2. M&A-related themes

Despite the fact that M&A is the most studied corporate governance mechanism in the hospitality literature, a number of topics have yet to be explored. Since M&As increase firm size and firm size is strongly related to board size (Yermack, 1996), there could be a link between M&A and board structure. As the hospitality industry continues to consolidate through M&As, future research can explore the potential impact of M&As on board structure by comparing the board structure of the acquiring firm before and after the merger.

It is noteworthy that although acquisition performance is the most studied theme during the sample period, extant research only focused on bidder announcement returns and target

announcement returns. No studies have explored the combined bidder and target announcement returns of completed deals using matched pairs of acquiring and target firms. Since synergies are created when the resources of the two companies are combined, it is important to understand the combined returns to the merging firms when examining merger success (Bradley, Desai, & Kim, 1988).

Additionally, some studies in the hospitality literature reported positive returns to bidders, contrary to the negative or negligible bidder returns found in the general business literature (Jarrell, Brickley, & Netter, 1988; Jensen & Ruback, 1983). Although the positive returns seem to suggest that hospitality mergers are more successful than non-hospitality mergers, it is unclear why this may be the case and whether hospitality mergers as a whole outperform non-hospitality mergers. Future research can conduct a comparative study on merger performance between hospitality and non-hospitality firms to shed light on this important topic. Future research can also explore the impact of M&As on alternative outcomes, such as acquisition premiums, target firm executive and employee turnover, customers and bondholders of the merging firms, and executive compensation of the combining firms, to enrich our understanding of the broader impact of M&As.

2.5.2.3. Executive compensation-related themes

Existing research on executive compensation in the hospitality literature mainly focused on the determinants and impact of cash- and equity-based compensation. Overall, the findings are mixed. Several factors may have contributed to the mixed findings. First, few studies have examined changes in executive compensation in relation to changes in performance, or the pay-performance sensitivity, which may better capture the pay-performance link implemented by the firm.

For example, Kaplan (2008) argues that change in ROA is a better measure of performance than ROA itself. The limitation of using ROA is that it does not reflect changes in performance. A CEO might perform well by increasing a firm's ROA from very low to low, but his or her performance may not be recognized because the ending ROA is still in the low category. Similarly, a CEO might perform poorly by decreasing a firm's ROA from very high to high but is still considered doing well because the ending ROA is in the high category. Therefore, linking dollars of executive compensation to levels of firm performance may not accurately reflect the pay-performance relationship prescribed by agency theory (Murphy, 1999), which suggests that managers should share a portion of the value created or destroyed in the firm. To further examine how sensitive executive compensation is to changes in firm performance, future research can replicate existing research on the pay-performance relationship by replacing the levels of pay and performance with changes of the two.

Second, when studying the pay-performance relationship, existing research has focused on the link between annual compensation and firm performance. Research has not yet examined executive prior equity holdings, which are found to play a significant role in aligning the interests of managers and shareholders in the finance literature (Core, Guay, & Thomas, 2005; O'Byrne & Young, 2005). Murphy (1999) suggests that the full pay-performance sensitivity represents how executive wealth, including the executive's total company stock and option holdings, vary with firm performance. To further scholars' understanding of the pay-performance relationship, future research can explore the effect of executive total wealth on firm performance in the hospitality setting.

Lastly, the inconsistent findings could be due to the effect of M&As on executive compensation, which has not been studied in the hospitality literature. Prior research suggests

that M&As do not always enhance bidders' stock performance but generally increase executive compensation (Sundaram, 2004). Since M&A is a widely and frequently used strategy in the hospitality industry, it may weaken or even distort the pay-performance relationship, thus contributing to the inconclusive findings. Future research can investigate how M&As affect executive compensation by examining the changes in compensation around M&As.

2.5.2.4. Theme related to family ownership, debt, and law

Despite the prominence of family ownership in hospitality firms, such as Marriott, Hilton, Hyatt, Wynn, and Carnival Cruises (Getz, Carlsen, & Morrison, 2004), surprisingly, the effect of this form of ownership has not received much scholarly attention, perhaps due to the difficulty in defining a family-controlled firm and the lack of readily available ownership data.

Debt is another under-studied governance mechanism in the hospitality industry. Jensen (1986) argues that debt benefits the firm by reducing the agency costs of free cash flow. Despite the fact that the hospitality industry is characterized by high financial leverage compared to other industries (Singal, 2015), few studies have examined the role debt plays in the corporate governance of hospitality firms. More studies are needed to better understand how the hospitality industry utilizes debt to limit managerial self-interest and how debt interacts with other governance mechanisms to affect firm performance.

One notable finding in this review is that research results often vary by country context, possibly due to the fact that countries differ in their financial systems, capital markets, and corporate ownership structures. An underlying cause for these differences is that the laws and the effectiveness of their enforcement are different across countries, which directly affect how well investors are protected from managerial and controlling shareholder self-interest (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). For example, based on evidence from 72 countries,

Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008) found that the law plays a crucial role in controlling corporate self-dealing and firm performance. In a highly influential article, La Porta et al. (2000) argue that the legal approach is a more promising way to understand corporate governance than the traditional approach which focuses on the difference between financial systems. Given the importance of the law, I urge future research to explore whether and to what extent corporate governance of hospitality firms are affected by the laws and regulations across countries.

2.5.3. Improvement in the rigor of methodology of studies

The majority of the articles reviewed derived their conclusions based on archival, secondary data. Compared to studies in the general business literature, hospitality studies generally have the problem of small sample size, which is associated with low statistical power and low generalization of research findings and is a potential contributor to the inconsistent findings. While secondary data are generally available for developed countries, they are not always available for developing countries, where primary data obtained through surveys and interviews may be used. Even when secondary data are available, not all research questions can be answered with secondary data. To answer complex questions, future research can employ the mixed methods approach to supplement quantitative archival data with insights from industry practitioners obtained from interviews and panel discussions.

While earlier studies relied on cross-sectional data analyses for hypothesis testing, recent studies tend to use panel data analyses to control for firm-specific effects. Although the study design has become more rigorous when establishing causal relations than before, I suggest that to circumvent endogeneity concerns, future research can use the difference-in-difference approach, instrumental variables, and natural experiments in their study designs.

2.6. Conclusions and limitations

Based on a sample of 115 peer-reviewed articles published since 1961, this systematic review showed that hospitality scholars had explored 21 themes pertaining to the internal and external corporate governance mechanisms. Specifically, institutional ownership, compensation determinants, board size, and M&A outcomes received more scholarly attention than family ownership, debt, and regulation. Agency theory dominated research in corporate governance, and the vast majority of the studies used secondary data gathered from firms based in the U.S. Some major gaps in the literature include the determinants of board structure, the pay-performance sensitivity, the combined target and acquirer stock returns on M&A announcement, and the roles family ownership, debt, and law play in the corporate governance of hospitality firms. To advance scholarship on this important topic, I suggest that future research focus on theory building, obtain data from different data sources, and employ advanced data analysis techniques.

Despite my best efforts to be inclusive and objective, this review is subject to several limitations. First, the sample includes only studies of publicly-traded HT firms and does not include private firms like private clubs and non-profit organizations like Convention and Visitors Bureaus (CVBs). A natural extension of this study would be to review the corporate governance issues related to these types of organizations and compare the findings to those reported here. Second, although I have conducted a comprehensive search of HT journals that have reported corporate governance-related articles in any year, I may still have missed some articles/journals that are not covered by *Google Scholar*, *ABI/INFORM*, and *Hospitality and Tourism Complete* databases. Lastly, as a common issue with review papers, the sample selection is affected by the list of keywords used as search criteria, which may reflect my own bias. While I have used individual and combination of keywords in the article search, I may still have missed certain

variants of the keywords and thus missed some articles. Nevertheless, I believe that this study integrates the research on corporate governance in the hospitality literature, identifies gaps, and suggests several avenues for future research to help facilitate scholarly advancement on this important topic.

CHAPTER 3. MERGER SUCCESS: A COMPARATIVE STUDY BETWEEN HOSPITALITY AND NON-HOSPITALITY FIRMS

3.1. Introduction

Due to intense competition and market saturation, more and more hospitality companies choose to expand their business through mergers and acquisitions (M&As). In 2016, Marriott International became the largest hotel company in the world after completing a $13.6 billion acquisition of Starwood Hotels and Resorts. In 2017, JAB Holding bought out Panera Bread for $7.16 billion, and in 2018, Arby's merged with Buffalo Wild Wings for $2.9 billion. As a result of the high degree of industry consolidation, between June 2017 and May 2018, the four largest airlines in the United States together captured 68% of the domestic market share (Bureau of Transportation Statistics, 2018). Considering the substantial economic significance of M&A transactions and the role of M&A as a preferred growth strategy in the hospitality industry, it is of interest for hospitality managers and investors to understand whether M&As create value and what determines M&A success.

Despite the fact that acquirers often cite synergy and growth as the primary reason for undertaking M&As, empirical evidence, in general, suggests that target firms, instead of acquirer firms, perform better after the acquisition. In other words, target shareholders enjoy positive stock returns around merger announcements, whereas acquirer shareholders experience negative or negligible returns from merger announcements. Interestingly, some, albeit limited, hospitality research shows that both bidders and targets are better off after the merger (Canina, 2001; Dogru, 2017; Kwansa, 1994; Ma et al., 2011). Although the positive acquirer returns are not always significant (Hsu & Jang, 2007), the overall evidence seems to suggest that M&As in the hospitality industry create value for both acquiring and target firms (Canina et al., 2010).

In addition, a handful of hospitality studies (Dogru, 2017; Ma et al., 2011; Yang et al., 2009) have examined factors that may affect M&A performance, such as payment method, relative size, and target type, and reported mixed findings. For example, contrary to the general business literature, Yang et al. (2009) find that cash payment is negatively associated with abnormal returns. While Ma et al. (2011) report a positive relationship between relative size and acquirer returns, Dogru (2017) shows a negative relationship between the two. To the best of my knowledge, no study has explicitly investigated the impact of industry relatedness on merger performance in the hospitality industry, despite the repeated emphasis placed by Linda Canina, the then editor of *Cornell Hospitality Quarterly*, on the importance of industry relatedness in merger success (Canina, 2001, 2009b). The lack of research on deal characteristics hinders our understanding of what determines acquisition performance of hospitality firms and whether and what determinants vary by industry.

To that end, the purpose of this research is to determine whether hospitality M&As create value for acquiring shareholders and what may be the antecedents of success if any. Specifically, my contribution lies in taking a comparative approach to contrast M&A performance of hospitality and non-hospitality firms and explore factors that may explain the potential performance variance within and between the two types of firms. In particular, I examine the role that four common deal characteristics—industry relatedness, payment method, target type, and relative size of merger—play in the performance of M&As in the hospitality industry.

Based on a large sample of M&As from 1978-2018, the findings suggest that both hospitality and non-hospitality acquirers gain from M&As; however, hospitality M&As outperform non-hospitality M&As. Hospitality bidders are more likely than non-hospitality bidders to acquire large, related targets, using an all-cash method of payment. Except for

industry relatedness, relative size, cash payment, and unlisted target are all positively related to merger performance. This study contributes to the literature by answering the call by Canina et al. (2010) to conduct a thorough analysis of the factors influencing the success of hospitality mergers. The findings 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.

3.2. Theory and literature review

3.2.1. Agency problem and M&As

According to agency theory, due to the separation of ownership and control in modern corporations, agency costs arise when managers, who make decisions for the firm, have different goals and interests from owner shareholders (Jensen & Meckling, 1976). When the interests of owners and managers coincide, managers will take on investments that are value-maximizing to shareholders, whereas when the interests of the two diverge, managers may pursue self-interest that is detrimental to firm value. In this aspect, M&As as investments can be value-increasing or decreasing depending upon acquiring managers' motives. While not all well-intended investments will succeed, investments that are primarily driven by managerial hubris or empire building are likely to fail (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009).

When used as an external corporate governance mechanism, M&As are linked to the market for corporate control, i.e., "a market in which alternative managerial teams compete for the rights to manage corporate resources" (Jensen & Ruback, 1983, p. 6). Knowing that a takeover can happen and they may lose their jobs when it happens, managers are likely to work hard to increase firm value. In cases where a firm's agency problem is severe and its stock price is low, an acquirer with better management may realize gains by taking over the underperforming firm and revitalizing its operations. M&As, therefore, can protect target firm

shareholders from existing poor management and create value for acquiring firms who are able to generate additional value that is not realized by the incumbent target management (Denis, 2001).

3.2.2. Announcement effect and M&A success

To gauge shareholders' perception of whether M&As create value, previous research has examined the announcement effect of M&A deals. A successful M&A is one with positive abnormal returns around the merger announcement (Canina et al., 2010), where abnormal returns are calculated as the difference between actual stock price changes and expected changes estimated using historical data. Assuming the market is efficient, positive abnormal returns indicate that a particular merger is in shareholders' interests and shareholders are in favor of the deal. Seth (1990) states that unlike the accounting-based performance measures like profitability and sales growth, abnormal stock return is market-based, forward-looking, and reflective of all information available about the merger at the time of the announcement, including the potential synergy the merger can create.

By focusing on a short period around the merger announcement, the abnormal return approach can isolate the effect of the merger and minimize the potential confounding effect of other events on stock prices. However, several factors may affect the sign and magnitude of abnormal returns, such as expected synergy (Dutordoir, Roosenboom, & Vasconcelos, 2014) and deal characteristics (Haleblian et al., 2009). In what follows, I discuss in detail these factors and their relationships to M&A performance.

3.2.3. Sources of gains from M&As

M&As can create value through synergy gains, which are often cited by managers to justify merger decisions. From a practitioner's standpoint, a detailed typology of synergy

includes five categories: production synergy, technological synergy, marketing synergy, organizational synergy, and financial synergy (Kantor, 1970). These synergies are generally obtained from improved efficiencies resulted from economies of scale or scope and/or some kind of skill transfer between merging firms (Ansoff, 1965). For instance, by acquiring Starwood, Marriott's hotel rooms increased by 381,440, and its loyalty program members increased to 110 million (Clark, 2018). Combining the sales and marketing functions of the two firms can not only reduce overhead costs but also achieve economies of scale by spreading the costs out over more units. By adding more upscale Starwood brands to the more mid-market Marriott portfolio, the merged company is likely to achieve economies of scope by spreading out operating costs across a variety of products.

While combining two firms that operate in similar geographical regions may create operating synergies through cost savings and increases in market power, integrations between two firms that have few geographical overlaps may also create value. For example, hospitality firms can benefit from combined loyalty programs and gain customers in new markets when the combining firms have few geographical overlaps. Before their integration in 2016, Marriott and Starwood operated 195 and 317 properties in Asia Pacific, respectively (Marriott International, 2016; Starwood Hotels & Resorts Worldwide, 2016). After the merger, Marriott gained new customers in the Asia Pacific region, and more importantly, loyalty program members purchased about 50% of the chain's room nights in 2018 and contributed significantly to the chain's revenue (Marriott International, 2019).

Another example is related to the 1986 merger between Delta Air Lines and Western Airlines. Before the acquisition, Delta had most of its routes in the South and only a few in the West Coast. By acquiring Western, which concentrated on the Western United States and

specialized in international routes to Mexico, Delta gained market share in geographical regions where they had not had much presence before (Dallos, 1986). Given the high market saturation and fierce competition, hospitality firms are likely to engage in acquisitions in different geographic regions to expand their business.

The resource-based view of the firm (Wernerfelt, 1984) suggests that the amount of value generated by a merger is determined by the amount of scarce resources controlled by the firm and the availability of opportunities to utilize these resources. In this respect, synergies can be classified as collusive synergy that represents scarce resources that lead to market power, operational synergy that represents scarce resources that lead to production and/or administrative efficiencies, and financial synergy that represents scarce resources that lower the cost of capital (Chatterjee, 1986).

3.2.4. M&As and value-creation in the hospitality industry

In recent years, the hospitality industry has experienced significant industry disruptions from online travel agencies (OTAs) like Expedia, independent boutique hotels, and sharing economy platforms like Airbnb. According to the neoclassical explanations of merger waves, when an industry experiences economic, technological, or regulatory shocks that lead to industry reorganization, firms inside and outside the industry will collectively react to such economic disturbance by reallocating industry assets through M&As (Gort, 1969; Mitchell & Mulherin, 1996).

To survive, firms need to respond to changes in their business market with speed. Since target firms already have their production, distribution, and clientele in place, M&As offer a cheaper and faster way for firms to respond than internal development and organic growth do (Huyghebaert & Luypaert, 2010). Indeed, in 2015 InterContinental purchased Kimpton Hotel &

Restaurants, the then largest independent boutique hotel operator in the world, to compete with the fast-growing segment of boutique hotels. In this sense, M&As allow the acquirer to gain market share in the target's segment and achieve operating, marketing, technological synergies through combining organizational functions and eliminating redundant investments.

One prominent challenge facing the hospitality industry is the fast-changing customer preferences and the low switching costs between hospitality products (Singal, 2015). Because services offered by hospitality firms are highly substitutable, consumers can easily find alternative hotels or restaurants that offer similar products at competitive prices. While loyalty programs can mitigate the issue of substitutability to some extent, their positive impact diminishes as price sensitivity and competition increase (Singal, 2015).

One way to retain existing customers and to attract new customers is through the expansion of product offerings that accommodate various customer preferences. Since new product development and brand building are time-consuming and costly, a quick and easy way to acquire additional products and brands is through M&As. For this reason, fast-food restaurant chain Arby's merged with casual-dining restaurant chain Buffalo Wild Wings to avoid competing for the same customers and to alleviate the impact of customers' loss of interest for one type of restaurant concept or cuisine for the other (Jargon, 2018).

The resource-based view of the firm (Barney, 1991) suggests that firms that possess valuable, rare, inimitable, and non-substitutable resources can generate sustained competitive advantage. Since M&As allow cash-rich, opportunity-poor companies to acquire opportunity-rich, cash-poor firms, they can create value through resource allocation optimization. M&As can also create value when firms obtain otherwise unavailable scarce resources that are essential to the hospitality business. In a survey of 529 business travelers conducted by Choice Hotels

International, the majority of travelers (73%) indicated that hotel location matters the most when picking a hotel on the road (Jones, 2014). By acquiring other firms, firms gain critical locations that can help attract new customers and capture additional market share, resulting in collusive and operating synergies.

Based on the discussion above, hospitality M&As are likely to achieve synergy and create value for the acquiring firms. Since the expected synergy of the deal is reflected in the market's reaction to M&A announcements, the abnormal returns around the announcement should be positive. Indeed, prior research suggests that hospitality acquirers generally experience positive if not significant abnormal returns around announcement dates (Canina, 2001, 2009a; Chatfield, Dalbor, & Ramdeen, 2011; Hsu & Jang, 2007; Jackson, 2015; Ma et al., 2011), whereas findings from the general business literature show that, on average, acquirer shareholders receive neutral if not negative abnormal returns (Agrawal, Jaffe, & Mandelker, 1992; Jarrell et al., 1988; Sundaram, 2004). Overall, the evidence seems to suggest that hospitality M&As are more successful that non-hospitality M&As. Therefore, I hypothesize that:

H1: *The acquirer abnormal returns of M&As are higher for firms in the hospitality industry than for firms in the non-hospitality industries.*

3.2.5. Deal characteristics and M&A performance

Aside from the prospective synergies, deal characteristics, such as industry relatedness, method of payment, relative size, and target type, which are generally disclosed at the time of the announcement, can also affect the market's reaction to a merger announcement (Canina et al., 2010). While the actual merger performance varies from merger to merger, deal characteristics reveal the circumstances under which M&As do benefit bidders and thus are essential for understanding variation in M&A performance across firms (Haleblian et al., 2009).

According to the resource-based view of the firm, value is created when resources of the combining firms are substitutes for or complements to each other (Lien & Klein, 2006). Penrose (1959) notes that excess capacity in resources arise when some resources are imperfectly divisible (e.g., half a computer is not half as valuable as a computer) and when new resources are generated through learning. Assuming that unused capacity is costly, M&As involving related industries with substitutable resources can lead to economies of scope and improved performance (Lien & Klein, 2006). Resource complementarities occur when resource use in one industry affects resource use in another industry, creating a positive spillover effect. Due to the existence of transaction costs, such spillover effects can be best managed within a single firm rather than separate firms (Milgrom & Roberts, 1992).

As complementary resources are more likely to be found in related industries and combining businesses can eliminate transaction costs between firms, related M&As between firms within the same or similar industries tend to outperform unrelated M&As (Lien & Klein, 2006). That is, compared with unrelated mergers, related mergers result in greater economies of scale and scope and higher total dollar gains (Singh & Montgomery, 1987). Using a broad sample of mergers during 1980-2004, Devos et al. (2009) find that both total and operating synergies are significantly higher in related mergers than in unrelated mergers, and only synergy in related mergers is linked to abnormal returns to acquirers (Devos et al., 2009).

Despite the fact that industry relatedness between the merging firms is one of the most researched deal characteristics in the general business literature, it is rarely studied in the hospitality setting (Canina, 2009b). In the hospitality industry, only one study has examined bidder returns in related mergers. Specifically, Jackson (2015) shows that bidder returns are significantly positive in the U.S. airline sector, where horizontal mergers are prevalent. Overall,

the evidence in the literature seems to suggest that industry relatedness is positively related to bidder returns. One possible explanation for the potential performance discrepancy between hospitality and non-hospitality M&As could be that hospitality firms are disproportionately more likely to undertake related M&As than non-hospitality firms. To test whether this is indeed the case, I propose the following hypotheses:

H2a1: *Industry relatedness is positively related to acquirer abnormal returns.*

H2a2: *Industry relatedness is higher in hospitality M&As than in non-hospitality M&As.*

The relative size of target and bidder is another deal characteristic commonly studied in relation to M&A performance. Prior research suggests that relative size is significantly related to acquirer performance; however, the direction of the relationship is less straightforward. While Jarrell and Poulsen (1989) find a positive relationship between relative size and acquirer announcement gains, Sudarsanam, Holl, and Salami (1996) report a 1% increase to average abnormal returns for bids involving smaller targets.

On the one hand, acquisitions of relatively larger targets may have greater potential to achieve synergy through increased market power and economies of scale or scope (Seth, 1990). On the other hand, acquisitions of large targets may destroy more value when managers overpay for larger targets because they overestimate their ability to correctly value the targets (Alexandridis, Fuller, Terhaar, & Travlos, 2013; Malmendier & Tate, 2008) and/or when acquisitions involving larger targets provide managers with higher private benefits (Harford & Li, 2007; Morck, Shleifer, & Vishny, 1990). Alternatively, smaller targets can be easier to integrate into acquirer organization culture than larger targets, resulting in the realization of the intended synergy underlying the deal (Sudarsanam et al., 1996).

In the hospitality literature, limited studies have examined the effect of relative size on announcement returns. While Ma et al. (2011) report a significant positive effect of relative size on announcement returns, Dogru (2017) shows that the effect can be negative or negligible. Due to the scarcity of evidence, it is unclear whether the relative size of target to acquirer increases or decreases merger performance in hospitality. However, given the already competitive nature of the industry and the scarcity of prime locations for hotels and restaurants, it is likely that hospitality M&As are motivated by the potential for synergy rather than managerial self-interest, and therefore are value-increasing. By acquiring larger targets with more access to prime locations and with more outlets for the sale of goods and services that are similar to its existing offerings, the acquiring firm can increase revenues and profits by achieving economies of scale and scope (Gilbert & Zok, 1992). Therefore, I argue that there is a positive relationship between relative size and announcement returns, and hospitality firms are more likely to acquire larger firms than non-hospitality firms for synergy gains.

H2b1: *Relative size is positively related to acquirer abnormal returns.*

H2b2: *Relative size is higher in hospitality M&As than in non-hospitality M&As.*

Another critical deal issue related to M&As is the method of payment. In the general business literature, it is common knowledge that cash payment is associated with positive announcement returns to bidders and stock payment is associated with negative announcement returns to bidders (Canina et al., 2010; Sundaram, 2004). A widely accepted rationale for this phenomenon is signaling. Stock financing signals to the market that acquirer stocks are overvalued (Myers & Majluf, 1984). As a result, the market revalues acquirer stocks downward, resulting in negative abnormal returns at the merger announcement. In contrast, acquirers using

cash financing signal to the market that their stocks are undervalued, leading to positive reactions from the market.

Limited research has examined the effect of payment type on the short-term abnormal returns of acquirers in the hospitality industry. In the lodging sector, while Ma et al. (2011) find that cash deals do not outperform other types of deals, Dogru (2017) shows that cash deals sometimes outperform other types of deals. To reconcile inconsistent findings, more studies are needed to better understand how payment method may affect acquirer returns in the hospitality industry, especially when hospitality M&As are predominantly paid in cash (Oak et al., 2008). Following the conventional wisdom on the relationship between payment type and M&A performance (Sundaram, 2004), I hypothesize that cash financing creates more value than stock-financing and hospitality acquisitions are more likely to be cash-financed than stock-financed.

H2c1: *Cash financing is positively related to acquirer abnormal returns.*

H2c2: *Hospitality acquirers are more likely to use cash financing than non-hospitality acquirers.*

In the general business literature, it is well-documented that acquisitions involving private targets have higher bidding firm returns than acquisitions involving comparable public targets (Canina et al., 2010). The significant acquisition discount associated with private targets is often explained by the relative illiquidity or severe information asymmetry between private firm owners and the bidders (Chang, 1998; Fuller, Netter, & Stegemoller, 2002). A lack of information on private firms limits the breadth of acquirers' search and increases the risk of misevaluation of target assets. Acquirers with superior private information can thus exploit private information and gain abnormal returns from buying private targets, especially when private targets have weak bargaining power (Makadok & Barney, 2001). In contrast, all potential

bidders in the market for corporate control for public firms share the same information and similar asset valuation mechanisms, and therefore are less likely to gain from information asymmetry (Capron & Shen, 2007).

In the hospitality industry, Ma et al. (2011) find that while acquisitions of lodging assets create value for acquirers on average, more value is created when non-public versus public targets are acquired. Although acquisitions involving unlisted firms represent a large percentage of lodging deals and a significant portion of deal value, little attention has been given to the effect of target type on acquisition performance (Ma et al., 2011). Since the hospitality industry is historically made up with small mom and pop properties, the success of M&A in the hospitality industry may be attributable to the higher percentage of mergers involving non-public firms. Thus, the following hypotheses are provided:

H2d1: *Acquirer abnormal returns are higher for firms acquiring unlisted firms than listed firms.*

H2d2: *Hospitality firms are more likely to acquire unlisted firms than non-hospitality firms.*

Earlier, my discussion suggests that due to the unique characteristics of and challenges faced by the hospitality industry, hospitality M&As are more likely to generate synergy and create value than non-hospitality M&As, leading to the hypothesis that hospitality M&A performance is better than non-hospitality M&A performance (Hypothesis 1). However, based on the discussion on deal characteristics, industry relatedness, relative size, payment method, and target type can all impact acquisition performance and may also differ between hospitality and non-hospitality deals. In other words, differences in deal characteristics may explain the potential performance discrepancy between hospitality and non-hospitality M&As. Therefore, I believe that controlling for deal characteristics, there may be no difference between hospitality and non-hospitality M&A performance.

H3: *Holding deal characteristics constant, there will be no difference in acquirer abnormal returns of M&As between hospitality and non-hospitality firms.*

3.3. Methodology

3.3.1. Data

The sample of this study includes all publicly traded firms in the U.S. with M&A data in the SDC Platinum database and stock return data in the CRSP database. From the SDC Mergers and Acquisitions database, I identify all completed mergers along with their deal characteristics for the period 1978-2018 where (a) the acquirers are publicly traded and (b) the deal value is at least $1 million. I further require that the acquirers' returns around announcement dates are available from the CRSP database, which results in a sample of 10,557 unique acquiring firms and 45,862 mergers. From this sample, I identify hospitality firms and mergers as those with acquirer SIC codes from the following list: 7011 (hotels), 5812 (restaurants), 7992 (public golf courses), 7999 (casinos), 7993 (coin-operated amusement devices), 7996 (amusement parks), 4512 (airlines), and 4481 (cruises). This results in 277 acquiring firms and 860 mergers in the hospitality industry.

Next, I construct two comparison groups from the remaining 10,299 non-hospitality acquiring firms. Excluding regulated firms, i.e., firms in the utilities (SIC 4900-4999) and financial services (SIC 6000-6999) sectors, the first comparison group includes 7,966 firms and 33,328 mergers. The second comparison group consists of 769 non-regulated firms and 860 mergers, identified by implementing the nearest-neighbor method. Specifically, I match individual hospitality mergers with non-hospitality mergers that are closest in firm size (i.e., acquirer market capitalization ten days before the announcement date) and announced in the same year (Mahdiyeh & Anindya, 2018). I focus on firm size because it has a strong effect on

acquirer announcement returns, and the effect is robust to firm and deal characteristics (Moeller et al., 2004). In addition, I impose the common support restriction, which requires the range of firm size to overlap between hospitality and non-hospitality groups. As a result, 860 non-hospitality matching peers from 770 firms are identified for the 860 hospitality mergers.

3.3.2. Variables

The dependent variable of this study is cumulative abnormal return (CAR), estimated by using the event study methodology and expressed as a percentage. Assuming the market is efficient and the stock price incorporates all the information affecting a firm, any new information about the firm such as an M&A announcement should influence the stock price. An event study thus attempts to examine the stock price reaction to the event in the form of abnormal returns, measured as the differences between firms' actual and expected (or "normal") stock returns.

To estimate the expected stock returns, I use the Fama-French three-factor model (Fama & French, 1993) expressed as:

$$R_{it} - R_{ft} = \alpha_i + \beta_{1i}(R_{mt} - R_{ft}) + \beta_{2i}\mathrm{SMB}_t + \beta_{3i}\mathrm{HML}_t + \varepsilon_{it} \quad (3.1)$$

Where R_{it} is the actual daily return, R_{ft} the risk-free rate, R_{mt} the CRSP value-weighted market return, SMB_t the difference in returns on small vs. large firms, HML_t the difference in returns of firms with high vs. low book-to-market value ratios, α_i the intercept, β_1, β_2, β_3 coefficients, and ε_{it} an error term. The subscripts *i* and *t* represent firm and the t'th day relative to a given announcement day (t = 0), respectively. The parameters are estimated using 100 trading days ending eleven days before the announcement day.

To compute abnormal returns, I use the following equation:

$$AR_{it} = R_{it} - [R_{ft} + \hat{\alpha}_i + \hat{\beta}_{1i}(R_{mt} - R_{ft}) + \hat{\beta}_{2i}\mathrm{SMB}_t + \hat{\beta}_{3i}\mathrm{HML}_t] \quad (3.2)$$

where AR_{it} is firm *i*'s abnormal return on day *t*, and $\hat{\alpha}_i$, $\hat{\beta}_{1i}$, $\hat{\beta}_{2i}$, and $\hat{\beta}_{3i}$ are the estimates obtained from Equation (3.1).

The acquiring firm's abnormal return is calculated for the seven-day window (-3, 3) centered around the announcement day where t = 0. The average unexpected return, AR_t, for each day in the event window is calculated by averaging AR_{it} across events. The CAR_i for each event is calculated by cumulating AR_{it} for each day in the event period, whereas the *CAR* for the sample is calculated by cumulating AR_t.

The independent variables in this study are four deal characteristics (i.e., industry relatedness, relative size, cash payment, and unlisted target) and a hospitality and tourism (HT) dummy. Industry relatedness is a dummy variable which has a value of 1 if any of the merging firms' SIC codes listed in SDC Platinum match at the two-digit level, and 0 otherwise (Kaplan & Weisbach, 1992). Relative size is calculated as deal value divided by bidder market capitalization 10 days before the acquisition announcement (Chang, 1998). Cash payment is a dummy variable that has a value of 1 if the acquisition is financed by cash only, and 0 otherwise. Unlisted target is a dummy variable that has a value of 1 if the target is a private or subsidiary firm, and 0 otherwise (Ma et al., 2011). I use a dichotomous HT dummy variable to differentiate between hospitality and non-hospitality firms, where 1 represents a hospitality firm, and 0 otherwise.

To account for the effect of size on acquirer abnormal returns, I include the market capitalization of the acquirer 10 days before the acquisition announcement (Chang, 1998) as a control variable. Moeller et al. (2004) find that small acquirers have higher abnormal returns than large acquirers even after a wide variety of acquiring firm and deal characteristics are controlled

for. Since bid competition usually boosts the price of target firms at the expense of acquiring shareholders, I also control for the number of bidders for the same target as reported by SDC.

3.3.3. Data analysis

We examine deal characteristics and CAR of hospitality M&As relative to non-hospitality M&As by testing the difference in means. Regression analysis is used to investigate the relationship between deal characteristics and CARs as well as the potential discrepancy in CARs between hospitality and non-hospitality firms controlling for deal characteristics. Continuous variables, i.e., *CAR*, *Relative size*, and *Firm size*, are winsorized at 5% and 95% to mitigate the effect of outliers on estimated coefficients. For all analyses, I provide a side-by-side comparison of results between the hospitality group and the two non-hospitality comparison groups identified earlier. The following regression model is used to test Hypotheses 2 and 3:

$$\text{CAR} = \beta_0 + \beta_1\text{HT} + \beta_2\text{Relatedness} + \beta_3\text{HT*Relatedness} + \beta_4\text{Relative size} + \beta_5\text{HT*Relative size} + \beta_6\text{Cash} + \beta_7\text{HT*Cash} + \beta_8\text{Unlisted} + \beta_9\text{HT*Unlisted} + \beta_{10}\text{Firm size} + \beta_{11}\text{Number of bidders} + \varepsilon \quad (3.3)$$

Where the four interaction terms between HT and deal characteristics are included to capture the potential moderating effect of HT on the relationship between deal characteristics and CAR.

3.4. Results

3.4.1. Descriptive statistics

Table 3.1 lists the summary statistics of deal and firm characteristics by industry and sector. As shown in Panel A, 81.18% of non-hospitality mergers are related. Within the hospitality industry, airlines have the highest percentage (91.55%) of related deals, whereas casinos have the lowest percentage (74.71%) of related deals. On average, 61.67% of mergers in the non-hospitality industries are paid with cash only, compared with a high of 75.27% in the

hotel sector and a low of 50% in the other-HT sectors (i.e., cruises, public golf courses, and theme parks). Overall, 82.55% of all deals in the sample are involved with unlisted targets, although the figure is significantly smaller in the airline sector (53.52%). Regardless of industries and sectors, almost all deals in the sample have only one bidder (98.95%), although deals in the airline sector can have up to six bidders.

Panel B shows that except for casino firms (0.93%), hotel, restaurant, airline, and other HT acquirers all enjoy higher acquisition returns than non-hospitality acquirers (1.08%). Similarly, except for other-HT firms (15.05%), hotel, restaurant, airline, and casino acquirers on average are more likely to acquire relatively larger targets than non-hospitality acquirers (19.95%). In terms of firm size (in 2018 dollars), except for other-HT firms like cruises and theme parks ($10,976.96 million), an average hotel, restaurant, airline, and casino acquirer is much smaller than an average non-hospitality acquirer ($4,387.22 million).

Table 3.2 displays the Pearson's correlation of variables in this study. CAR is positively correlated with relative size and unlisted target and negatively correlated with firm size and number of bidders. To provide a big picture of M&A activities in the hospitality industry from 1978 to 2018, I plot the number of all hospitality M&As and their aggregate transaction value (in 2018 dollars) reported in the SDC database by year. Figure 3.1 shows that, despite fluctuations, the hospitality industry has experienced a significant increase in the number and value of M&As over a period of 41 years. Consistent with Kim, Zheng, and Arendt's (2019) findings, at least one merger wave occurred in each decade since the 1980s. M&A activities peaked in 1997, driven by an economic bubble and the tax loopholes involving the paired-shared real estate investment trust (REIT) that were subsequently closed by Congress in 1998 (Canina et al., 2010).

Table 3.1 Deal and firm characteristics

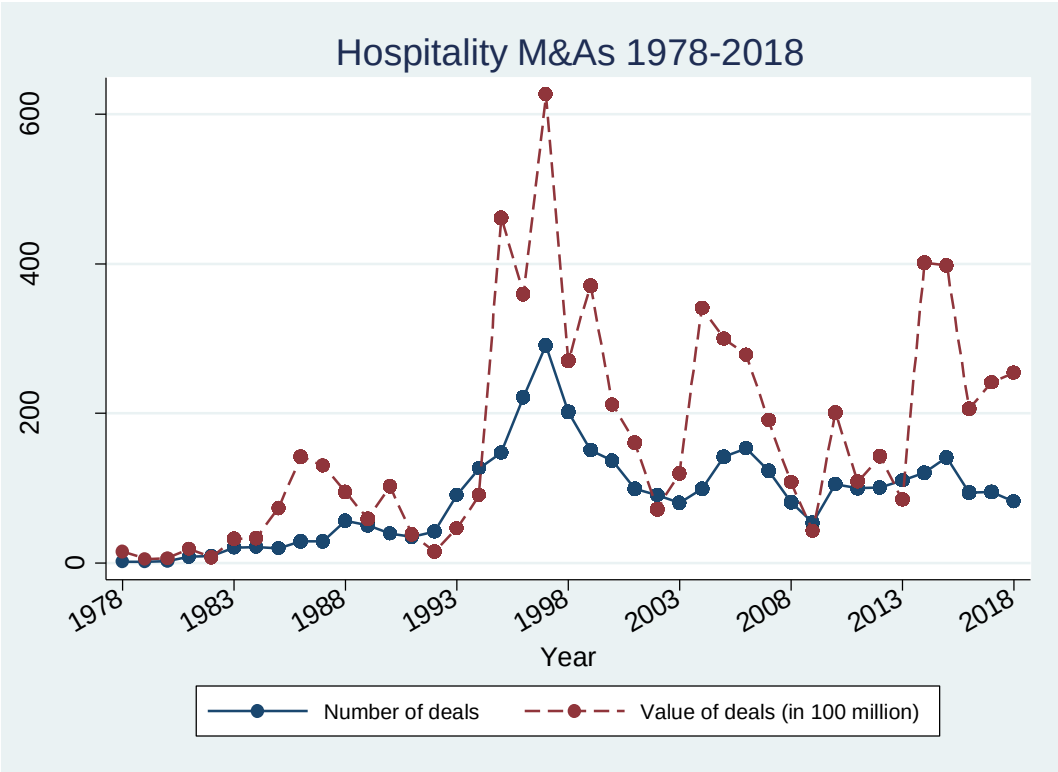
Panel A: Frequency (%)							
	Non-HT	Hotel	Restaurant	Airline	Casino	Other HT	Total
Industry relatedness							
Unrelated	18.82	13.19	14.94	8.45	25.29	10.00	18.71
Related	81.18	86.81	85.06	91.55	74.71	90.00	81.29
Payment type							
Cash	61.67	75.27	56.49	64.79	57.47	50.00	61.75
Stock	13.95	7.42	21.75	9.86	17.24	13.33	13.95
Cash and stock	18.93	13.46	13.64	18.31	18.39	26.67	18.83
Other (notes, options, etc.)	5.45	3.85	8.12	7.04	6.90	10.00	5.46
Target type							
Unlisted	82.55	84.62	82.79	53.52	86.21	73.33	82.51
Listed	15.77	12.36	16.88	43.66	9.20	20.00	15.79
Other (government-owned entity and joint venture)	1.68	3.02	0.32	2.82	4.60	6.67	1.70
Number of bidders							
1	98.98	98.90	98.38	85.92	98.85	96.67	98.95
2	0.85	1.10	1.30	8.45	1.15	3.33	0.87
3	0.14	0	0.32	2.82	0	0	0.15
4	0.02	0	0	1.41	0	0	0.03
6	0	0	0	1.41	0	0	0.01
Panel B: Mean (Median)							
	Non-HT	Hotel	Restaurant	Airline	Casino	Other HT	Total
CAR (%)	1.08	1.23	2.41	2.47	0.93	1.37	1.10
	(0.49)	(0.81)	(1.77)	(1.50)	(0.14)	(0.30)	(0.51)
Relative size (%)	19.95	21.70	26.42	36.07	34.29	15.05	20.09
	(7.05)	(8.11)	(9.11)	(17.68)	(15.86)	(6.17)	(7.13)
Firm size ($ million)	4387.22	2695.09	1678.15	2212.94	469.76	10976.96	4336.12
	(825.51)	(1341.65)	(322.70)	(555.79)	(217.88)	(1891.84)	(821.47)
Number of transactions	33344	364	308	71	87	30	34204

Table 3.2 Pearson's correlation

		1	2	3	4	5	6
1	CAR	-					
2	Relatedness	-0.008	-				
3	Relative size	0.119***	0.006	-			
4	Cash	0.002	0.024***	-0.204***	-		
5	Unlisted	0.085***	-0.057***	-0.181***	0.130***	-	
6	Firm size	-0.078***	0.051***	-0.212***	0.129***	-0.176***	-
7	Number of bidders	-0.020***	0.025***	0.057***	0.009	-0.149***	0.048***

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Figure 3.1 Mergers and acquisitions in hospitality from 1978 to 2018



3.4.2. Empirical findings

Table 3.3 compares CARs and deal characteristics between hospitality and non-hospitality firms and is directly related to Hypotheses 1 and 2. Supporting Hypothesis 1, CAR is significantly higher for hospitality mergers (1.732%) relative to non-hospitality mergers (1.083% for all non-HT firms and 0.488% for matched non-HT firms). Moreover, both hospitality and non-hospitality firms gain significantly from M&As. Consistent with Hypothesis 2a2, industry relatedness is higher in the hospitality industry (0.855) than in the non-hospitality industries (0.812 for all non-HT firms and 0.798 for matched non-HT firms). Consistent with Hypothesis 2b2, cash payment is more prevalent among hospitality acquirers (0.650) than among non-hospitality acquirers (0.617 for all non-HT firms and 0.581 for matched non-HT firms). Consistent with Hypothesis 2c2, relative size is larger for hospitality firms (25.616%) than for non-hospitality firms (19.946% for all non-HT firms and 22.436% for matched non-HT firms).

The results indicate that there is no significant difference in target type between hospitality (0.812) and non-hospitality acquisitions (0.825 for all non-HT firms and 0.840 for matched non-HT firms), failing to support Hypothesis 2d2.

Table 3.3 Comparison between hospitality and non-hospitality M&As

	All firms				Matched firms			
Variable	HT	Non-HT	Diff.	Obs.	HT	Non-HT	Diff.	Obs.
CAR (%)	1.732***	1.083***	0.649**	34204	1.732***	0.488*	1.243***	1720
Relatedness	0.855	0.812	0.043***	34204	0.855	0.798	0.057***	1720
Relative size (%)	25.616	19.946	5.671***	34203	25.616	22.436	3.180*	1720
Cash	0.650	0.617	0.033*	34204	0.650	0.581	0.069**	1720
Unlisted	0.812	0.825	-0.014	34204	0.812	0.840	-0.028	1720

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 3.4 shows the relationship between deal characteristics and CARs and compares CARs between hospitality and non-hospitality acquisitions in a regression model. As shown in Table 3.4, industry relatedness is insignificantly related to CAR. Therefore, Hypotheses 2a1 is not supported. While cash payment is positively related to CAR in both the All Firms and Matched Firms samples, the relationship is only significant in the former. Therefore, Hypothesis 2c1 is partially supported. As expected, relative size and unlisted target are both positively and significantly related to CAR, supporting Hypotheses 2b1 and 2d1. Controlling for deal and firm characteristics, there is no significant difference in CAR between hospitality and non-hospitality mergers in the All Firms sample, supporting Hypothesis 3; however, the difference remains in the Matched Firms sample, failing to support Hypothesis 3. Taken together, Hypothesis 3 is partially supported.

In terms of the interaction terms, there is a negative relationship between HT*Cash and CAR across samples, suggesting that HT negatively moderates the relationship between cash payment and CAR. Although the interaction term between HT and unlisted target is negative in both samples, it is only significant in the Matched Firms sample. As for the control variables,

both firm size and number of bidders are negatively related to CAR; however, the relationships are only significant in the All Firms sample.

Table 3.4 Regression results for deal characteristics and CARs

	All firms		Matched firms	
Variable	Coef.	Robust SE	Coef.	Robust SE
HT	0.980	0.999	3.824***	1.363
Relatedness	-0.039	0.112	0.665	0.661
HT*Relatedness	0.625	0.799	-0.085	1.036
Relative size	0.036****	0.002	0.036***	0.012
HT*Relative size	0.008	0.009	0.007	0.015
Cash	0.380****	0.098	0.598	0.581
HT*Cash	-1.316**	0.628	-1.538*	0.851
Unlisted	2.102****	0.122	3.752****	0.766
HT*Unlisted	-0.543	0.728	-2.188**	1.046
Firm size	-0.032****	0.004	-0.039	0.028
Number of bidders	-0.676**	0.275	-0.388	0.666
Intercept	-0.739**	0.331	-3.856***	1.158
N	34203		1720	
R^2	0.028		0.049	

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$. For meaningful coefficients, the base unit of firm size is converted from million to trillion.

3.4.3. Additional analyses

In this section, I conduct several analyses to further our understanding of the performance discrepancies between hospitality and non-hospitality firms and the relationship between deal characteristics and CARs. Although HT negatively moderates the relationship between cash payment and unlisted target and merger performance (Table 3.4), it is unclear whether cash payment and unlisted target will reduce merger performance in the hospitality industry. Focusing on hospitality firms and large hospitality sectors like hotels and restaurants (Table 3.1), Table 3.5 indicates that cash payment itself does not reduce merger performance and hospitality bidders are still better off acquiring unlisted firms. Additionally, industry relatedness remains unrelated to merger performance, and relative size remains positively related to merger performance.

Table 3.5 Regression results for HT firms

	All HT firms		Hotel firms		Restaurant firms	
Variable	Coef.	Robust SE	Coef.	Robust SE	Coef.	Robust SE
Relatedness	0.580	0.797	-0.151	0.904	-0.767	1.394
Relative size	0.043***	0.009	0.033*	0.016	0.060***	0.016
Cash	-0.969	0.624	-0.042	1.014	-0.687	1.000
Unlisted	1.632*	0.725	2.694*	1.067	1.945	1.372
Firm size	-0.031	0.038	-0.019	0.082	-0.018	0.059
Number of bidders	0.298	0.606	-0.746	5.748	0.967	2.679
Intercept	-0.798	1.204	-0.795	5.876	-0.691	3.550
N	860		364		308	
R^2	0.044		0.037		0.065	

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. For meaningful coefficients, the base unit of firm size is converted from million to trillion.

Despite the fact that prior research suggests that industry relatedness is an important contributor to merger success in the hospitality industry (Canina, 2009b), I find no supporting evidence for this hypothesis. Lien and Klein (2006) argue that the lack of relationship between acquirer returns and industry relatedness could be due to the fact that relatedness is a difficult concept to measure. Since there is a lack of consensus as to how industry relatedness should be measured, I verify the findings using two alternative relatedness measures. The first measure labels a transaction related if the combining firms' primary businesses share the same two-digit SIC code and unrelated otherwise (Doukas & Kan, 2004). Compared with the relatedness measure used in the main analyses, this measure only focuses on the relatedness of the merging firms' core businesses, and thus may underestimate the relatedness of acquisitions between firms with multiple lines of businesses.

The second measure is the degree of relatedness (DOR) calculated based on the merging firms' primary SIC codes (Hoskisson, Hitt, Johnson, & Moesel, 1993). The DOR has a value of 1 if the combining firms' four-digit SIC codes are the same, 0.75 if the first three digits are the same, 0.5 if the first two digits are the same, 0.25 if the first digit is the same, and 0 otherwise.

Although the DOR can to some extent capture the varying degrees of relatedness, it is problematic because it imposes a strong assumption that any pair of industries with an equal distance in DOR are equally dissimilar (Lien & Klein, 2006). Nevertheless, when the analyses in Tables 3.3 and 3.4 are repeated using the alternative relatedness measures, all findings remain the same, indicating that the insignificant relationship between industry relatedness and merger performance is not due to the choice of relatedness measures.

Next, I re-analyze the data using alternative event windows commonly found in the literature, ranging from three (-1, 1) to eleven (-5, 5) days centered around the announcement day. The results are qualitatively similar to those reported in Tables 3.3 and 3.4.

One result that stands out in the main analyses relates to the significantly positive acquirer returns. As shown in Table 3.1, the average acquirer return for the overall sample is 1.1%, the same as Netter, Stegemoller, and Wintoki's (2011) result based on a large sample of M&As reported by the SDC from 1992 to 2009. Similar to Netter et al. (2009) and in contrast to research focused on large deals and public targets (e.g., Malmendier & Tate, 2008; Seth, 1990), I impose few restrictions on the sample, which includes both unlisted and small targets. Since data screens can affect results associated with M&As (Netter et al., 2009), I explore the extent to which common data screens in the M&A literature may influence my results by comparing the acquirer returns across samples with various restrictions.

As a baseline for comparison, in Row 1 of Table 3.6 I reproduce the CARs in Table 3.3, which are based on deals with a transaction value of at least $1 million. In Row 2, I further restrict target firms to be publicly traded. I find that HT acquirers gain significantly even when the magnitude of the gains is smaller compared to Row 1; non-HT firms experience significant losses; and the differences between the two are positive and significant. The results are

comparable to the findings in the general business literature which show that acquirers do not gain from M&As (Sundaram, 2004), and are in line with my findings that hospitality M&As are more successful than non-hospitality M&As and unlisted targets create more value for the bidders.

Table 3.6 Comparison of CARs

	All firms				Matched firms			
Sample restriction	HT	Non-HT	Diff.	Obs.	HT	Non-HT	Diff.	Obs.
(1) Deal value ≥ $1 million	1.732****	1.083****	0.649***	34204	1.732****	0.488**	1.243****	1720
(2) Deal value ≥ $1 million & Listed target	0.969*	-0.888****	1.857***	5402	1.096*	-1.021*	2.117**	282
(3) Deal value ≥ $10 million	1.700****	1.044****	0.657**	25790	1.696****	1.316****	0.380	1292
(4) Deal value ≥ $10 million & Relative size ≥ 10%	2.909****	2.118****	0.791*	12110	2.888****	2.179****	0.708	704

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$

In Row 3 of Table 3.6, I require the transaction values to be at least $10 million (Chang, 1998) as smaller acquisitions may not have the economic significance to influence stock returns. Overall, the results in Row 3 are qualitatively similar to those in Row 1, except for the ones related to non-HT firms in the matched sample. In Row 4, I further require the relative size of acquisition to be at least 10%, which results in a significant increase in acquirer returns compared to those in Rows 1 and 3. The difference in acquirer returns between HT and non-HT firms remains positive, albeit only significant in the All Firms sample. The results are consistent with the findings that hospitality M&As enjoy higher returns than non-hospitality M&As, and larger targets are more likely to create value to the acquiring firms.

3.5. Discussion

Prior research suggests that M&As in the hospitality industry are more successful than M&As in other industries. Using a comparative study design and a comprehensive sample over 41 years, I empirically examine whether this is indeed the case and what may explain the potential performance discrepancy. The findings indicate that hospitality M&As outperform non-

hospitality M&As even after several deal and firm characteristics are controlled for. Compared with non-hospitality bidders, hospitality bidders are more likely to conduct all-cash acquisitions of relatively larger targets in industries related to their own. While relative size, cash payment, and unlisted target are positively related to merger performance, industry relatedness is not. Several important theoretical and managerial implications can be drawn from this study.

3.5.1. Theoretical implications

This study contributes to the literature by comprehensively examining merger performance of the universe of hospitality and non-hospitality deals reported in SDC Platinum with stock return data available from CRSP for the period 1978-2018. Prior research (Canina et al., 2010) contrasts findings from a handful of hospitality studies (e.g., Canina, 2001) and repeat findings in the general business literature (e.g., Jensen & Ruback, 1983) and suggests that announcement effects are higher for hospitality mergers than for non-hospitality mergers. Since sample selection (e.g., sample size, period, and firm) and study design (e.g., event window and estimation model) can vary substantially from one study to another, findings from different research may not be readily comparable. Using a comparative study design that applies the same data collection and analytic techniques to both hospitality and non-hospitality transactions, the study confirms the notion that hospitality acquirers enjoy higher abnormal returns than non-hospitality acquirers. In addition, the announcement returns are positive and significant for both hospitality and non-hospitality acquirers, suggesting that M&As, in general, are value-enhancing to the acquiring shareholders.

Moreover, I find that hospitality M&As are different from non-hospitality M&As in terms of industry relatedness, relative size, and payment method. Although hospitality firms are more likely to undertake related acquisitions, industry relatedness itself is unrelated to merger

performance, consistent with Sundaram's (2004) findings that announcement effects are not higher for related targets than for unrelated targets. One possible explanation is that not all potential sources for value creation are available to all acquisitions. For example, economies of scale and scope are generally associated with related acquisitions, whereas coinsurance (i.e., a reduced possibility for bankruptcy for the combined firm caused by a merger between firms with imperfectly correlated earnings) and financial diversification (i.e., risk reduction for the combined firm caused by a merger between firms with different business cycles) are generally associated with unrelated acquisitions (Seth, 1990). Related acquisitions do not outperform unrelated acquisitions when all synergies provided by related acquisitions are similar in magnitude to those provided by unrelated acquisitions.

Alternatively, the insignificant finding could be due to the limitations of classification schemes used to identify related deals. One the one hand, when most U.S. firms are more or less diversified, it is extremely complex to determine the patterns of relatedness between two diversified merging firms (Seth, 1990). On the other hand, common relatedness measures, such as those based on the SIC codes or the FTC's categories discontinued in 1979, do not take into consideration how decision makers and the market determine relatedness (Lien & Klein, 2006). That is, researchers, decision makers, and the market may perceive relatedness differently. While using multiple classification schemes of relatedness in one study can to some extent mitigate the concern that the reported findings are typology-specific, a conceptually better approach is for researchers to fine-tune the methods used to develop typologies and to come up with relatedness measures that are both theoretically sound and empirically feasible. While this is beyond the scope of this study, I call for future research to develop such typology and to replicate this study

with an improved measure of relatedness to further our understanding of the relationship between industry relatedness and merger performance.

Interestingly, the results indicate that industry effect moderates the relationship between deal characteristics (i.e., cash payment and unlisted target) and merger performance. Cash payment is positively related to merger performance of non-hospitality firms, supporting the signaling explanation of cash financing. However, it is unrelated to merger performance of hospitality firms, suggesting that there are other factors, such as bidders' financial conditions (Sung, 1993) and targets' characteristics (Fuller et al., 2002), that may affect the use of cash financing in the hospitality industry. Future research is needed to better understand the determinants of the payment method in the hospitality industry and to identify the reasons for the performance differences related to cash payment between hospitality and non-hospitality firms.

3.5.2. Practical implications

The current study offers several managerial implications. Managers of the acquiring firms can refer to the findings when searching for potential targets that may best increase shareholder value. While all bidders should focus on large unlisted targets, non-hospitality bidders should also use cash as the method of payment and avoid targets with multiple bidders. In general, acquiring shareholders can trust managers' decisions to pursue an acquisition and can benefit from rising stock prices around the merger announcement. To encourage managers to make the optimal investment decisions related to M&As, the board of directors can reward managers for successful M&A investments. To benefit from higher announcement returns, investors can consider investing their money in hospitality firms that are more active in the M&A market. While many factors may affect investment decisions, the findings of this research provide an

additional criterion for analysts to use to decide whether to add or drop a firm from their investment portfolios based on the firm's industry and its M&A activities.

3.5.3. Limitations and future research

This study has several limitations. The sample consists of only publicly traded U.S. acquirers. Therefore, the findings may not be generalizable to private firms and firms outside of the U.S. Future studies can take a comparative approach to examine merger performance across countries. This study measures merger success from an acquirer's perspective around M&A announcements. Future research can examine the long-term acquisition performance and the combined abnormal returns involving publicly traded targets and acquirers. While this study focuses on individual deal characteristics and their relationship to merger performance, future research can examine whether certain combinations of deal characteristics like target type and payment method can better explain the performance differences across industries and firms.

Lastly, the results indicate that even after deal characteristics are controlled for, the performance difference between similarly sized hospitality and non-hospitality acquirers remains significant. This suggests that there may be other factors such as corporate governance (e.g., managerial discretion, board structure, and shareholder rights) contributing to the difference in M&A performance between hospitality and non-hospitality deals. Since corporate governance affects firm performance and investment decisions, I call for research to investigate whether and to what extent differences in corporate governance between hospitality and non-hospitality firms affect performance discrepancy in M&As.

CHAPTER 4. THE EFFECT OF MERGERS AND ACQUISITIONS ON CEO COMPENSATION: EVIDENCE FROM THE HOSPITALITY INDUSTRY

4.1. Introduction

M&As are a widely used strategy for growth in the hospitality industry. For example, in 2016 Marriott acquired Starwood for $13 billion, in 2017 JAB Holding bought Panera Bread for $7.5 billion, and in 2018 Wyndham purchased La Quinta for $1.95 billion. Based on past research in the management and finance literatures, M&As are also known to increase CEO compensation as firm size increases (Bliss & Rosen, 2001). For example, Marriott's CEO compensation increased from $10,975,417 in 2015 to $12,298,378 in 2016 after acquisition of Starwood, and Wyndham's CEO compensation increased from $4,838,054 in 2017 to $8,815,739 in 2018 after purchase of La Quinta. Despite the anecdotal evidence, research has yet to explore the effect M&As have on the compensation of CEOs of acquiring firms within the hospitality industry.

This gap is important to fill as the hospitality industry has faced tremendous competitive pressures due to consolidation, innovative business models of the sharing economy, and revenue disruption by OTAs, making the job of CEOs in the industry extremely difficult. The industry has also been criticized for the differential between compensation of CEOs and average workers (Ruggless, 2018; Ting, 2018). For example, in 2017 the pay gap, expressed as a ratio of CEO salary to median worker pay, is 777 times for Wynn Resorts and 3,101 times for McDonalds' Corporation. Although agency theory suggests that linking CEO pay to firm performance is an effective way of aligning divergent interests of managers and shareholders (Eisenhardt, 1989), findings on the pay-performance link in the hospitality industry are inconsistent. While Guillet, Kucukusta, and Xiao (2012) find that executive equity compensation is positively related to firm

value in restaurant firms, Upneja and Ozdemir (2014) find that neither cash nor equity compensation is related to stock returns in lodging firms.

To extend our knowledge of compensation determinants, past research has examined the effect of CEO and firm characteristics, such as age, tenure, leverage, asset turnover, and risk in the hospitality industry (Gu & Choi, 2004; Guillet et al., 2012; Ozdemir et al., 2013). I add to this literature by examining how M&As and governance attributes like tenure, the Entrenchment-index (E-index), and board independence may impact the compensation of CEOs in the hospitality industry.

Since acquiring CEOs' compensation typically increases post-acquisition regardless of acquisition performance (Grinstein & Hribar, 2004; Harford & Li, 2007), managers' desire for increased compensation can lead to M&As (Canina et al., 2010; Haleblian et al., 2009). While it is possible that hospitality CEO compensation is distorted by managerial self-interest, little is known about the potential moderating role corporate governance plays in the determination of post-acquisition compensation of hospitality CEOs. As corporate governance deters managerial self-interest (Daily et al., 2003), vigilant governance may mitigate the negative impact of M&As on CEO compensation (Haleblian et al., 2009). Indeed, using a sample of 50 firms that undertook M&As in the early 1980s, Kroll, Wright, Toombs, and Leavell (1997) find that size-based compensation is higher for acquiring CEOs in poorly-governed firms with no large shareholders, whereas performance-based compensation is higher for acquiring CEOs in well-governed firms with large external shareholders.

Further, prior research suggests that there is a differential impact between components of CEO compensation and investment decisions. Although equity-based compensation is used to align the long-term interests of managers and shareholders, the effect of equity pay on

acquisition decisions is undecided. While Yim (2013) find that the ratio of equity to total compensation is positively related to the likelihood of acquisition announcements, Harford and Li (2007) find that the level of equity compensation is negatively related to the likelihood of acquisition announcements. The mixed findings on the role of CEO compensation structure on acquisition likelihood and the lack of related evidence in the hospitality industry motivate this study to examine the relationship between compensation structure and acquisition propensity.

Based on a comprehensive sample of 1,514 firm-year observations including 122 hotel, restaurant, casino, amusement park, airline, and golf course firms during the period 1992-2018, the findings suggest that CEO compensation is higher after an acquisition, controlling for common compensation determinants like firm size and firm performance. This is so especially in well-governed firms as identified via measures derived from CEO tenure, the E-index, and board independence. Although the pay-performance relationship exists, CEOs are rewarded for positive stock returns but not punished for negative stock returns. While the fraction of cash compensation before acquisition is negatively associated with the probability of large acquisitions, the fraction of equity compensation is unrelated to the probability of large acquisitions.

This study contributes to the hospitality literature by demonstrating that M&As affect CEO compensation, which is significant given the fact that hospitality firms are highly active in the M&A market and there is a significant pay gap between executives and average workers. The findings suggest that there are industry differences in how corporate governance may affect CEO compensation and compensation structure matters to M&A decisions. By unfolding the asymmetrical pay-return sensitivity conundrum, the findings broaden the understanding of CEO compensation practices in the hospitality industry. In practice, shareholders and directors can

benefit from the findings in designing compensation plans that may better motivate managers to make optimal investment decisions.

4.2. Literature review

4.2.1. Agency problem and CEO compensation

Under the assumption that agents (i.e., managers) and principals (i.e., shareholders) have different risk-taking propensities, agency theory suggests that managers and shareholders have divergent interests (Eisenhardt, 1989). When it is difficult to monitor their behavior, managers may pursue personal goals that are not in the shareholders' best interests. For instance, managers may consume a higher level of perquisites that maximizes their own welfare but reduces shareholder value (Jensen & Meckling, 1976). One way to align the interests of managers and shareholders is by employing an optimal contract that links executive compensation to firm performance. The pay-performance link thus posits a positive relationship between CEO compensation and firm performance such that growth in firm performance increases CEO compensation.

A typical executive compensation contract comprises a base salary, an annual bonus, stock options, and long-term incentive plans (LTIP) like restricted stocks (Murphy, 1999). Annual salary and bonuses are cash-based compensation, and stock options and restricted stocks are equity-based compensation. Base salaries represent a fixed component in executive contracts and provide a basis for most other compensation components such as target bonuses, options grants, and defined pension benefits. An annual bonus, on the other hand, is paid yearly based on one or a mix of performance measures for a single year. While performance measures can be financial or non-financial, almost all companies use some measure of accounting profits (Murphy, 1999).

Stock options give employees the right to purchase company stocks at a predetermined price during a predetermined term. Most options have a predetermined price equal to the fair market price on date of grant and expire in ten years (Murphy, 1999). The value of options increases as stock price and stock price volatility increase. Unlike stock options, restricted stock grants endow managers with a fixed quantity of shares that are restricted for resale or transfer and are forfeited if managers leave before the restriction period lapses (Kole, 1997). Restricted stock can be viewed as an option with a zero exercise price, but is different from an option in terms of its linear payoffs.

4.2.2. Research on CEO compensation in the hospitality industry

Research on the pay-performance relationship in the hospitality literature generally focuses on the association between performance measures and executive cash- and equity-based compensation. For example, Gu and Choi (2004) and Li and Singal (2019) find that cash compensation of hospitality CEOs is positively correlated with return on assets (ROA); Madanoglu and Karadag (2008) show that cash compensation of restaurant CEOs is sensitive to stock returns; and Guillet, Kucukusta, and Xiao (2012) report that equity-based compensation of restaurant executives is positively affected by Tobin's q. Although strong evidence exists to support the pay-performance relationship in the hospitality industry, there are inconsistent findings. For instance, using a single year's data, Kim and Gu (2005) demonstrate that neither profitability nor stock performance is associated with cash compensation of restaurant CEOs. Based on multiple years of data, Upneja and Ozdemir (2014) find that neither cash- nor equity-based compensation is related to stock returns in the lodging sector.

Due to the mixed findings, researchers have explored other factors that may affect executive compensation in the hospitality industry. For example, Guillet et al. (2012) and Al-

Najjar (2017) examine the effect of CEO-related characteristics such as age and tenure on compensation. Kim and Kim (2011) investigate determinants of CEO compensation at different compensation levels. To extend the current knowledge on the topic, I examine the relationship between M&As and CEO compensation, as discussed in detail below.

4.2.3. CEO compensation and M&As in the hospitality industry

Agency theory has been used extensively in discussions related to both executive compensation and M&As. Referred to as the market for corporate control, M&As are generally considered a mechanism of last resort when all the internal corporate governance mechanisms, such as board monitoring and managerial ownership incentives, for controlling managerial opportunism have failed (Daily et al., 2003). This is because shareholders of underperforming firms will sell their shares and therefore lower the share prices in the stock market, making it attractive for outsiders to accumulate control rights through takeover. By replacing the incumbents, the new management can restructure the firm to create value for themselves (Manne, 1965).

Interestingly, while M&As may be a solution to the agency problems in target firms, they can also be a result of agency problem in acquiring firms. For example, managerial self-interest such as hubris and empire-building can lead to acquisitions that are value-destroying to shareholders. Executives' desire for increased compensation can also drive suboptimal investments such as pet acquisitions that are detrimental to shareholder value. Although acquisitions, in general, do not increase acquiring firm value, acquiring CEOs' post-acquisition compensation typically increases through generous grants of stock options (Sanders, 2001), bonuses (Grinstein & Hribar, 2004), and other compensation (Bliss & Rosen, 2001). This is partly because the increase in firm size and complexity of operations associated with M&As

provide the CEO a natural opportunity to renegotiate with the board for higher pay and for less pay-performance sensitivity during the initial years of the acquisition (Harford & Li, 2007).

Even when changes in firm size are accounted for, there remains a positive relationship between M&As and CEO compensation (Khorana & Zenner, 1998; Yim, 2013). Grinstein and Hribar (2004) find that some CEOs are simply rewarded with bonus compensation for the extra time and effort spent on constructing the deal rather than on deal performance. Similarly, Hagendorff, Collins, and Keasey (2007) argue that post-acquisition CEO compensation increases with task complexity and the elevated expectations of talent and effort required of CEOs to realize acquisition-related synergies. This increase in compensation offsets the potential decrease in CEO wealth caused by poor acquisition performance (Haleblian et al., 2009), resulting in a net increase in executive wealth.

Given the mixed findings on the pay-performance link and how frequently M&A deals are executed in the hospitality industry, it is both a theoretical and empirical question whether M&As increase CEO compensation, which may also result in a weakened pay-for-performance relationship. Based on the agency theory arguments above, I propose that:

H4: *All else being equal, there is a significant increase in hospitality CEO compensation post-acquisition.*

4.2.4. Corporate governance and CEO compensation

Corporate governance involves a set of mechanisms, such as boards of directors and large shareholders, that firms employ to deter agency problems related to managerial self-interest (Daily et al., 2003). Insufficient corporate governance could be one reason why managers receive higher compensation after an acquisition. For example, Grinstein and Hribar (2004) find that CEOs with more power to influence board decisions tend to undertake larger deals and receive

significantly more compensation. Wright, Kroll, and Elenkov (2002) find that post-acquisition CEO compensation increase with firm size in firms with passive monitors and with stock returns in firms with vigilant monitors. Although CEO compensation in acquiring firms generally becomes insensitive to negative stock returns post-acquisition, strong boards can help retain the pay-performance sensitivity (Harford & Li, 2007). By increasing monitoring of managers, firms can attenuate the negative impact of M&As on CEO compensation.

Due to its unique ownership structure, the hospitality industry is particularly prone to agency problems (Guillet et al., 2012). Under franchising agreements, ownership and control are separated when parent companies own the brand and operating processes and franchisees own the properties. In the case of management contracts, the brand, the management company, and the owner can all be different. The complex business model that involves company-owned properties, franchises, and properties operated under management contracts and timeshare (partial ownership) arrangements (Logan, Gooden, & Simon, 2013) can make control particularly hard. As a result, vigilant corporate governance can be especially helpful to hospitality firms.

Supporting this view, Madanoglu and Karadag (2016) find that the strength of corporate governance is positively related to firm performance in restaurant firms, Dogru (2018) shows that the quality of corporate governance positively moderates the relationship between capital investment and firm value in hotel firms, and Dogru (2017) demonstrates that lodging firms with better corporate governance tend to enjoy higher acquisition announcement returns than those with weaker corporate governance. Nevertheless, all evidence is not so straightforward. For example, Guillet et al. (2012) document that weaker corporate governance is associated with larger firms size and better firm performance in the hospitality industry, Ozdemir and Upneja

(2012) find that CEO compensation is positively related to board independence in U.S. lodging firms, and Madanoglu et al. (2018) show that some combinations of corporate governance provisions that are commonly considered detrimental to firm value can actually increase restaurant firm performance.

One possible explanation for the conflicting findings is that corporate governance is measured differently between studies and different measures can capture different aspects of governance behavior (Hermalin & Weisbach, 2003). In terms of shareholders' rights, corporate governance is measured by the GIM-index (Gompers et al., 2003) and the E-index (Bebchuk et al., 2009), which increase with the number of governance provisions, such as staggered boards, poison pills, and golden parachutes, adopted by the firms. While the GIM-index has twenty-four provisions, only the six included in the E-index are linearly and negatively correlated with firm performance (Bebchuk et al., 2009). That is, low E-index scores are associated with good governance, and vice versa.

In terms of managerial power, CEO tenure and board independence can be used as proxies for corporate governance. Prior research (Hermalin & Weisbach, 1998; Van Essen, Otten, & Carberry, 2015) suggests that CEOs with longer tenure have greater bargaining power over the boards and can further entrench themselves by nominating more inside board members. Thus, longer tenure is associated with weaker corporate governance (Harford & Li, 2007; Yim, 2013). To increase board oversight and reduce managerial power, agency theorists (Fama & Jensen, 1983) suggest that executive compensation be decided by outside board members who are not affiliated with the firm as these individuals are more likely to make impartial judgment about the quality of the CEO and to design effective compensation arrangements. Hence, higher levels of board independence are associated with better corporate governance.

Drawing upon agency theory, I hypothesize that corporate governance as identified via measures derived from CEO tenure, the E-index, and board independence is likely to negatively moderate the compensation increase for acquiring CEOs after M&As. I propose that:

H5: *Increases in CEO compensation post-acquisition are lower in well-governed hospitality firms than in poorly-governed hospitality firms.*

4.2.5. Compensation structure and acquisition propensity

One stream of research in the general business literature has explored the effect of compensation structure on merger propensity (e.g., Bliss & Rosen, 2001; Yim, 2013). Jensen and Meckling (1976) note that a solution to the agency problem of divergent interests between managers and shareholders is to give managers an equity stake in the firm. Consistent with this argument, Kroll et al. (1997) find that the form of control matters when it comes to acquisition performance. While announcement returns are positive for firms with large shareholders (i.e., owners or managers who own at least 5% of their firm's equity), they are negative for those without large shareholders. Since acquiring shareholders generally do not gain from M&As (Sundaram, 2004), it follows that managers with more equity-based compensation and less cash-based compensation should act more like shareholders and engage less in M&As. Supporting this conjecture, Bliss and Rosen (2001) find that bank CEOs are more likely to undertake acquisitions when their ratio of cash to total pay is high and are less likely to undertake acquisitions when their level of equity pay is high. Put differently, while cash compensation serves as an incentive to acquire, equity compensation serves as a disincentive to acquire.

In contrast, Yim (2013) argues that the equity fraction of CEO compensation tends to induce CEOs to engage in acquisitions because compensation increase for CEOs following a large acquisition is 3% for salary, 18% for bonus, and 31% for equity-based compensation.

CEOs who are paid a large fraction of equity compensation before merger are likely to anticipate a large compensation increase after merger. Confirming this argument, the author shows that the equity fraction of CEO compensation is positively related to acquisition propensity in a sample of all firms in the ExecuComp database from 1992 to 2007.

Given the contradicting evidence, the relationship between compensation structure and acquisition propensity is undecided. It is noteworthy that while Bliss and Rosen (2001) focus on the banking industry, Yim (2013) focuses on S&P 1500 firms covered in ExecuComp. The obvious difference in samples may have contributed to the discrepancy in findings. Since there is a lack of research on this topic in the hospitality industry, this study adds to the literature by empirically testing the compensation structure-acquisition propensity relationship in hospitality firms. Considering the banking industry is distinct from the hospitality industry because of its high level of governmental regulation, I follow Yim's (2013) argument and propose that acquiring hospitality CEOs who receive a large percentage of equity compensation are more likely to make acquisition decisions, whereas hospitality CEOs who receive a large percentage of cash compensation are less likely to make acquisition decisions.

H6a: *The larger the fraction of equity-based compensation for a CEO, the more likely a firm will take on M&As in the hospitality industry.*

H6b: *The larger the fraction of cash-based compensation for a CEO, the less likely a firm will take on M&As in the hospitality industry.*

4.3. Methodology

4.3.1. Data

The initial sample of this study includes all publicly-traded hospitality firms (i.e., hotels, restaurants, casinos, amusement parks, airlines, and golf courses) with CEO compensation data

available in ExecuComp for the period 1992-2018. I further require the sample firms to have financial and stock data available in Compustat and CRSP. I then match the resulting dataset with M&A transaction data collected from the SDC Mergers and Acquisitions database and corporate governance data retrieved from the Institutional Shareholder Services (ISS) database. The final sample consists of 1,514 firm-year observations, 122 unique firms, 66 unique acquirers, and 136 acquisition years. Depending on the regression models, the number of observations may vary.

4.3.2. Main variables

The main variables include total compensation, cash fraction of total compensation, equity fraction of total compensation, an acquisition dummy, and three corporate governance measures. Total compensation is measured as the log of the CEO's total annual compensation, including salary, bonus, other annual compensation, restricted stock grants, LTIP payouts, all other compensation, and value of option grants (TDC1 in ExecuComp). Equity fraction is the ratio of equity-based compensation, calculated as the sum of the value of newly-granted restricted stocks and stock options, to total compensation (Yim, 2013). Cash fraction is the ratio of cash-based compensation, calculated as the sum of salary and bonus, to total compensation (Bliss & Rosen, 2001). Since large acquisitions are more likely to require the CEO's attention and affect CEO compensation (Grinstein & Hribar, 2004; Harford & Li, 2007), I construct a dummy variable (*Acquisition*) that equals 1 if the aggregate deal value of all acquisitions in a given year is at least 5% of the firm's market capitalization, and 0 otherwise (Khorana & Zenner, 1998; Yim, 2013).

Corporate governance has three measures (i.e., CEO tenure, the E-index, and board independence). The first measure is CEO tenure, which proxies for the overall strength of the

board relative to the CEO (Harford & Li, 2007; Hermalin & Weisbach, 1998). *Strong Board* is set equal to 1 for CEOs whose tenure is below the sample median, and 0 otherwise. The second measure is the E-index (Bebchuk et al., 2009), which has six provisions (i.e., staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for mergers and charter amendments) and a score ranging from 0 to 6. *Moderate Governance* has a value of 1 if the firm has an E-index score between 1 and 4 (1 < E-index < 4), and 0 otherwise. *Strong Governance* has a value of 1 if the firm has an E-index score of less than or equal to 1 (E-index <= 1), and 0 otherwise. The last measure of corporate governance is board independence, which is a ratio of outside board members to total board members. I assign a value of 1 to *High Independence* for firms with above-median board independence, and 0 otherwise.

4.3.3. Control variables

To isolate the effect of acquisitions and corporate governance on CEO compensation, I control for a list of common compensation determinants in the regression models. To differentiate between acquirers and non-acquirers, I assign a value of 1 to the dummy variable, *Bidder*, for firms that have made at least one acquisition over the sample period, and 0 otherwise (Khorana & Zenner, 1998). I measure firm size using the log of total sales (*lnSales*) and changes in firm size using the difference in log sales from year *t*-1 to *t* (*Sales Growth*) following prior research (Harford & Li, 2007; Khorana & Zenner, 1998; Kroll et al., 1997; Wright et al., 2002). I control for market-to-book ratio (*MTB*), prior year stock return (*Return*), and profitability (*ROA*) since firms with attractive investment opportunities and high stock returns and profitability are likely to incentivize managers and reward good performance via higher compensation (Harford & Li, 2007; Yim, 2013). I calculate *MTB* as a ratio between the market value and the book value of total assets, *Return* as the annual holding period return, and *ROA* as net income divided by

total assets. I also control for changes in CEO by including a dummy variable that has a value of 1 if the CEO changes from year *t-1* to year *t* in firm *i* as such changes may affect CEO compensation (Upneja & Ozdemir, 2014). To predict merger announcement, I control for CEO age, prior year stock return, market-to-book ratio, board independence, profitability, and firm size as prior research suggests that these factors matter to the likelihood that a firm undertakes an acquisition (Bliss & Rosen, 2001; Yim, 2013).

4.3.4. Data analysis

I use panel data analysis with firm- and year-fixed effects and clustered standard errors to examine the effect of acquisitions and corporate governance on CEO compensation, and logit regression analysis with year dummies and robust standard errors to explore the effect of compensation structure on acquisition propensity. All continuous data in the regression models are winsorized at 1% and 99% to mitigate outliers, and all dollar values are displayed in 2018 CPI-adjusted constant dollars.

To test Hypothesis 4, I regress CEO compensation on the *Acquisition* dummy. If firms pay more to their CEOs for acquisitions of other firms, the coefficient on the *Acquisition* dummy should be positive and significant. To test Hypothesis 5, I regress CEO compensation on the *Acquisition* dummy, corporate governance measures, and the interaction terms between the two. If corporate governance moderates the relationship between acquisition and compensation, the coefficients on the interaction terms should be negative and significant. To test Hypothesis 6, I use a logit regression model. The dependent variable (*Acquisition*) has a value of 1 if the firm announced acquisitions whose total deal value exceeds 5% of the firm's market capitalization during year *t*-1. The independent variables are the cash and equity fractions of total compensation. If equity pay gives CEOs the incentive to pursue M&As, I expect the coefficient

on *Equity Fraction* to be positive and significant and on *Cash Fraction* to be negative and significant. The following regression models are used to test the hypotheses:

$$\ln(Total\ compensation)_t = \beta_0 + \beta_1 Acquisition_{t-1} + \beta_2 Bidder + \beta_3 lnSales_t + \beta_4 Return_{t-1} + \beta_5 ROA_t + \beta_6 MTB_t + \beta_7 Sales\ Growth_t + \alpha_i + \lambda_t + \varepsilon_{it} \quad (4.1)$$

$$\ln(Total\ compensation)_t = \beta_0 + \beta_1 Acquisition_{t-1} + \beta_2 Strong\ Board_t + \beta_3 Acquisition * Strong\ Board + \beta_4 Bidder + \beta_5 lnSales_t + \beta_6 Return_{t-1} + \beta_7 ROA_t + \beta_8 MTB_t + \beta_9 Sales\ Growth_t + \alpha_i + \lambda_t + \varepsilon_{it} \quad (4.2)$$

$$\ln(Total\ compensation)_t = \beta_0 + \beta_1 Acquisition_{t-1} + \beta_2 Moderate\ Governance_t + \beta_3 Strong\ Governance_t + \beta_4 Acquisition * Moderate\ Governance + \beta_5 Acquisition * Strong\ Governance + \beta_6 Bidder + \beta_7 lnSales_t + \beta_8 Return_{t-1} + \beta_9 ROA_t + \beta_{10} MTB_t + \beta_{11} Sales\ Growth_t + \alpha_i + \lambda_t + \varepsilon_{it} \quad (4.3)$$

$$\ln(Total\ compensation)_t = \beta_0 + \beta_1 Acquisition_{t-1} + \beta_2 High\ Independence_t + \beta_3 Acquisition * High\ Independence + \beta_4 Bidder + \beta_5 lnSales_t + \beta_6 Return_{t-1} + \beta_7 ROA_t + \beta_8 MTB_t + \beta_9 Sales\ Growth_t + \alpha_i + \lambda_t + \varepsilon_{it} \quad (4.4)$$

$$Acquisition_t = \beta_0 + \beta_1 Equity\ Fraction_{t-1} + \beta_2 Age_t + \beta_3 Return_{t-1} + \beta_4 MTB_t + \beta_5 Board\ Independence + \beta_6 ROA_t + \beta_7 lnSales_t + \lambda_t + \varepsilon_{it} \quad (4.5)$$

$$Acquisition_t = \beta_0 + \beta_1 Cash\ Fraction_{t-1} + \beta_2 Age_t + \beta_3 Return_{t-1} + \beta_4 MTB_t + \beta_5 Board\ Independence + \beta_6 ROA_t + \beta_7 lnSales_t + \lambda_t + \varepsilon_{it} \quad (4.6)$$

Where α represents firm fixed-effects, λ year fixed-effects, ε an error term, the subscript *i* individual firm, and the subscript *t* year. The rest of the variables are defined above.

4.4. Results

4.4.1. Descriptive statistics

Table 4.1 presents descriptive statistics of the sample in this study. Total compensation ranges from $147,270 to $33,520,94, with a mean of $5,507,740. Glenn Tilton from United Continental, Gary Loveman from Caesars Entertainment, and Barry Sternlicht from Starwood are among the highest paid CEOs, whereas Sardar Biglari from Steak N Shake, Christopher Pappas from Lubys, and John Murray from Hospitality Properties Trust are among the lowest paid CEOs in the sample. The cash fraction of CEO compensation ranges from 0% to 100%, with a mean of 40.9%, and the equity fraction of CEO compensation ranges from 0% to 98.08%, with a mean of 42.25%. Between 1998 and 2001, Panera Bread CEO Ronald Shaich's compensation consisted of 100% salary and bonus. In 2011 and 2013, Allegiant Travel CEO Maurice Gallagher, Jr.'s compensation consisted of almost all equity.

Table 4.1 Summary statistics

Variable	*N*	Mean	SD	Median	Min	Max
Total compensation (in 000)	1514	5507.74	5993.71	3462.06	147.27	33520.94
Cash fraction (%)	1513	40.90	30.22	30.74	0.00	100.00
Equity fraction (%)	1507	42.25	29.29	48.31	0.00	98.08
CEO age	1513	54.62	7.60	55.00	37.00	74.00
CEO tenure	1514	7.65	7.04	5.50	0.25	36.02
Stock return (%)	1514	10.88	49.21	6.14	-83.62	223.81
ROA (%)	1514	4.66	7.49	4.99	-26.38	24.18
Market-to-book	1514	1.90	1.18	1.52	0.75	7.60
Sales (in million)	1514	4575.61	7528.37	1473.70	109.29	40633.15
Sales growth (%)	1514	8.78	16.05	7.08	-37.63	73.67
E-index	900	2.58	1.40	3.00	0.00	5.00
Board independence	810	71.11	15.62	72.73	22.22	92.31

A typical CEO in the sample is 54.62 years old and has been in the position for 7.65 years. An average firm in the sample has a stock return of 10.88%, a ROA of 4.66%, a market-to-book ratio of 1.9, a total sales revenue of $4,575.61 million, and an annual sales growth of

8.78%. The E-index scores for the sample firms range between 0 and 5, with a mean of 2.58. Between 2000 and 2003 firms like Extended Stay America and MGM Resorts had an E-index score of 0, whereas between 2013 and 2016 firms like Marriott Vacations Worldwide and Wynn Resorts had an E-index score of 5. On average, 71.11% of the members of a board are independent directors, although some firms like Papa John's and Mirage Resorts had less than 30% of non-independent directors before 2003 and other firms like McDonald's and Yum Brands had more than 90% of independent directors in recent years.

Table 4.2 Comparison between acquiring and non-acquiring firms

	Non-acquiror	*N*	Acquiror	*N*	Difference	*N*
	(1)	(2)	(3)	(4)	(1) - (3)	(1) + (4)
Total compensation (in 000)	5261.546	593	5666.251	921	-404.705	1514
Cash fraction (%)	44.394	592	38.655	921	5.739***	1513
Equity fraction (%)	37.548	592	45.291	915	-7.743***	1507
CEO age	54.861	592	54.463	921	0.399	1513
CEO tenure	7.523	593	7.734	921	-0.211	1514
Stock return (%)	10.987	593	10.814	921	0.173	1514
ROA (%)	4.450	593	4.793	921	-0.343	1514
Market-to-book	1.948	593	1.870	921	0.078	1514
Sales (in million)	4570.491	593	4578.907	921	-8.416	1514
Sales growth	8.342	593	9.070	921	-0.728	1514
E-index	2.574	258	2.581	642	-0.007	900
Board independence	71.976	219	70.788	591	1.187	810

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4.2 compares CEO and firm characteristics between acquiring and non-acquiring firms in the sample. On average, there is no significant difference in compensation level between firms that have made at least one acquisition during the sample period and firms that have not made any acquisitions during the sample period. Likewise, there is no significant difference between acquiring CEOs and non-acquiring CEOs in terms of age and tenure. Both acquiring firms and non-acquiring firms are similar in size, performance, and quality of corporate

Table 4.3 Pearson's correlation

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	ln(Total compensation)	1.000														
2	Cash Fraction	-0.607***	1.000													
3	Equity Fraction	0.508***	-0.770***	1.000												
4	Acquisition	-0.056*	-0.050	0.027	1.000											
5	Strong Board	0.047	-0.031	-0.012	0.003	1.000										
6	Strong Governance	-0.018	0.136***	-0.014	-0.003	-0.038	1.000									
7	Moderate Governance	-0.061	0.100**	-0.029	-0.035	0.010	-0.536***	1.000								
8	High Independence	0.197***	-0.297***	0.157***	-0.031	0.024	-0.176***	-0.149***	1.000							
9	Bidder	0.041	-0.093***	0.129***	0.252***	0.017	-0.057	0.074*	-0.057	1.000						
10	lnSales	0.541***	-0.314***	0.221***	-0.165***	0.073**	-0.008	-0.006	0.185***	0.087***	1.000					
11	Stock Return	0.109***	-0.068**	0.007	-0.007	0.049	-0.044	-0.022	-0.010	-0.002	0.036	1.000				
12	ROA	0.195***	-0.141***	0.117***	-0.064*	-0.113***	-0.039	-0.021	0.097**	0.022	0.033	0.185***	1.000			
13	MTB	0.215***	-0.156***	0.130***	-0.138***	-0.035	-0.112***	0.006	0.182***	-0.032	0.049	0.147***	0.571***	1.000		
14	Sales Growth	-0.057*	0.087***	0.001	0.155***	-0.043	0.134***	-0.006	-0.137***	0.022	-0.144***	0.048	0.142***	0.127***	1.000	
15	Age	0.100***	0.023	-0.085***	-0.104***	-0.227***	-0.066*	-0.033	0.048	-0.026	0.193***	0.026	0.077**	0.020	-0.063*	1.000
16	Board Independence	0.195***	-0.364***	0.226***	-0.024	0.062	-0.288***	-0.050	0.800***	-0.034	0.203***	0.026	0.118***	0.200***	-0.165***	0.098**

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4.4 The effect of acquisition and corporate governance on CEO compensation

Independent variables	Dependent variable: ln(Total compensation)				
	β/SE	*β/SE*	*β/SE*	*β/SE*	*β/SE*
	Baseline Model	Model 1	Model 2	Model 3	Model 4
Acquisition *t*-1		0.164**	0.026	-0.042	0.101
		(0.076)	(0.083)	(0.163)	(0.104)
Strong Board			-0.098		
			(0.061)		
Acquisition *t*-1*Strong board			0.292**		
			(0.130)		
Moderate Governance				-0.068	
				(0.099)	
Strong Governance				0.126	
				(0.173)	
Acquisition *t*-1*Moderate Governance				0.189	
				(0.179)	
Acquisition *t*-1*Strong Governance				0.609**	
				(0.267)	
High Independence					0.018
					(0.071)
Acquisition *t*-1*High Independence					0.295*
					(0.164)
Bidder	0.466	0.480	0.475	1.385***	1.528**
	(0.392)	(0.395)	(0.388)	(0.512)	(0.583)
lnSales	0.373***	0.375***	0.378***	0.408**	0.442**
	(0.138)	(0.138)	(0.135)	(0.163)	(0.188)
Return *t*-1	0.001**	0.001**	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)
ROA	0.025****	0.025****	0.025****	0.027***	0.027***
	(0.006)	(0.006)	(0.006)	(0.009)	(0.008)
MTB	0.016	0.021	0.022	0.019	0.019
	(0.041)	(0.042)	(0.041)	(0.047)	(0.052)
Sales Growth	0.002	0.001	0.001	-0.000	-0.001
	(0.001)	(0.002)	(0.002)	(0.003)	(0.003)
CEO Change	0.014	0.019	0.056	-0.003	-0.018
	(0.068)	(0.069)	(0.072)	(0.092)	(0.095)
Constant	4.067***	4.056***	4.069***	2.927*	3.344*
	(1.407)	(1.415)	(1.386)	(1.659)	(1.893)
Adj. R^2	0.667	0.668	0.670	0.705	0.703
N	1382	1382	1382	869	802

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$

governance. The only difference between the two is that acquiring CEOs are paid significantly more in the form of equity compensation and less in the form of cash compensation than non-acquiring CEOs, which offers some preliminary evidence that compensation structure is associated with M&As.

Table 4.3 displays the Pearson's correlation of variables in this study. Total compensation is positively correlated with *Equity Fraction*, *High Independence*, *lnSales*, *Stock Return*, *ROA*, *MTB*, *Age*, and *Board Independence*, and negatively correlated with *Cash Fraction*, *Acquisition*, and *Sales Growth*. *Acquisition* is positively correlated with *Bidder* and *Sales Growth* and negatively correlated with *lnSales*, *ROA*, *MTB*, and CEO age.

4.4.2. Empirical findings

Before testing the hypotheses, I construct a baseline model that only includes control variables in Table 4.4. The coefficients on firm size, prior year stock return, and ROA are all positive and significant, supporting the argument that firm size is a significant determinant of CEO compensation and CEOs are rewarded with higher pay for higher stock performance and profitability. As shown in Model 1 of Table 4.4, the relationship between prior year acquisition and CEO compensation is positive and significant, indicating that CEO compensation is significantly higher post-acquisition. Therefore, Hypothesis 4 is supported.

To test Hypothesis 5, I use three alternative measures of corporate governance. Contrary to my expectation, the coefficient on the interaction term between *Acquisition* and *Strong Board* in Model 2 is positive and significant, suggesting that post-merger compensation is higher for firms with a strong board than for firms with a weak board. Similarly, the coefficient on the interaction term between *Acquisition* and *Strong Governance* in Model 3 is positive and significant, indicating that post-merger compensation is higher for firms with a low E-index

score than for firms with a high E-index score.[1] Consistent with Models 2 and 3, the coefficient on the interaction term between *Acquisition* and *High Independence* in Model 4 is also positive and significant, suggesting that post-merger compensation is higher for firms with a high level of board independence than for firms with a low level of board independence. Altogether, the results in Models 2-4 provide strong evidence that better corporate governance increases post-merger CEO compensation rather than decreases it. Thus, Hypothesis 5 is not supported. With regard to the control variables in Models 1-4, the coefficients on firm size, prior year stock return, and ROA remain positive and significant as in the baseline model.

Hypothesis 6 examines the relationship between compensation structure and acquisition propensity. As depicted in Table 4.5, although the coefficient on prior year *Equity Fraction* is positive, it is insignificant, suggesting that the equity fraction of the CEO's compensation does not increase the likelihood that the firm will undertake an acquisition. Therefore, Hypothesis 6a is not supported. In contrast, the coefficient on prior year *Cash Fraction* is negative and significant, suggesting that the cash fraction of the CEO's compensation decreases the likelihood that the firm will undertake an acquisition. Therefore, Hypothesis 6b is supported.[2,3] Taken together, Hypothesis 6 is partially supported.

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[1] As a robustness check, I construct four alternative governance measures based on the E-index using different cutoff schemes found in Bebchuk et al (2009). Measures 1-2 classify well-governed firms as those with an E-index score of 0 and poorly-governed firms as those with an E-index score of 5-6 (Measure 1) and 4-6 (Measure 2). Measure 3 classifies well-governed firms as those with an E-index score of 0-1 and poorly-governed firms as those with an E-index score of 3-6. Measure 4 classifies well-governed firms as those with an E-index score of 0-2 and poorly-governed firms as those with an E-index score of 3-6. In Table A1 in the Appendix, I replicate Model 3 using these measures and find that Hypothesis 5 is supported for Measures 3-4 but not for Measures 1-2.

[2] As a robustness check, I replicate Tables 4.4 and 4.5 by using logged prior year-end market capitalization as a proxy for firm size. As shown in the Appendix, market capitalization is positively related to total compensation in Table A2 but not related to acquisition propensity in Table A3. Likewise, while Hypotheses 4 and 5 remain supported in Table A2, Hypothesis 6 is not supported in Table A3.

[3] Although prior research (Harford & Li, 2007; Upneja & Ozdemir, 2014) suggests a contemporaneous relationship between profitability and CEO compensation and a lagged relationship between stock returns and CEO compensation, as a robustness test I replicate Table 4.4 by using all contemporaneous

Table 4.5 Logit results for probability of a merger announcement

Independent variables	Dependent variable: 1 if a merger announcement is made during year *t* and 0 otherwise	
	β/SE	*β/SE*
	Model 5	Model 6
Equity Fraction *t*-1	0.007	
	(0.005)	
Cash Fraction *t*-1		-0.017*
		(0.007)
Age	-0.062*	-0.059*
	(0.024)	(0.024)
Return *t*-1	0.006*	0.006
	(0.003)	(0.003)
MTB	-1.033***	-1.046***
	(0.290)	(0.294)
Board Independence	-0.004	-0.005
	(0.012)	(0.012)
ROA	0.005	0.008
	(0.031)	(0.031)
lnSales	-0.493**	-0.569***
	(0.158)	(0.169)
Constant	5.821**	7.501***
	(1.878)	(1.948)
Pseudo R^2	0.188	0.199
N	710	711

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

As for the control variables, the coefficient on MTB is negative and significant, contrary to my expectation that firms with a higher value or more growth opportunities tend to engage more in M&As. An explanation for this negative coefficient is that MTB is mechanically and inversely related to the *Acquisition* dummy, which has a "relative size" nature and denotes large acquisitions with a combined deal value that is at least 5% of the firm's market value (Yim, 2013). Similarly, the coefficient on *lnSales* is negative and significant as large firms are also less likely to acquire firms valued at least 5% of their market value. Consistent with prior research

independent variables in Table A4 and all one-year lagged independent variables in Table A5. As shown in the Appendix, the overall results confirm a contemporaneous relationship between ROA and CEO compensation and a lagged relationship between stock returns and CEO compensation.

(Yim, 2013), *Age* is negatively related to acquisition propensity, indicating that younger CEOs are more incentivized to pursue large acquisitions.

4.4.3. Additional analysis

In Table 4.4, I find that CEO compensation is higher for firms with good corporate governance after an acquisition than for firms with weak corporate governance, which contradicts the findings of prior research (Grinstein & Hribar, 2004; Harford & Li, 2007). Garvey and Milbourn (2006) show that CEO compensation is asymmetrically sensitive to positive and negative stock returns (i.e., CEO compensation is more sensitive to positive returns and less sensitive to negative returns). To examine whether such asymmetry exists in the hospitality industry, I follow Harford and Li's (2007) methodology by splitting the stock return variable into two—*Positive (Negative) Return* has the same value as *Return* when *Return* is positive (negative), and 0 otherwise. Similar to Harford and Li (2007), two-way interaction terms between *Acquisition* and the return variables are created to capture the potential effect of acquisitions on pay-return sensitivity, and three-way interaction terms between governance measures and *Acquisition***Positive (Negative) Return* are created to capture the potential moderating effect of corporate governance on pay-return sensitivity.

Table 4.6 Additional analyses on CEO pay-stock return sensitivity

Independent variables	Dependent variable: ln(Total compensation)		
	β/SE	*β/SE*	*β/SE*
	Model 7	Model 8	Model 9
Acquisition *t*-1	0.044	0.010	-0.001
	(0.090)	(0.109)	(0.105)
Positive Return *t*-1	0.001**	0.002*	0.001*
	(0.001)	(0.001)	(0.001)
Negative Return *t*-1	0.000	0.001	0.001
	(0.002)	(0.002)	(0.003)
Acquisition *t*-1*Positive Return *t*-1	-0.003	-0.003	-0.000
	(0.003)	(0.005)	(0.008)

Acquisition *t*-1*Negative Return *t*-1	-0.009**	-0.002	0.008
	(0.004)	(0.005)	(0.011)
Bidder	0.471	1.382***	1.514**
	(0.390)	(0.521)	(0.585)
lnSales	0.380***	0.410**	0.438**
	(0.136)	(0.165)	(0.189)
ROA	0.025****	0.027***	0.029****
	(0.005)	(0.009)	(0.008)
MTB	0.023	0.018	0.015
	(0.041)	(0.046)	(0.051)
Sales Growth	0.001	-0.000	-0.001
	(0.002)	(0.003)	(0.003)
Strong Board	-0.082		
	(0.057)		
Acquisition *t*-1*Positive Return *t*-1*Strong Board	0.008**		
	(0.003)		
Acquisition *t*-1*Negative Return *t*-1*Strong Board	-0.002		
	(0.007)		
Moderate Governance		-0.070	
		(0.101)	
Strong Governance		0.116	
		(0.173)	
Acquisition *t*-1*Positive Return *t*-1*Moderate Governance		0.005	
		(0.005)	
Acquisition *t*-1*Positive Return *t*-1*Strong Governance		0.010	
		(0.007)	
Acquisition *t*-1*Negative Return *t*-1*Moderate Governance		-0.009	
		(0.007)	
Acquisition *t*-1*Negative Return *t*-1*Strong Governance		-0.026****	
		(0.006)	
High Independence			0.021
			(0.070)
Acquisition *t*-1*Positive Return *t*-1*High Independence			0.002
			(0.007)
Acquisition *t*-1*Negative Return *t*-1*High Independence			-0.015**
			(0.007)
Constant	4.022***	2.887*	3.349*
	(1.400)	(1.699)	(1.907)
Adj. R^2	0.671	0.707	0.704
N	1382	869	802

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$

I re-run Models 2-4 in Table 4.4 by replacing *Return* with *Positive (Negative) Return* and the interaction terms with the above-mentioned two-way and three-way interaction variables.

Corresponding to Models 2-4, CEO tenure, E-index, and board independence are used as proxies for corporate governance in Models 7-9. As shown in Table 4.6, *Positive Return* is positively related to total compensation, whereas *Negative Return* is unrelated to total compensation, indicating that CEO compensation increases in positive stock returns but is not affected by negative stock returns. Looking at the coefficients on *Acquisition t*-1**Positive Return* and *Acquisition t*-1**Negative Return*, acquisitions have no impact on CEO pay-stock return sensitivity, except for in Model 7 where the negative coefficient on *Acquisition t*-1**Negative Return* suggests that CEOs are not only protected from but also rewarded for bad returns. In addition, the positive coefficient on *Acquisition t*-1**Positive Return t*-1**Strong Board* in Model 7 and the negative coefficients on *Acquisition t*-1**Negative Return t*-1**Strong Governance* in Model 8 and *Acquisition t*-1**Negative Return t*-1**High Independence* in Model 9 suggest that well-governed firms reward their CEOs for both good and bad stock returns.[4]

4.5. Discussion and conclusion

Drawing upon agency theory, this study examines the relationship between M&As and CEO compensation in the hospitality industry. The results, based on a sample of 1,514 firm-year observations, suggest that CEO compensation is significantly higher in the year after large acquisitions. Contrary to my expectation, well-governed firms pay more to their CEOs post-acquisition than poorly-governed firms. CEOs are rewarded for positive stock returns but not penalized for negative stock returns, especially in well-governed firms post-acquisition. When

[4] As a robustness check, I replace stock returns with ROA to explore whether the asymmetric pay-performance sensitivity exists for ROA. As shown in Table A6 in the Appendix, both positive and negative ROAs are positively related to CEO compensation. The positive relationship between compensation and negative ROA is strengthened by the positive coefficient on *Acquisition t*-1**Negative ROA* but is countered by the negative coefficient on *Acquisition t*-1**Negative ROA*Strong Governance* (Model 8), suggesting that strong governance reduces the pay sensitivity to negative ROA post-acquisition.

CEO compensation is heavily weighted towards cash-based compensation, firms are less likely to undertake M&As. In contrast, the fraction of equity-based compensation relative to total compensation does not affect M&A decisions. The findings shed new light on the role of M&As and corporate governance as determinants of CEO compensation and the disincentive effect of cash-based compensation on acquisition decisions in the hospitality industry. Several important theoretical and practical implications can be drawn from these findings.

4.5.1. Theoretical implications

Prior research on the pay-performance relationship in the hospitality industry has returned mixed findings, leading some researchers (e.g., Kim & Gu, 2005) to conclude that this relationship is only partially practiced in hospitality firms. Although some studies have explored other determinants of CEO compensation, to the best of my knowledge, no studies have systematically examined the effect of M&As on CEO compensation. Despite the fact that M&As are a widely used business strategy in hospitality and there is a well-documented relationship between M&As and CEO compensation in the general business literature, hospitality research on M&A outcomes has predominantly focused on post-acquisition firm performance. To broaden scholars' view of the determinants of CEO compensation and the outcomes of M&As, this study contributes to the literature by directly linking M&As to CEO compensation in hospitality firms.

In line with prior research, I find that acquisitions have a positive impact on CEO compensation, controlling for the effect of firm size and firm performance. In other words, the increase in compensation post-acquisition is not due to the fact that acquiring firms may be larger or better performers. This is consistent with Grinstein and Hribar's (2004) findings that CEOs are rewarded for their efforts to pursue the acquisition and not for the performance of the acquisition itself. Additionally, I show that stock returns and profitability are positively related to

CEO compensation, providing additional time-series evidence on the pay-performance rule implemented by hospitality firms. Unlike prior research that generally focuses on the determinants of cash- or equity-based compensation, which may only reflect partial incentives and rewards received by CEOs, this study focuses on the determinants of CEO total compensation, which may be a better measure to capture the pay-performance relationship as it consists of all new direct compensation received by CEOs in a given year.

Furthermore, the additional analyses reveal that CEO compensation is asymmetrically benchmarked against stock returns. That is, CEO compensation is positively related to positive stock returns and unrelated to negative stock returns. Additionally, such asymmetrical relationships are not reduced by M&As. The findings are intriguing in comparison with findings from the general business literature. Using a broad sample of large acquisitions between 1993 and 2000, Harford and Li (2007) find that CEO total compensation is positively related to both positive and negative stock returns; in particular, changes in CEO compensation are more strongly associated with negative returns than with positive returns; however, the positive relationship between negative returns and total compensation disappears after the acquisition. In other words, acquisitions provide an opportunity for CEOs to re-negotiate their compensation to their benefits after acquisition. In contrast, acquiring CEOs in the hospitality industry are protected from poor performance in the first place. Knowing this, hospitality CEOs may be more likely to undertake an acquisition even though it might hurt firm value.

A stream of research in the general business literature (e.g., Grinstein & Hribar, 2004; Harford & Li, 2007) has shown that good corporate governance mitigates CEO compensation increase post-acquisition. However, this study finds that post-acquisition CEO compensation is higher in firms with better governance and better-governed firms pay CEOs more for both

positive and negative stock returns post-acquisition. That is, good corporate governance in hospitality somehow encourages CEOs to take on acquisitions with less desirable outcomes. There are several possible explanations for this finding. First, the overall quality of corporate governance may be low in hospitality firms, and therefore my good governance measure may capture firms that are otherwise considered poorly-governed in the general business literature. I compare the distribution of my corporate governance measures with those reported in prior business research (Knyazeva, Knyazeva, & Masulis, 2013; Yim, 2013) and find that the quality of corporate governance in my sample is representative of, if not better than, that of the broad sample of U.S. publicly-traded firms.

Second, it may be a general practice in the hospitality industry that negative stock returns are not used for benchmarking in compensation schemes. If that is the case, the negative return-compensation sensitivity should be the same across firms regardless of the quality of corporate governance. However, I find that changes in pay-stock return sensitivity only occur in well-governed firms and not in poorly-governed firms. Although it seems that the boards of well-governed firms are rewarding managers for poor stock performance, Harford and Li (2007) argue that the boards may simply be providing downside protection to CEOs to encourage risk-taking. Lastly, albeit unexpected, the findings are consistent with findings of prior research which shows that hospitality firms with weaker corporate governance tend to have higher CEO compensation (Ozdemir & Upneja, 2012).

Within the hospitality literature, only a handful of studies have predicted takeover targets of hospitality firms using firm characteristics (Gu & Yuh, 2001; Kim & Arbel, 1998). This study contributes to the literature by predicting acquiring hospitality firms using CEOs' pay structure. The findings suggest that the proportion of equity-based compensation is not significantly related

to the probability of M&As in the hospitality industry. However, the positive relationship between the two together with the negative and significant relationship between the proportion of cash-based compensation and the probability of M&As provides some evidence that managers whose pay includes a significant cash component before merger may not anticipate a high level of compensation increase via equity gains after merger and thus, may be less likely to pursue M&As.

4.5.2. Practical implications

The findings have direct implications for industry practitioners as to how CEO compensation schemes can be improved to better align the interests of managers and shareholders given the current asymmetric compensation benchmarking and significant non-performance related compensation increase. Since efficient compensation contracts reward managers for good firm performance and penalize them for bad firm performance, the board compensation committee should review its benchmarking practices to include as compensation determinants not only positive stock returns but also negative stock returns. The board compensation committee should also justify the additional compensation paid to the CEO after an acquisition that is not explained by firm performance. By doing so, CEOs may be more careful when making acquisition decisions as their personal benefits are tied to the performance of the acquisition.

When setting compensation policies, firms generally compare themselves to their peers. Although compensation peer groups are often selected based on characteristics that reflect the labor market for managerial talent (Bizjak, Lemmon, & Nguyen, 2011), the board of directors can take into consideration the quality of corporate governance when choosing which firms to measure themselves against. For example, the board of directors can use the ISS Governance

QualityScore which indicates and tracks the relative quality of a firm's corporate governance over time to identify ideal compensation peers. The board compensation committee should also review the structure of CEO compensation package to ensure that an optimal mix of cash- and equity-based compensation is used to encourage CEOs to take on risky but value-increasing acquisition projects. When adopting compensation practices from other firms or industries, the board compensation committee should be extremely discerning as no best plan is the same for any two companies (Hodak, 2005).

4.5.3. Limitations and future research

This study has several limitations. First, the sample is based on US publicly traded firms, and therefore, the findings may not be generalizable to non-publicly traded firms outside of US. Future researchers can explore how firm type and location may affect the findings reported here. Second, this study focuses on the association between CEO compensation, M&As, and corporate governance. Since factors like firm risk may affect how compensation is determined and how M&A decisions are made, future research can explore the effect of firm risk on CEO compensation and acquisition propensity. Lastly, although this study uses three distinctive measures to gauge the quality of corporate governance, there are other corporate governance measures not examined here.

For example, prior research in the general business literature suggests that family ownership can have a significant impact on M&As (Miller, Le Breton-Miller, & Lester, 2010) and CEO compensation (Gomez-Mejia, Larraza-Kintana, & Makri, 2003). Since many hospitality firms, such as Marriott, Hilton, and Hyatt, are controlled by families and are active acquirers in the lodging industry, future research can explore how family ownership may affect the M&A-CEO compensation relationship. As different corporate governance practices can have

a different impact on different types of firms (Coles et al., 2008), I also urge future researchers to identify what defines good corporate governance in the hospitality industry and how it may be different from other industries.

CHAPTER 5. CONCLUSION

This dissertation focuses on corporate governance and its application in the hospitality industry. Specifically, through a comprehensive review of literature, I present the current state of the knowledge on the use and impact of corporate governance mechanisms in the hospitality industry and discuss fruitful areas for research in the future. Based on the discussion, I conduct two empirical studies to address several research gaps related to M&As and CEO compensation. In this chapter, I summarize the main findings of this dissertation, highlight some theoretical, methodological, and managerial contributions, and propose avenues for future research.

5.1. Summary of research findings

In Chapter 2, I conduct a systematic literature review of research on corporate governance in the hospitality literature. Using a list of keywords such as board of directors and CEO compensation, I identify 115 journal articles on corporate governance published in 22 peer-reviewed hospitality and tourism journals since 1961. Compared with an average sample size of 731 for other systematic reviews in the hospitality literature that focus on topics like marketing and economics (Kim et al., 2018), the small sample size of this review indicates that the topic of corporate governance is significantly understudied in the hospitality literature. However, our trend analysis indicates that there is a noticeable increase in research interest in corporate governance related topics since 2006. The number of published articles has more than tripled from the five-year period 2001-2005 to the five-year period 2006-2010. Over the entire sample period, M&As, ownership structure, executive compensation, and board characteristics are the most studied topics, whereas debt and law are the least studied topics. Before 2016, only 2 articles have focused on governance provisions. Since 2016, 6 such articles have been published.

Overall, agency theory is the most used theory in corporate governance research, although 43% of the studies are atheoretical. Over 77% of the sample articles are quantitative in nature and 74% focus on US firms, perhaps due to data availability. Based on these findings, I propose three major ways to extend the existing literature: expansion of theoretical frameworks, expansions of research topics, and improvement in the rigor of methodology. I suggest that hospitality scholars consider using the institutional theory, either by itself or in conjunction with other theories, to answer complex questions like what determines board structure and how are CEOs evaluated. Researchers can also focus on board related topics like gender diversity and board classification. Although determinants of board structure and the effect of board composition are two most researched topics about the board in the management and finance literatures, hospitality literature has predominantly focused on the latter but not the former. Nevertheless, the two topics are intertwined and inseparable (Adams et al., 2010), and thus deserve equal attention from researchers.

Existing hospitality literature on M&As mainly focuses on the short-term or long-term firm performance after merger. However, potential links between M&As and alternative outcome variables like board structure and acquisition premiums have yet to be explored. Similarly, although the literature has documented the individual announcement returns to acquirers and targets, no studies have examined the combined returns of the two. Consistent with studies in the general business literature, hospitality targets gain value from merger announcements. In contrast, despite mixed findings on acquirer returns, there is some optimism in the literature that hospitality M&As are more successful than non-hospitality M&As.

As for CEO compensation related topics, the literature has mainly focused on the association between CEO compensation and firm performance. While the majority of studies

measure CEO compensation and firm performance in their level form, future research can consider using the change form of these variables to better capture the pay-performance sensitivity (Kaplan, 2008). Future research can also take into consideration the effect of CEO wealth on firm performance. Overall, the mixed findings on the pay-performance relationship suggest that there are other factors that may affect this relationship.

Over time, hospitality corporate governance research has become more and more rigorous in their study designs. However, the application of advanced econometric techniques such as the difference-in-difference approach, instrumental variables, and natural experiments that can further reduce endogeneity concerns is rare. While the majority of studies rely on secondary data, I suggest that future research use primary data or mixed data collected through surveys and interviews to answer questions that are not necessarily answerable with secondary data.

In Chapter 3, I conduct a comparative study on announcement returns of hospitality and non-hospitality M&As. Due to fast-changing customer preferences and heightened competition between traditional firms like hotels and restaurants and non-traditional firms like OTAs and Airbnb, hospitality firms are constantly seeking opportunities for product diversification and market growth. Since M&As provide a quick way to achieve these goals, I propose that M&As are potentially more critical for the survival of firms in the hospitality industry than in the non-hospitality industries, and thus are more likely to be perceived favorably by investors. To test this hypothesis, I construct two comparison groups. One group consists of non-hospitality firms, and the other group consists of size-matched non-hospitality firms. The results indicate that CARs are higher for hospitality firms than for non-hospitality firms. In addition, both hospitality

and non-hospitality firms enjoy positive and significant abnormal returns, suggesting that M&As, in general, are value increasing.

As to what may explain the performance discrepancy between hospitality and non-hospitality M&As, I propose that hospitality firms are more likely to acquire large, unlisted firms in related industries using cash as the method of payment; industry relatedness, relative size, cash payment, and unlisted firm as deal characteristics are all positively related to merger performance; and controlling for deal characteristics, there will be no performance discrepancy. The results indicate that hospitality M&As have higher industry relatedness and relative size, and are more likely to involve cash payment than non-hospitality M&As; however, hospitality and non-hospitality firms have comparable preferences for unlisted firms. Although relative size, cash payment, and unlisted firms are positively associated with CARs, industry relatedness is not. Controlling for deal characteristics and firm size, hospitality firms perform similarly to non-hospitality firms in the first comparison group. In contrast, the performance discrepancy remains when hospitality firms are compared against size-matched non-hospitality firms in the second comparison group. Overall, the findings provide partial support for my hypotheses, suggesting that there may be other factors that can explain the performance discrepancy between hospitality and non-hospitality deals.

In Chapter 4 of this dissertation, I examine the relationship between M&As and CEO compensation in the hospitality industry. I propose that one possible reason for the inconsistent pay-performance relationship observed in the hospitality industry is that CEO compensation is distorted by the frequent M&As conducted by the firms. To test this hypothesis, I compare post-acquisition CEO compensation with “normal” CEO compensation controlling for other determinants of CEO compensation and find that CEO compensation increases significantly in

the year following the acquisition. Next, I examine whether this compensation increase is lower in well-governed hospitality firms than in poorly-governed hospitality firms as corporate governance deters managerial self-interest.

To identify the quality of a firm's corporate governance, I use three different measures. The first measure is constructed using CEO tenure. Firms whose CEOs have longer than sample median tenure are classified as poorly-governed firms, whereas firms whose CEOs have shorter than sample median tenure are classified as well-governed firms. Board independence is used to construct the second measure. Specifically, firms whose board independence is above the sample median are considered well-governed firms, whereas firms whose board independence is below the sample median are considered poorly-governed firms. The third measure of corporate governance is the E-index. The highest tercile of E-index scores indicate poor governance, middle tercile medium governance, and lowest tercile good governance. Interestingly, regardless of the corporate governance measure used, post-acquisition CEO compensation is higher in well-governed firms than in poorly-governed firms, contrary to my expectation.

Prior research suggests that the post-acquisition compensation increase is mainly driven by equity instead of cash. Therefore, it is possible that CEOs whose compensation is more affected by M&As or CEOs who are paid more in terms of equity before acquisition are more likely to undertake M&As. To test this hypothesis, I examine whether compensation structure, measured as the cash proportion of CEO compensation and the equity proportion of CEO compensation, affects M&A propensity. The results indicate that while prior year cash fraction is negatively related to M&A propensity, prior year equity fraction is unrelated to M&A propensity. Nevertheless, the opposite signs of the estimated coefficients on cash fraction and equity fraction are consistent with my hypothesis, suggesting that CEOs who are paid a

significant amount of equity before merger are more likely to undertake M&As in anticipation of a higher increase in pay after merger.

5.2. Theoretical contributions

This dissertation contributes to the theoretical advancement in corporate governance research in the hospitality literature. The systematic review in Chapter 2 reveals that over 40% of the published articles on corporate governance are atheoretical and thus highlights the need for greater theoretical development. Although nearly 35% of the reviewed articles have applied agency theory to study the design and impact of corporate governance, the findings do not always support agency theorists' predictions. Since agency theory assumes divergent interests between managers and shareholders and predicts that corporate governance deters managerial self-interest, it rules out the possibility that managers can be stewards of the firms and corporate governance mechanisms may be adopted due to institutional pressures to gain legitimacy. While theoretical lenses like stewardship theory (Davis, Schoorman, & Donaldson, 1997) and institutional theory (DiMaggio & Powell, 1983) are proven useful to explain corporate governance practices in the management literature, they are seldom cited in the hospitality literature. Nevertheless, the hospitality industry as an applied field offers an ideal setting for future research to test theories developed in other disciplines.

In Chapter 3, I investigate the announcement returns of M&As in the hospitality industry. While agency theory suggests that M&As may decrease firm value due to managerial self-interest or increase firm value due to the market for corporate control, the findings of this research indicate that both hospitality and non-hospitality acquirers gain from M&A announcements. Although M&As, in general, are beneficial for acquiring firms, industry effect plays an important role in M&A performance as hospitality firms gain more value than non-

hospitality firms controlling for deal and firm characteristics. The findings suggest that testing theories in different industry contexts can generate new insights.

In Chapter 4, I examine the moderating effect of corporate governance on changes in hospitality CEO compensation post-acquisition. While agency theory predicts that firms with better corporate governance are less likely to reward CEOs for bad M&A performance, I find that CEOs are rewarded for both positive and negative stock returns following the merger. The findings contradict findings from the finance and management literatures and reinforce the importance of testing theories in different industries. In addition, the findings establish the need for future research to develop industry-specific frameworks that can better explain corporate governance and its effect in the hospitality field.

5.3. Methodological contributions

This dissertation makes several methodological contributions to corporate governance research in the hospitality literature. To the best of my knowledge, this is the first study that utilizes a systematical literature review technique to summarize articles on corporate governance in the hospitality literature, synthesize past research findings, and identify research gaps. This is also the first research that employs a comparative study design to examine M&A returns to hospitality and non-hospitality firms. Such study design eliminates concerns for inconsistent sample collection methods between studies and quantifies performance discrepancies between hospitality and non-hospitality firms. Additionally, I identify comparison groups by using the nearest neighbor method to match hospitality firms with non-hospitality firms based on firm size and firm year. While such a method is rarely used in the hospitality literature, it is particularly useful for comparative studies.

To increase research rigor, I also conduct a battery of robustness tests to verify findings of the main analyses. To capture the concept of industry relatedness in Chapter 3, I use three measures developed in the management and finance disciplines. To evaluate the quality of corporate governance in Chapter 4, I employ measures that proxy for different aspects of corporate governance. Due to a lack of a universally agreed upon measure for these complex concepts, the usage of multiple measures helps researchers determine the robustness of their findings and the sensitivity of their findings to the specific measures used in the data analysis.

5.4. Managerial contributions

The findings of this dissertation have practical implications for decision-makers and shareholders in the publicly-traded hospitality firms. As suggested by the systematic literature review in Chapter 2, the effect of corporate governance mechanisms can vary between industry sectors and country contexts. In other words, governance practices that work well in some sectors and countries may not work so well in other sectors or countries. Boards of directors should be aware of such differences when searching for best practices for their firms. The findings of the comparative study in Chapter 3 indicate that M&As create more value in hospitality firms than in non-hospitality firms. Investors and financial analysts can thus consider investing in hospitality firms that undertake M&As, especially those involving unlisted targets, a single bidder, and all-cash method of payment. The findings in Chapter 4 suggest that hospitality acquirers generally reward CEOs for completing an acquisition by increasing their compensation regardless of the performance of the firm. The board compensation committee should, therefore, review their compensation practices to reward CEOs for value-creating M&As and penalize them for value-decreasing ones.

5.5. Limitations and future research

This dissertation has several limitations which can serve as avenues for future research. One limitation is related to the types of firms examined. Although corporate governance is important for all types of firms, the focus of this dissertation is on publicly-traded firms. A natural extension is to include corporate governance research on private firms like clubs and non-profit organizations like CVBs and compare findings with those reported here.

A second limitation is related to data collection. To identify relevant articles to include in the literature review, I compile a list of keywords and use it as the search criterion. Given the broadness of the topic of corporate governance, this list is by no means exhaustive and reflects my personal bias. In addition, the article search is only performed in hospitality and tourism journals that use English as the reporting language. Thus, despite my best effort to identify and include all corporate governance related articles that have been published in the hospitality literature, I may still have missed some articles. Nevertheless, to the best of my knowledge, to date, no review has synthesized past research findings on corporate governance in the hospitality industry. My dissertation thus contributes to the literature by filling this gap.

A third limitation is related to data analysis. While this dissertation employs a systematic literature review approach to synthesize past research findings, future research can conduct a critical review, a bibliometric review, or a meta-analysis of the literature. A systematic review aims to categorize existing studies and identify gaps in the literature, a critical review provides a critical evaluation of the quality of the literature, a bibliometric co-citation analysis examines the relationships among past research (Zupic & Čater, 2015), and a meta-analysis statistically synthesizing data from quantitative studies (Grant & Booth, 2009). By utilizing different data analysis methods, future research can provide a well-rounded understanding of past research

findings on corporate governance in the hospitality literature. Additionally, corporate governance research often focuses on the interrelationship between multiple governance mechanisms, and thus I make several subjective judgments when identifying and organizing research findings. Although the evaluation and highlighting of research findings can vary by researcher, different researchers can offer different insights into past findings.

Further, this dissertation identifies M&A success using short-term abnormal returns to acquirers around M&A announcements. To extend this research, future research can investigate whether long-term firm performance or the combined return of acquirers and targets is different between hospitality and non-hospitality firms. To explain the performance discrepancy between hospitality and non-hospitality M&As, this dissertation explores the effect of deal characteristics. Future research can examine whether there are differences in the quality of corporate governance of hospitality and non-hospitality firms and whether the potential differences affect M&A performance. Moreover, this dissertation derives its hypotheses from the perspective of agency theory. The mixed findings reported here suggest that agency theory itself may not be adequate to explain the complex issues related to corporate governance. Specifically, agency theory prescribed corporate governance practices may work well in some industries but not in other industries. A potentially fruitful next step for interested researchers is to identify what corporate governance mechanisms work well in the hospitality industry, how to better evaluate the quality of corporate governance in hospitality firms, and what other theories can explain the effect of corporate governance on the performance and decisions of firms and their executives.

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APPENDIX

This section displays the appendix to Chapter 4.

Table A1 Robustness tests using alternative governance measures based on E-index

Independent variables	Dependent variable: ln(Total compensation)				
	β/SE	*β/SE*	*β/SE*	*β/SE*	*β/SE*
	Baseline Measure	Measure 1	Measure 2	Measure 3	Measure 4
Acquisition *t*-1	-0.042	0.148	-0.041	0.107	0.119
	(0.163)	(0.097)	(0.168)	(0.086)	(0.091)
Moderate Governance	-0.068	-0.054	-0.064	0.167	
	(0.099)	(0.099)	(0.094)	(0.144)	
Strong Governance	0.126	0.229	0.212	0.333*	0.185
	(0.173)	(0.324)	(0.319)	(0.182)	(0.141)
Acquisition *t*-1*Moderate	0.189	0.044	0.323*	-0.088	
Governance	(0.179)	(0.131)	(0.190)	(0.309)	
Acquisition *t*-1*Strong	0.609**	0.191	0.378	0.467**	0.330*
Governance	(0.267)	(0.315)	(0.342)	(0.230)	(0.195)
Bidder	1.385***	1.488***	1.521***	1.467***	1.521***
	(0.512)	(0.523)	(0.500)	(0.515)	(0.516)
lnSales	0.408**	0.451***	0.456***	0.398**	0.413**
	(0.163)	(0.162)	(0.159)	(0.165)	(0.165)
Return *t*-1	0.001**	0.001**	0.001**	0.001**	0.001**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
ROA	0.027***	0.027***	0.026***	0.027***	0.027***
	(0.009)	(0.008)	(0.008)	(0.009)	(0.009)
MTB	0.019	0.020	0.020	0.020	0.027
	(0.047)	(0.048)	(0.046)	(0.049)	(0.049)
Sales Growth	-0.000	-0.001	-0.001	-0.000	-0.000
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
CEO Change	-0.003	-0.001	-0.006	0.005	0.003
	(0.092)	(0.094)	(0.095)	(0.093)	(0.094)
Constant	2.927*	2.443	2.422	2.752	2.615
	(1.659)	(1.651)	(1.626)	(1.666)	(1.675)
Adj. R^2	0.705	0.702	0.703	0.706	0.704
N	869	869	869	869	869

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$. For comparison purposes, the results of Model 3 in Table 4.4 are replicated in Column 1 under Baseline Measure.

Table A2 Robustness tests using market capitalization as a measure of firm size

Independent variables	Dependent variable: ln(Total compensation)				
	β/SE	*β/SE*	*β/SE*	*β/SE*	*β/SE*
	Baseline Model	Model 1	Model 2	Model 3	Model 4
Acquisition *t*-1		0.144*	0.007	-0.031	0.080
		(0.076)	(0.085)	(0.142)	(0.100)
Strong Board			-0.068		
			(0.058)		
Acquisition *t*-1*Strong board			0.289**		
			(0.130)		
Moderate Governance				-0.052	
				(0.099)	
Strong Governance				0.148	
				(0.170)	
Acquisition *t*-1*Moderate Governance				0.109	
				(0.165)	
Acquisition *t*-1*Strong Governance				0.612**	
				(0.239)	
High Independence					0.030
					(0.075)
Acquisition *t*-1*High Independence					0.282*
					(0.162)
Bidder	-0.359****	-0.354****	-0.367****	0.633****	0.660***
	(0.096)	(0.096)	(0.095)	(0.186)	(0.210)
ln(Market Capitalization)	0.190****	0.188****	0.187****	0.187***	0.184**
	(0.055)	(0.055)	(0.055)	(0.067)	(0.081)
Return *t*-1	0.001	0.001	0.001	0.001	0.001
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)
ROA	0.020****	0.020****	0.021****	0.026***	0.026***
	(0.005)	(0.005)	(0.006)	(0.008)	(0.008)
MTB	-0.047	-0.042	-0.042	-0.046	-0.050
	(0.041)	(0.041)	(0.041)	(0.052)	(0.058)
Sales Growth	0.002*	0.002	0.002	0.001	0.001
	(0.001)	(0.002)	(0.002)	(0.003)	(0.003)
CEO Change	0.026	0.031	0.056	-0.007	-0.017
	(0.067)	(0.068)	(0.070)	(0.090)	(0.095)
Constant	6.198****	6.215****	6.258****	5.223****	6.064****
	(0.499)	(0.495)	(0.493)	(0.647)	(0.789)
Adj. R^2	0.664	0.665	0.666	0.701	0.696
N	1382	1382	1382	869	802

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$

Table A3 Robustness test using market capitalization as a measure of firm size

Independent variables	Dependent variable: 1 if a merger announcement is made during year *t* and 0 otherwise	
	β/SE	*β/SE*
	Model 5	Model 6
Cash Fraction *t*-1	0.004	
	(0.005)	
Equity Fraction *t*-1		-0.011
		(0.008)
Age	-0.069**	-0.068**
	(0.025)	(0.025)
Return *t*-1	0.005	0.005
	(0.003)	(0.003)
MTB	-1.021***	-1.019***
	(0.290)	(0.292)
Board Independence	-0.012	-0.013
	(0.011)	(0.011)
ROA	0.003	0.008
	(0.028)	(0.028)
ln(Market Capitalization)	-0.049	-0.105
	(0.114)	(0.126)
Constant	3.460*	4.628**
	(1.614)	(1.707)
Pseudo R^2	0.160	0.165
N	710	711

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table A4 Robustness test using contemporaneous independent variables

Independent variables	Dependent variable: ln(Total compensation)				
	β/SE	*β/SE*	*β/SE*	*β/SE*	*β/SE*
	Baseline Model	Model 1	Model 2	Model 3	Model 4
Acquisition		0.005	0.018	0.022	-0.071
		(0.063)	(0.087)	(0.108)	(0.086)
Strong Board			-0.100		
			(0.060)		
Acquisition*Strong board			-0.020		
			(0.126)		
Moderate Governance				-0.061	
				(0.107)	
Strong Governance				0.134	
				(0.174)	
Acquisition*Moderate Governance				-0.034	
				(0.152)	
Acquisition*Strong Governance				-0.160	
				(0.200)	
High Independence					0.030
					(0.072)
Acquisition*High Independence					0.132
					(0.132)
Bidder	0.505	0.505	0.493	1.380**	1.463*
	(0.303)	(0.303)	(0.294)	(0.474)	(0.573)
lnSales	0.384***	0.385***	0.383***	0.411**	0.425*
	(0.108)	(0.108)	(0.105)	(0.152)	(0.186)
Return	0.001	0.001	0.001	0.001*	0.001*
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)
ROA	0.023***	0.023***	0.023***	0.026**	0.028***
	(0.006)	(0.006)	(0.006)	(0.008)	(0.008)
MTB	0.031	0.031	0.032	0.011	-0.000
	(0.040)	(0.040)	(0.039)	(0.045)	(0.050)
Sales Growth	0.003*	0.003	0.003	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.002)	(0.003)
CEO Change	0.063	0.063	0.097	0.005	-0.054
	(0.057)	(0.057)	(0.061)	(0.078)	(0.087)
Constant	4.139***	4.137***	4.179***	2.837	3.576
	(1.126)	(1.131)	(1.099)	(1.565)	(1.885)
Adj. R^2	0.659	0.659	0.660	0.696	0.700
N	1513	1513	1513	900	810

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table A5 Robustness test using one-year lagged independent variables

Independent variables	Dependent variable: ln(Total compensation)				
	β/SE	*β/SE*	*β/SE*	*β/SE*	*β/SE*
	Baseline Model	Model 1	Model 2	Model 3	Model 4
Acquisition *t*-1		0.229**	0.081	0.245	0.191
		(0.077)	(0.078)	(0.137)	(0.099)
Strong Board *t*-1			-0.075		
			(0.061)		
Acquisition *t*-1*Strong board *t*-1			0.292*		
			(0.122)		
Moderate Governance *t*-1				-0.071	
				(0.090)	
Strong Governance *t*-1				0.111	
				(0.170)	
Acquisition *t*-1*Moderate Governance *t*-1				0.006	
				(0.176)	
Acquisition *t*-1*Strong Governance *t*-1				0.163	
				(0.285)	
High Independence *t*-1					-0.005
					(0.072)
Acquisition *t*-1*High Independence *t*-1					0.349
					(0.177)
Bidder *t*-1	0.356	0.392	0.399	1.691**	1.914**
	(0.316)	(0.323)	(0.313)	(0.502)	(0.638)
lnSales *t*-1	0.311**	0.322**	0.324**	0.396*	0.465*
	(0.109)	(0.112)	(0.109)	(0.159)	(0.206)
Return *t*-1	0.001*	0.001**	0.001**	0.002*	0.002**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
ROA *t*-1	0.010	0.010	0.010	0.016	0.017
	(0.007)	(0.007)	(0.007)	(0.012)	(0.011)
MTB *t*-1	0.057	0.061	0.062	0.003	0.007
	(0.044)	(0.045)	(0.045)	(0.055)	(0.052)
Sales Growth *t*-1	-0.000	-0.001	-0.001	-0.000	-0.001
	(0.001)	(0.001)	(0.001)	(0.003)	(0.003)
CEO Change *t*-1	-0.085	-0.090	-0.070	-0.057	-0.077
	(0.057)	(0.057)	(0.056)	(0.083)	(0.069)
Constant	4.793***	4.705***	4.717***	3.114	2.265
	(1.116)	(1.138)	(1.117)	(1.640)	(2.129)
Adj. R^2	0.651	0.653	0.654	0.674	0.699
N	1382	1382	1382	809	725

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table A6 Robustness test on CEO pay-ROA sensitivity

Independent variables	Dependent variable: ln(Total compensation)		
	β/SE	*β/SE*	*β/SE*
	Model 6	Model 7	Model 8
Acquisition *t*-1	0.286***	0.256**	0.418***
	(0.089)	(0.110)	(0.125)
Positive ROA	0.032****	0.026***	0.024**
	(0.007)	(0.009)	(0.011)
Negative ROA	0.022**	0.034*	0.039**
	(0.010)	(0.018)	(0.019)
Acquisition *t*-1*Positive ROA	-0.050***	-0.048	-0.135**
	(0.019)	(0.034)	(0.053)
Acquisition *t*-1*Negative ROA	-0.008	0.033*	0.004
	(0.012)	(0.018)	(0.125)
Bidder	0.456	1.366***	1.483**
	(0.384)	(0.512)	(0.580)
lnSales	0.374***	0.401**	0.428**
	(0.134)	(0.161)	(0.185)
Return *t*-1	0.001**	0.001**	0.001*
	(0.000)	(0.001)	(0.001)
MTB	0.005	0.019	0.024
	(0.041)	(0.045)	(0.052)
Sales Growth	0.001	-0.000	-0.001
	(0.002)	(0.003)	(0.003)
Strong Board	-0.076		
	(0.057)		
Acquisition *t*-1*Positive ROA*Strong Board	0.032		
	(0.022)		
Acquisition *t*-1*Negative ROA*Strong Board	-0.020		
	(0.034)		
Moderate Governance		-0.070	
		(0.099)	
Strong Governance		0.134	
		(0.169)	
Acquisition *t*-1*Positive ROA*Moderate Governance		0.020	
		(0.030)	
Acquisition *t*-1*Positive ROA*Strong Governance		0.065	
		(0.041)	
Acquisition *t*-1*Negative ROA*Moderate Governance		-0.070****	
		(0.010)	
Acquisition *t*-1*Negative ROA*Strong Governance		-0.282****	
		(0.066)	
High Independence			0.015

			(0.071)
Acquisition *t*-1*Positive ROA*High Independence			0.059**
			(0.028)
Acquisition *t*-1*Negative ROA*High Independence			-0.019
			(0.063)
Constant	4.116***	2.976*	3.482*
	(1.376)	(1.648)	(1.869)
Adj. R^2	0.670	0.708	0.705
N	1382	869	802

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$