

CASH HOLDINGS IN THE GLOBAL HOTEL INDUSTRY: DO MANAGERS ACT WITH BOUNDED RATIONALITY?

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Abstract

Purpose: We've studied the determinants of cash holdings in hotel firms globally, from 2001 to 2018, suggesting that managers should act according to the "bounded rationality hypothesis."

Design/Methodology/Approach: We apply both qualitative and quantitative methods. First, the relevant corporate governance theories characterize these managers as exemplifying the perfect rational homo economicus who maximizes his expected utility. However, it is commonplace that manager's behavior is often based on uncertainty, asymmetric information, or even poor training of management, which is against on the constraints of ordering, continuity, and independence of their preferences, that theoretically results in non-maximization of expected utility. Second, we identify and estimate the empirical dynamic panel and quantile models, so as to find evidence for the main cash-related drivers of corporate governance theory.

Findings: We've found many determinants of corporate governance to be statistically significant, but no specific theoretical scheme to prevail. "Size" and "profitability" factors proved strongly significant for cash in all estimated models, whereas "investment" was significant only in the unrestricted model and "value" only in the quantile models. We've also verified that leverage affects the cash holdings through a non-linear U-shape form in all cases. We believe that this is due to "hotel market discipline" over its finance as the trade-off model indicates. We also provide strong evidence that hotel industry's managers worldwide follow on average the same strategy on firms' governance (regarding factors of value, profitability, and investment) regardless, whether their cash assets are high or low. We claim that the overall evidence could be interpreted through Simon's "bounded rationality hypothesis."

Practical Implications: Based on our findings the investors should take into account that Hotel managers' globally act under bounded rationality.

Originality/Value: The contribution of this paper in the existing literature is the global nature of the sample and the methodological interpretation of the findings through the "bounded rationality hypothesis."

Keywords: cash holdings, hotel firms globally, bounded rationality, non-linear leverage effect on cash, panel data econometrics.

JEL Classifications: C58, G03 G32, G34.

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