



Article Title

The effect of innovation on hotel market value

Citation

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Abstract

The purpose of this article is to analyze the effect of hotel innovations on firm value. Specifically, this study fills a research gap in the previous literature by examining this effect through market value and by distinguishing the potentially different impacts of distinct innovation types: product, process, organization and marketing. This research contributes to consolidating the empirical evidence of hotel innovation and performance by analyzing whether distinct types of innovation lead to different levels of results. The findings show that innovations are perceived to have a positive impact on the future sales of the company: in a four-day period (0,+3), there is an increase in stock exchange returns of 1.53%. In terms of innovation types, process and marketing innovations are found to have a higher positive effect on hotel market value than product and organization innovations; which is explained by potential cost differences among innovations.

Methods

The abnormal returns on a sample of innovations are estimated through an event study method, which implies the identification of the date of the first announcement. Event studies base their formulation on the idea that a particular event, such as an innovation announcement, affects the value of a firm; therefore, the objective is to observe the variation in hotel market value as a consequence of an innovation announcement on the day of the release. A regression analysis was used to detect differences in the effects of each innovation type (product, process, organizational and marketing – together with distribution innovations).

Results

The results obtained demonstrate that, on average, innovation announcements are associated with positive excess returns on the post-event days; in particular, both tests – Brown and Warner, and Jaffe – present significant values in the window (+0,+3). This means that, on average, firms announcing innovation activities undergo a minimum gain of 1.53% on the days after the announcement. This result supports Hypothesis H.1 that innovation has a positive effect on a hotel's market value, which is in line with the positive relationship between innovation and performance found by Hall and Williams (2008), Victorino et al. (2005), Walsh et al. (2008), Chan et al. (1998) and Orfila-Sintes and Mattsson (2009).

Conclusion

This article analyzes the effect of innovation on hotel market value. The results show that innovations are perceived to have a positive impact on the future sales of the company. Specifically, in a four-day period (from day 0 to day +3), there is an increase in returns of 1.53%; what is more, 1.53% in four days is equivalent to annual returns of 300% (this annual measure would be compared with other investments' internal rate of return or discounted cash-flow, which are usually presented through annualized figures to use equivalent measures). Also, in an attempt to further explain these returns derived from innovations, the news items are categorized into the four traditional types: product, process, organization and marketing (plus distribution). “Process” and “marketing” (and “distribution”) innovations have a higher positive effect on the market value than “product” and “organization” innovations. This shows that each innovation needs to be treated differently and individually, not only between but within categories, on account of cost differences among innovations.