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Hospitality finance and managerial accounting research: Suggesting an interdisciplinary research agenda

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Suggesting an interdisciplinary research agenda

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Abstract

Purpose – The purpose of this study is to present a brief overview of hospitality finance/accounting (HFA) research and to propose the utility of interdisciplinary research in the HFA field.

Design/methodology/approach – This study outlines HFA research and adds a brief summary of mainstream finance and accounting research topics. To further improve HFA research, this study suggests the need for interdisciplinary research that could effectively integrate finance/accounting with other management subjects in the hospitality field.

Findings – Despite its importance, interdisciplinary research has not been given enough attention in the field of HFA. This study sheds light on the need for interdisciplinary research and proposes paths for conducting interdisciplinary HFA research, such as behavioral finance, marketing-finance interface, human resource management finance/accounting, etc.

Practical implications – This study suggests that the results of interdisciplinary HFA research can provide useful practical implications from shareholder and organizational perspectives in the hospitality industry.

Originality/value – Although the interdisciplinary research concept is not really new, it has not been extensively addressed in hospitality academia. In this respect, this study suggests expanding the horizon for HFA researchers.

Keywords Financial management, Human resource management, Risk management, Accounting, Interdisciplinary research, Behavioral finance, Finance, Finance/accounting studies, Marketing-finance interface

Paper type Research paper

Introduction

Hospitality finance/accounting (HFA) research has developed rapidly since the mid-1990s. Recently, two studies (Jang and Park, 2011; Tsai *et al.*, 2011) extensively reviewed HFA research over the past two decades and outlined the key subject areas, issues, methodologies and citations. Despite the contribution of these studies toward understanding the general trends in HFA, there is still a need to chart not just where HFA has been but also where it needs to go. Comparing hospitality academia to mainstream finance/accounting research reveals a few critical gaps. It is important for HFA to take note of the "big picture" in terms of finance and accounting research in

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general business to achieve a breakthrough. Furthermore, paying attention to contemporary developments in management, such as the prominence of interdisciplinary subjects, is critical to further progress in the HFA field.

The study by Tsai *et al.* (2011) covered research from 1998 to 2009 in the ABI/INFORM database via ProQuest using 19 pre-identified keywords, while Jang and Park (2011) covered four hospitality journals from 1990 to 2009. The current study extends the periodical range through 2013 for the four hospitality journals Jang and Park (2011) examined:

(1) *International Journal of Hospitality Management*;
(2) *Journal of Hospitality and Tourism Research*;
(3) *Cornell Hospitality Quarterly*; and
(4) *International Journal of Contemporary Hospitality Management.*

We also referred to six accounting journals from the 1990s:

(1) *Accounting, Organizations and Society*;
(2) *The Accounting Review*;
(3) *Contemporary Accounting Research*;
(4) *Journal of Accounting and Economics*;
(5) *Journal of Accounting Research*; and
(6) *Journal of Management Accounting Research.*

In addition, we used the *Journal of Finance*, *Journal of Financial Economics* and *Review of Financial Studies* as major reference journals for finance research between the 1990s and 2013.

Accordingly, this paper proposes that interdisciplinary research should be pursued more vigorously in HFA. Interdisciplinary research can be understood as scholarly engagements that leverage the likelihood of creative understanding by combining the unique insights of scholars from different disciplines and practitioners with varied functional experiences related to a given problem (Van de Ven and Johnson, 2006). Because the hospitality industry is interdisciplinary in nature, interdisciplinary research would greatly benefit hospitality management. For example, various academic subjects, such as finance/accounting, marketing, human resource management (HRM), food safety, consumer behavior and operations management, are important to the efficient operation of hospitality firms. Nevertheless, interdisciplinary studies are currently rare in the field of hospitality research. Considering the increasing importance of interdisciplinary research within general management research, there is enormous potential within the field of HFA for interdisciplinary research as well. For example, scholars in the area of general management have recently applied finance and accounting concepts to better understand the outcomes of marketing efforts. Terpstra and Verbeeten (2014) investigated the profitability of customer segments using finance tools for understanding market segments to determine the relationship between customer satisfaction and customer value. Further, Ngobo *et al.* (2012) found that the effects of customer satisfaction are asymmetric. Thus, customer satisfaction diminishes negative deviation more than the positive deviation of analysts' forecasts from real earnings. Recently, Schulze *et al.* (2012) attempted to link the value of customers to shareholder value. Various efforts have been made to apply finance and accounting concepts to other subjects in general management. Considering the interdisciplinary nature of the hospitality industry, we believe that it is possible to imagine such advancement in hospitality academia as well. Before proposing directions for interdisciplinary HFA research, we briefly outline past HFA research and mainstream finance/accounting research below.

Finance/accounting research and scientific revolution

HFA research

Jang and Park (2011) and Tsai *et al.* (2011) recently published review papers of the hospitality finance field. Based on these two studies, we first outline the major research agendas in HFA and then consider several other subjects in this area that might benefit academia and practitioners alike. According to Jang and Park (2011), "risk management" was the most frequently studied topic in hospitality finance research. Furthermore, Tsai *et al.* (2011) categorized the 22 hospitality "risk and return" papers they examined into five sub-areas:

(1) generic risk;

(2) systematic risk;

(3) unsystematic risk;

(4) foreign currency risk exposure; and

(5) interest rate risk exposure.

Even though "risk management" is a common topic in the field of hospitality, there may be room for further studies. For example, Jang *et al.* (2011) introduced the cash flow-at-risk (CFaR) concept in a hospitality journal. This is important given that CFaR and/or value at risk are as critical to the hospitality industry as they are to the finance industry due to economic uncertainty. Accordingly, the shortfalls of cash flows, cash holdings, profits and value of hospitality firms need to be further investigated. Furthermore, because hospitality businesses tend to be international, risk exposure and hedging studies are more important due to globalization and the global financial crisis. Specifically, how to hedge risk exposure in globalized hospitality firms, how domestic hospitality firms are affected by those risks and which factors change risk characteristics in domestic firms are all important material issues for HFA academia.

"Financing" and "capital structure" are the second most common topics (Jang and Park, 2011; Tsai *et al.*, 2011). Because capital structure studies usually deal with the use of debt and equity, we also categorized "debt and equity financing" studies as "capital structure" studies. Despite the fact that a few financing and capital structure studies used hospitality firms, further research in this area is still needed. For example, which factors have an impact on financing behavior? And which unique financing behaviors exist in the hospitality industry in comparison with other industries? This type of research would add value to the literature. Furthermore, due to the inter-connection between capital structure and ownership structure, there is a need to verify the causal associations between them in hospitality academia. In addition, as ownership structure is closely related to corporate strategy, further studies need to examine corporate strategies under the corporate capital structure. In sum, hospitality finance research needs to consider a more holistic approach to capital structure, ownership structure and strategic financing behaviors.

"Bankruptcy" is another frequently investigated finance topic in hospitality research. Based on Jang and Park's (2011) review, bankruptcy studies have focused on which factors are related to the probability of hospitality firms filing for bankruptcy. The research found that higher debt leverage and lower levels of cash holdings positively influence the probability of bankruptcy (Dalbor and Upneja, 2002, 2004; Kim and Gu, 2006a, 2006b). Prior studies have also used various bankruptcy prediction methods, such as logistic regression, discriminant analysis and artificial intelligence, but the fundamental research goals and expected results were not new. Thus, further hospitality bankruptcy studies need to develop new frameworks or integrate other financial issues such as liquidity and/or financing constraints to further advance the hospitality finance field's understanding of the subject.

Next, "investment", 0"mergers and acquisitions (M&A)" and Real Estate Investment Trusts (REITs) were frequently investigated in hospitality finance research. Traditionally, firm investment is targeted toward fixed (or tangible) assets. However, due to industry-specific characteristics, investment in intangible assets is very important in the hospitality industry. Thus, research on advertising expenditures requires more attention in hospitality academia. M&A studies have examined post-M&A performance or stock market reactions to M&A announcements. In addition, hotel REITs research has mainly investigated the difference between REIT hotels and C-Corp hotels. However, research in the hotel industry needs to integrate research on M&As and REITs. For example, which types of hotels are more likely to be considered as target hotels? Which types of REIT hotels are more attractive to acquirers? Further, since the early 2000s, the number of public hotels has rapidly decreased and most are now privatized. Thus, the issue of M&As needs to be understood in terms of hotel privatization and the type of hotel. Thus, further hospitality finance studies need to understand these inter-correlated practical issues to improve hospitality finance studies.

Recently, hospitality finance has turned to "chief executive officer (CEO) compensation" and "corporate social responsibility (CSR)" studies. Basically, the relationship between CEO compensation and firm performance is based on agency theory and ownership structure. Various types of CEO compensations, such as incentives and stock options, have been seen as ways to resolve agency problems. Most compensation studies examined a single or bi-directional relationship between CEO compensation and firm performance while replicating similar research goals. Thus, further research needs to develop more advanced subjects, such as CEO's managerial overconfidence by compensation level or the optimal CEO compensation level.

"CSR" has recently garnered attention in hospitality academia. However, CSR is not purely a finance issue. Instead, CSR-performance studies could be understood as interdisciplinary studies that combine marketing, strategic management and finance. The fundamental tenet of these studies is that CSR could improve firm performance because CSR activities are attractive to customers and more likely to enhance consumer repurchasing and revisiting. However, there is still doubt about the direct impact of CSR activities on performance (McWilliams and Siegel, 2000). Despite these doubts, the topic is often examined in hospitality research. For example, Lee *et al.* (2013) investigated restaurant firms' CSR activities under recessionary periods, and Paek *et al.* (2013) examined the effect of managerial ownership on various CSR activity dimensions. To better support CSR research, further studies need to investigate customers' perspectives on hospitality firms' CSR activities and find connections between CSR activities and consumer responses, which are, in turn, related to their future behavioral intentions.

To recap, we have briefly reviewed major hospitality finance topics. However, it was difficult to find pure accounting studies in recent hospitality journals. Even though capital budgeting could be categorized as accounting research, it seems evident that little has been done regarding accounting subjects in hospitality academia. Thus, the next section reviews the main streams of finance and accounting research, which could be helpful for expanding the scope of HFA research.

Main streams of finance research

According to Subrahmanyam (2008), the central research paradigms of finance studies can be divided into four categories:

(1) portfolio allocation based on expected return and risk;

(2) risk-based asset pricing models, i.e. capital asset pricing model;

(3) pricing of contingent claims; and

(4) the Modigliani-Miller theorem and its augmentation by agency theory.

These ideas are all derived from investor rationality. In contrast to these main streams of finance research, little stock market-based research has been conducted in hospitality finance studies.

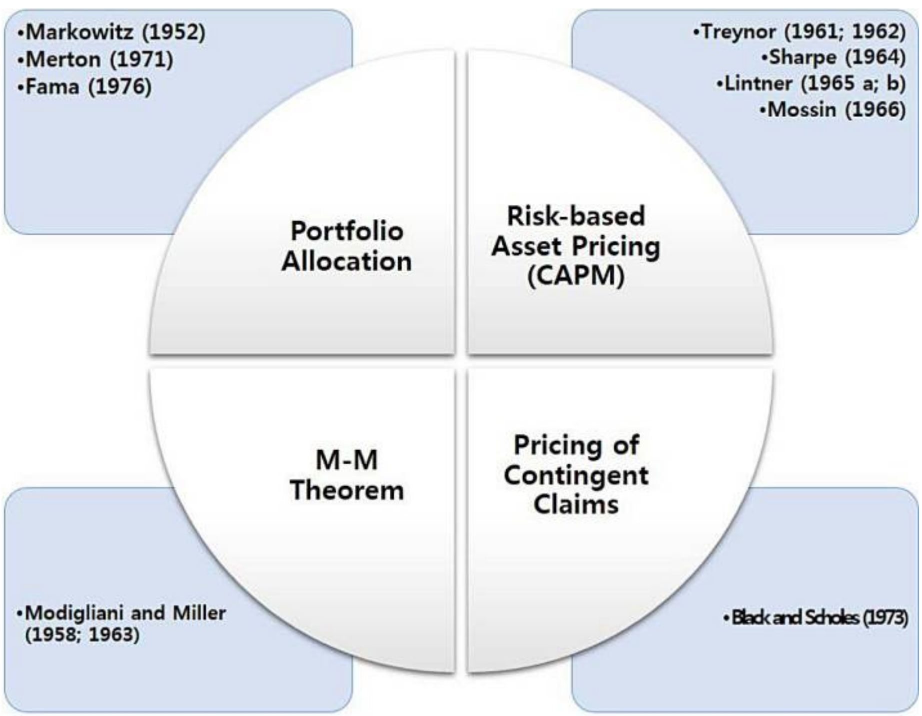
Before the 1960s, general finance studies applied a financial institutional view without a particular consolidated paradigm (Gippel, 2013). During this period, finance researchers found ways to improve an institution's financial efficiency using a descriptive and intuitive approach. Jovanovic (2008) indicated that prior to the 1960s, there were only a very small number of studies using applied mathematics (i.e. Markowitz (1952)'s modern portfolio theory). During this period, there was not a robust enough body of literature to compose a scientific discipline (Gippel, 2013). However, the introduction of the Black-Scholes-Merton option pricing model in the 1960s and 1970s marked the moment finance research became a scientific discipline (MacKenzie, 2006). During this period, the neoclassical rational expectations approach was applied to finance research and guided the agenda. Further, as Whitley (1986) indicated, the use of Compustat and the Center for Research in Security Prices data was generalized due to the growth of large financial institutions. Thus, at this point academic finance research tended to follow a dominant paradigm. However, Campbell (2000) pointed out that the field of finance appears to have stagnated a bit in the 1980s and 1990s. Since this period, research integrated with psychology has challenged the assumption of a fully rational agent in finance. However, this approach has been criticized for lacking a coherent theory and has limitations when applied to predicting asset prices.

Since the 1990s, no single paradigm has been able to answer the major questions posed in the field of finance (Gippel, 2013). Several factors have inspired researchers to explore new paradigms. First, many unexplained patterns in finance suggest that the benchmark models might be less than complete descriptions of equilibrium price formation (Keim, 2006). Second, volatility has increased in financial markets with the Asian crisis (1997), the dot-com bubble (2002) and the Great Financial Crisis (2008), which is evidence of an emphatic new world order not accounted for by the extant paradigm (Gippel, 2013). Finally, evidence from psychology, sociology, neuroscience and evolutionary biology has also contributed to new paradigms in finance (Figure 1).

Next, we would like to introduce important finance research agendas. One of the newly prominent issues in finance research is corporate governance (Bebchuk and Weisbach, 2010; Netter *et al.*, 2009). Shleifer and Vishny (1997) defined corporate governance as the way in which suppliers of finance ensure themselves of a return on their investment. Bebchuk and Weisbach (2010) outlined seven important areas of corporate governance research:

(1) shareholder activism;
(2) corporate directors;
(3) executives and their compensation;
(4) rights separation of voting and cash-flow;
(5) cross-country comparisons;
(6) foreign investments by cross-border investors; and
(7) the political economy of corporate governance.

To understand shareholder activism, it should be noted that a number of public pension funds and other institutional investors affect the firms in which they invest (Gillan and



Source: The figure was adapted from Subrahmanyam (2008)

Figure 1.
Traditional finance research paradigm

Starks, 2000, 2007; Hartzell and Starks, 2003). In recent years, the most important players have been activist hedge funds. The activities and payoffs of such hedge funds drive them to invest significantly in companies (Brav *et al.*, 2008; Greenwood and Schor, 2009). Thus, key research questions focus on the significant influence of activism on firm profitability: Are activists contributing to value for both firms and other shareholders? or Are they deteriorating the wealth of others? In the past, such questions were posed regarding shareholders mounting proxy fights and takeover bids, but recently, such questions have addressed hedge fund activists instead. This is crucial because if activism is beneficial, shareholder rights should be strengthened, while opposing evidence would support restraining them. One solution would be to have independent board members (Gordon, 2007). An alternative solution to mitigate agency conflicts between the interests of the CEO and shareholders is to have the board of directors, elected by shareholders, directly monitor the CEO. Thus, the complicated three-way relationship among shareholders, the board and the CEO has also been an important subject in the corporate governance literature (Adams *et al.*, 2010; Hermalin and Weisbach, 2003).

In addition, there are two schools of thought on executive compensation. The first school, the optimal contracting view, considers executive pay arrangements as the product of an arm's length negotiation between boards and executives, which lead to contracts with efficient incentives that reduce agency problems (Holmstrom, 1979). The other school, the managerial power view, considers executive pay arrangements as part of the agency problem itself rather than a solution (Bebchuk and Fried, 2003, 2004).

Another interesting issue is controlling shareholders. One important type of controlling shareholder is the controlling minority shareholder described by Bebchuk *et al.* (2000). They are shareholders who own only a minority of the company's cash flow rights but control a majority of the votes. An owner with a minority of the cash flow rights can control a majority of the votes when the two are separate due to the use of dual-class stock, corporate pyramids or cross-holdings. Such structures are common in many countries (Claessens *et al.*, 2000; Faccio and Lang, 2002). Bebchuk *et al.* (2000) showed that these structures potentially involve very large agency costs that are an order of power larger than those associated with controlling shareholders who hold a majority of the cash flow rights. Gompers *et al.* (2010) found strong evidence that firm value increases with insider cash-flow rights and decreases with insider voting rights.

Another issue is the international comparison of corporate governance. Until the mid-1990s, most prior research about corporate governance focused on US firms. More recently, international comparison studies have evaluated different countries' legal systems to determine how to protect the rights of public investors (Hail and Leuz, 2006; La Porta *et al.*, 2006; Djankov *et al.*, 2008; Jackson and Roe, 2009). For example, Gompers *et al.* (2003) demonstrated that a governance index based on 24 provisions is negatively correlated with firm value. However, Bebchuk *et al.* (2009) reported that only six of the provisions actually drive Gompers *et al.*'s (2003) results and proposed an alternative entrenchment index.

Due to the global movements of corporations and capital, cross-border investing has recently become another important issue in finance. One of the main inquiries of this research is why firms choose to operate in a particular country but subject themselves to the governance rules of other countries. Coffee (1999) and Stulz (1999) suggested that firms can bond themselves to good governance by having a presence in another country or listing on a foreign exchange.

The cross-border movement of capital also draws attention to the fact that investors are increasingly allocating equity investments to foreign companies. Thus, it is necessary to ask how cross-border investment flows are affected by such considerations. For instance, Leuz *et al.* (2009) showed that disclosure activities are especially important in attracting foreign investors, which confirms that governance problems disrupt a firm's capability to attract capital from foreign investors rather than from domestic sources. Thus, poor corporate governance could restrict capital flows and the integration of capital markets in the global economy. The political economy of corporate governance has examined whether a country's level of investor protections is affected by such long-standing factors as a country's legal origins (Glaeser and Shleifer, 2002; La Porta *et al.*, 2008), its culture and ideology (Roe, 2003; Allen, 2005) or its religions (Stulz and Williamson, 2003). Consequently, corporate governance issues are now widely investigated in finance literature. Thus, hospitality researchers need to expand their perspective and apply these concepts to hospitality industries as well.

Main streams in accounting research

As mentioned earlier, accounting studies are not typically examined in HFA research. Thus, this study introduces a number of useful accounting research agendas. We mainly focus on managerial accounting because financial accounting research typically concentrates on "pure" accounting rules, practices and philosophies. Shields (1997) categorized managerial accounting research into seven topics:

(1) management control systems;
(2) cost accounting;
(3) cost management;
(4) cost drivers;
(5) management accounting, information and systems;
(6) research methods and theories; and
(7) capital budgeting and investment decisions.

On the other hand, Scapens and Bromwich (2001) examined the journal, *Management Accounting Research* and found 14 topics:

(1) activity-based costing);
(2) other advanced techniques;
(3) capital budgeting;
(4) budgeting, standard costing and variance analysis;
(5) cost accounting systems and techniques;
(6) pricing (including transfer pricing;
(7) economic value added and residual income;
(8) management accounting practices;
(9) management accounting changes;
(10) management and organizational control;

(11) performance measurements;
(12) strategic management;
(13) contracting and incentives; and
(14) other diverse or minimal topics.

According to Shields (1997), the most frequently examined topic is management control systems, followed by cost accounting, cost management and cost drivers. Of the 152 papers, 85 investigated management control. Further, management control systems can be classified into six sub-areas:

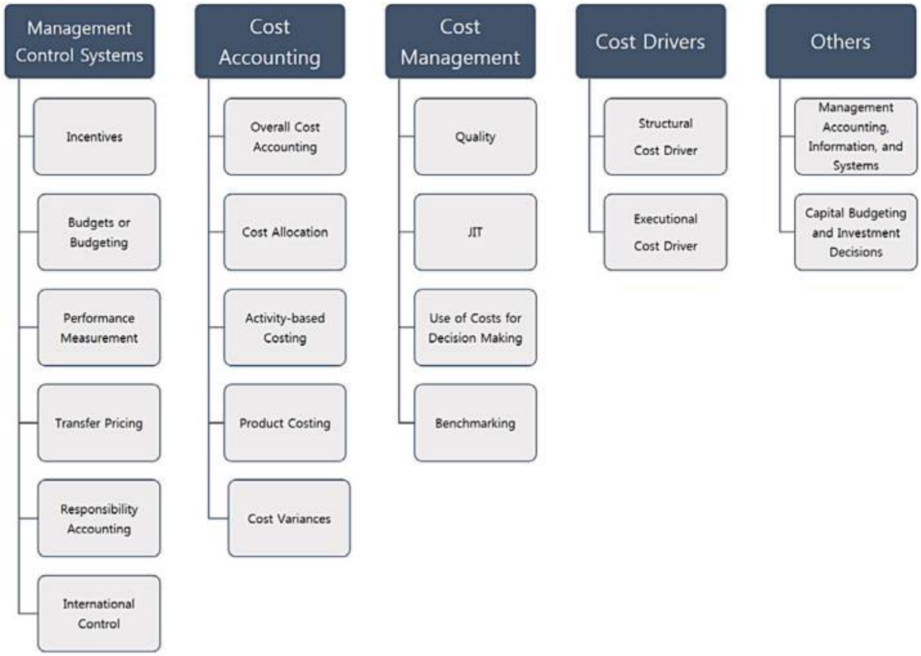
(1) incentives;
(2) budgets or budgeting;
(3) performance measurements;
(4) transfer pricing;
(5) responsibility accounting; and
(6) international control.

There are two types of research on incentives. The first type involves analytic- or literature review-based models of optimal or expected incentive mechanisms, which include bonus pools, bonuses coupled with the allocation of uncontrollable costs, budget-based incentives, cost reports, gain-sharing, monitoring and relative performance evaluation. The second type of study is empirical research that investigates either the effects of incentives on performance or incentive preferences. Recently, CEO compensation studies in HFA have been much closer to finance theories, such as ownership structure and firm performance. However, managerial accounting-based incentive studies found that employees prefer an incentive framed as a bonus instead of a loss, even when their expected values are equal (Luft, 1994). Further, performance-based incentives increase operating performance but do not affect capital expenditures (Banker *et al.*, 1996; Enis, 1993; Gaver and Gaver, 1993). Incentives also cause managers to delay reporting bad news relative to good news (Dobler, 2008; Hobson and Kachelmeier, 2005; King and Wallin, 1996).

Most studies of budgets or budgeting are based on agency theory and analytically investigate which budget systems maximize expected payoffs. For example, the propensity for subordinates to propose projects that are good for them but bad for the firm is highest when there is a great deal of information asymmetry (Kachelmeier *et al.*, 1994). When information asymmetry is high, communication regarding budgets could reduce this propensity (Kachelmeier *et al.*, 1994). Performance is also affected by interactions between participative budgeting and the *locus* of subordinates' control (Frucot and Shearon, 1991) and participative budgeting and product standardization (Brownell and Merchant, 1990). Research on performance measurements offers a spectrum of designs, from optimal performance measures as a function of the utility of the agent and principal (Amershi *et al.*, 1990) to the development of a profit-linked productivity performance measure (Hansen *et al.*, 1992).

Empirical studies of transfer pricing reported three types of results (Shields, 1997). First, the use of transfer-pricing methods, such as market prices and negotiation, is associated with environmental (existence of market price and industry) and organizational (firm size, decentralization, horizontal conflict and so on) factors (Borkowski, 1990, 1996). Second, firm-wide profits are higher and inter-subunit conflict lower when transfer prices are set by negotiation compared to being set by central management (Ghosh, 1994, 2000). Third, for negotiated transfer prices, conflicting evidence exists as to whether firm-wide or division incentives result in transfer prices that produce higher profits. However, this conflict may be resolved by considering the degree of interdependence among divisions (Chalos and Haka, 1990; Mahenthiran *et al.*, 1994). Finally, the principal players' preference for control systems involves not only maximizing their expected wealth but also increasing agents' accountability to reduce disutility from agents misrepresenting financial information (Evans *et al.*, 1994).

Next, cost accounting research indicates that cost accounting systems are contingent on characteristics of the production process. Empirical studies found that increases in intra-product and inter-product heterogeneity, as well as the heterogeneity of activities with aggregate cost pools, can result in large cost differences allocated at different levels of aggregation (Shields, 1997). For example, optimal capacity allocation depends on the number of products in the cost system and the product mix (Lee, 2003). On the other hand, cost management research in general has found that variations in product quality depend on characteristics of the manufacturing process, labor and products (Albright and Reeve, 1992). In other words, total quality management (TQM) is associated with reliance on non-financial performance measures and rewards (Ittner and Larcker, 1995). In a company with TQM, just-in-time (JIT) was categorized as a type of cost management study because it looks at what drives costs (Shields, 1997). Within this context, researchers found that the adoption of JIT does not significantly increase a firm's return on assets (ROA), and the increase in firm ROA after implementation of JIT is a negative function of customer concentration and inventory turnover (Balakrishnan *et al.*, 1996). Prior managerial accounting research on cost accounting and cost management typically focused on the manufacturing industries. However, these types of studies could be applied at the store or property level in the hospitality industry. Specifically, TQM research in accounting could provide great inspiration for the hospitality industry. Finally, cost structures for general manufacturing firms are dependent on the interaction between the industry and the time period. Some industries' cost structures have become less labor- or overhead-intensive over time, while other industries have experienced different temporal patterns. These results imply that the design and effectiveness of cost accounting information and systems are conditional on industry characteristics. Thus, research on hospitality firms' cost drivers could contribute to the literature because the cost structures of hospitality industries are unique. According to the Chartered Institute of Management Accountants, cost drivers are any factors that cause a change in the cost of an activity. Shank (1989) divided cost drivers into two categories: structural and executional. Structural drivers are derived from strategic business choices based on underlying economic structures, such as scale and scope of operations, complexity of products and the use of technology. On the other hand, executional drivers are derived from the execution of business activities, such as capacity utilization, plant layout and work-force involvement. Those cost drivers could be integrated with technology investments, new products, brand development at the firm level, store layout and employee scheduling at the store level. Thus, hospitality studies need to aggregate cost driver issues and unique hospitality features (Figure 2).



Source: The figure was adapted and adjusted from Shields (1997)

Figure 2. Accounting research topics

Kuhn's structure of scientific revolutions and interdisciplinary research

To expand the horizon of HFA research, we can look to the importance of interdisciplinary research in Kuhn's structure of scientific revolutions (Kuhn, 1970). Many researchers adopted a single paradigm as a way to generate concentrated solutions to research problems. However, the rules of normal science have been loosened, and alternative competing paradigms are emerging. When an alternative paradigm becomes dominant, it causes a revolution, which involves "tradition-shattering complements to the tradition-bound activity of normal science" (Kuhn, 1970). Following a revolution, another period of normal science can begin. When core principles of a research agenda are in doubt and scholarly improvement seems necessary, divergences between traditional and new approaches in research agendas and practices become apparent.

As Gippel (2013) indicated, researchers must know not only where boundaries are located but also how or on what terms they may be challenged. Because change is neither simple nor uniform, academic tension is inevitable. Hence, it is useful to debate which changes will allow the discipline to progress and to analyze and track structural changes. Thus, interdisciplinary dialogue establishes new avenues for innovative research: new areas of interest and new ways of acquiring knowledge in addition to simply filling gaps in existing knowledge. As Hopwood (2008) argued, scholars need to communicate with each other on how to re-shape and improve paradigms across disciplines. Thus, leading hospitality journals should play a role and pave the way for communication in the hospitality field. Integrating research across disciplines is complex. However, it is clear that interdisciplinary research imports ideas, assumptions, methods, models and empirical results beyond the boundary of the extant discipline.

As we indicated earlier, hospitality academia has always had interdisciplinary characteristics and been amalgamative. Various disciplines have co-existed in hospitality academia. However, little integration across different disciplines has been attempted, unlike in the more traditional field of management. Thus, to inspire research integration across disciplines we introduce potential interdisciplinary research agendas for HFA fields in next section.

Interdisciplinary HFA agendas

Behavioral finance

The traditional finance paradigm attempts to grasp financial markets based on models in which agents are rational (Barberis and Thaler, 2003). Rationality refers to two things. First, agents continuously acquire new information to have accurate, up-to-date beliefs. Second, utilizing these beliefs, agents make choices that are normatively acceptable, in the sense that they are consistent with subjective expected utility (SEU) (Schmeidler, 1989). However, behavioral finance argues that some financial phenomena can be better understood using models in which some agents are not fully rational. More specifically, in real life, agents often fail to update their beliefs correctly and make choices that are normatively questionable and, thus, are incompatible with SEU.

There are two representative research topics in behavioral finance: the equity premium puzzle and the volatility puzzle. The equity premium puzzle means that market investors seem unwilling to hold stocks even when they appear to be attractive assets (Barberis and Thaler, 2003). For example, Campbell and Cochrane (1999) reported that the average log return of the Standard & Poor's 500 Index (3.9 per cent) was higher than that of a short-term commercial paper. There are also two approaches in behavioral finance: prospect theory and ambiguity aversion. Benartzi and Thaler (1995) did one of the earliest studies devoted to prospect theory and equity premium. They examined how an investor with prospect theory-type preferences allocated his financial wealth between Treasury Bill and the stock market. Prospect theory suggests that investors may choose a portfolio allocation by computing potential gains and losses and then taking the allocation with the highest prospective utility. To test whether prospect theory could explain the equity premium puzzle, Barberis *et al.* (2001) made an attempt to build it into a dynamic equilibrium model of stock returns. Benartzi and Thaler (1995) and Barberis *et al.* (2001) both effectively assumed that investors engage in narrow framing, both cross-sectionally and temporally. In other words, although an individual may have many forms of wealth, he or she could still gain utility from changes in the value of one specific component of the total wealth. They also concluded that although investors have long investment horizons, they still evaluate their portfolio returns on an annual basis.

In contrast, ambiguity aversion attempts to explain the equity premium puzzle using the Ellsberg paradox, which implies that people hate ambiguity or situations where they are unsure of the probability distribution. This is particularly relevant for finance because investors are often uncertain about the distribution of a stock return. Investors sometimes behave as if they are playing a life-or-death game against a malevolent opponent who wants to destroy them (Epstein and Wang, 1994).

The volatility puzzle, another popular topic in behavioral finance, refers to the fact that the statement "high risk (high volatility) and high returns" does not always hold true. In other words, variation must be introduced into the price-dividend ratio because the volatility of returns is higher than the volatility of dividend growth. One plausible defense is that investors believe that the average dividend growth rate is more volatile than it actually is. When they see a rise in dividends, they are too quick to believe that the average dividend growth rate has increased. Their exuberance pushes prices up relative to dividends, adding to the volatility of returns. Another belief-based explanation is that investors rely more on private information, which leads to an overconfidence problem. For instance, the money illusion (Sharfir *et al.*, 1997; Ritter and Warr, 2002) argues that part of the volatility in price-dividend ratios and returns may be due to investors mixing real and nominal quantities when forecasting future cash flows. Finally, Barberis *et al.* (2001) suggested that the degree of loss aversion differs in each situation, but depends, in part, on previous gains and losses.

However, as Subrahmanyam (2008) argued, there are common objections to behavioral finance. First, theoretical behavioral models are, to some extent, *ad hoc* and account for specific, stylized facts. Yet, behavioral models are rooted in how people actually behave based on experimental results and, thus, account for the evidence better than traditional models. Another objection is that the empirical work is manipulated by data-mining. However, much of the empirical work has been verified with out-of-sample evidence, both in terms of time-periods as well as cross-sectionally across different countries. Finally, behavioral finance shows no unified theory, unlike the expected utility maximization based on rational beliefs. This critique may be true at this point, but traditional risk-based theories do not appear to be strongly supported by the data. Behavioral researchers continue to address these criticisms, and recent studies are directed toward developing a unifying paradigm (Caginalp and DeSantis, 2011). Overall, behavioral finance literature has grown in recent years. For example, the approach of Caginalp and DeSantis (2011) is distinctive compared to the traditional approach. However, much work remains to be done in the field. In particular, the literature should reveal which agents are biased and whose biases affect prices. There is also room to examine the fast growing field of market microstructures and behavioral finance. For example, future hospitality research could question the effect of the cognitive biases of market makers on the price formation of hospitality stocks. The impact of biases, such as overconfidence or the disposition effect on market makers, also seems like a valuable topic for research. There is also room to study cross-country and cross-firm variation in biases and their implications for return predictability. Further, most hospitality finance HFA studies have focused on the US market and US corporations, but research could compare hospitality companies in and outside the USA, which would add more value to the academic field of hospitality.

Marketing-finance interface

Marketing strategies have traditionally focused on success in the product market. Seeking to increase market share, marketing managers generally make decisions based on the consideration of customers, suppliers and competitors. Recently, executives have extended the goal of marketing to include the enhancement of shareholder returns (Day and Fahey, 1988; Srivastava *et al.*, 1998). Because shareholder value-based measures were introduced, companies have started to evaluate marketing performance in terms of shareholder value. Researchers have found that marketing initiatives can enhance financial performance directly through consumer market performance and indirectly by influencing financial market perceptions. Meanwhile, studies have also demonstrated that financial decisions can affect marketing activities (Lovett and MacDonald, 2005). As a result, interest in the interrelationship between marketing and finance has grown in both the industry and academia (Jang *et al.*, 2013).

However, there are obstacles to the inter-connections of marketing and finance. Marketing scholars have traditionally based their research on psychology and sociology, while finance is rooted in economics (Zinkhan and Verbrugge, 2000a, 2000b). Thus, marketing and finance tend to evolve into two different "thought worlds", providing divergent solutions to the same problem. This divergence can be an obstacle for marketing and finance researchers attempting to work together (De Ruyter and Wetzels, 2000). Ratnatunga *et al.* (1990) surveyed marketing and finance managers in the Australian food industry on their attitudes toward the marketing-finance interface. They found that communication and interpersonal relationships generally helped foster cooperation between the two departments, but this knowledge gap remains the biggest obstacle to a smooth interface.

From a financial perspective, market-based assets contribute to shareholder value because they increase the present value of cash flows by realizing them earlier, increasing the amount of cash flows, lowering the cost of capital and generating value beyond the life of the project. First, market-based assets can enhance shareholder value by accelerating the receipt of cash flows. Empirical evidence shows that the more positive the brand attitude, the quicker customers respond to new products. Second, market-based assets can enhance the level of cash flows by achieving

- higher prices;
- higher market shares;
- lower costs;
- lower working capital;
- more cross-sold products and services;
- co-branding or co-marketing;
- new uses for products; and
- brand extension.

Third, market-based assets could lower the cost of capital by reducing the volatility of cash flows. Singh *et al.* (2005) demonstrated that advertising expenditures might have a dual impact on the cost of capital. Primarily, advertising activities assist in reducing a firm's financing costs by reducing cash flow volatility. This is achieved through enhancing consumers' loyalty and switching costs, shifting consumers to services and consumables that generate constant cash flows and, promoting stability in operations through information sharing, automatic ordering and lower inventories. Because advertising can create sustainable product demand, it could reduce a firm's cash flow sensitivity to external shocks. In turn, this cash flow stability might lower financing costs. Empirically, Chauvin and Hirschey (1993) found that advertising activities help investors form expectations regarding the future cash flows of respective firms. Further, Gupta and Lehmann (2003) suggested that advertising has a positive influence on firm value through enhanced customer lifetime value.

However, marketing activities could also affect investor behavior by altering the perceived riskiness of a firm's stocks and bonds. Moreover, product market advertising surely has a positive effect on investors in financial markets because corporate advertising increases visibility and familiarity (Berger *et al.*, 2006; Huberman, 2001; Maclnnis and Jaworski, 1989). Along similar lines, Frieder and Subrahmanyam (2005) found that investors favor stocks with strong brand names. Thus, the reduced cost of capital through advertising also contributes to enhancing corporate financial performance and, consequently, creating shareholder value. Finally, market-based assets also enhance the residual value of cash flows. Residual value reflects the expected value of the business beyond the planning horizon. For example, the larger the customer base and the higher the quality of the customer base, the higher the loyalty and, consequently, the residual value. Besides, the stock market reacts favorably when a firm derives a larger portion of value from market-based assets. This does not negate the importance of value creation capabilities from other assets, but rather highlights the importance of isolating mechanisms that enable the firm to appropriate the value it has created (Mizik and Jacobson, 2003).

Hospitality research offers many opportunities for a marketing-finance interface. Recently, Jang *et al.* (2013) proposed the marketing-finance interface as a new direction for hospitality and tourism management. Even before this proposal, a couple of studies delved into interface research by examining the impact of marketing activities on financial firm performance. Chen and Lin (2013) and Park and Jang (2012) examined the influence of advertising on firm performance in the restaurant and hotel industries. Other researchers focused on customer-based brand equity, which can be investigated through its relationship with firm performance. For example, Sun and Kim (2013) found that customer satisfaction is reflected in the profit margin, ROA, return on equity and in the market value-added of hotels, restaurants and airlines. Another group of researchers have attempted to apply finance concepts (e.g. profitability enhancement and risk reduction) to marketing. For example, Jang *et al.* (2002) paid attention to the profitability and risk of tourist segments in an attempt to lessen the seasonal fluctuations in revenue the hospitality industry inherently suffers from. Along similar lines, Jang (2004), Jang and Chen (2008) and Chen *et al.* (2011) proposed the financial portfolio approach to optimal tourist market mixes, suggesting optimal solutions for the allocation of limited budgets. Even though those studies initialized the marketing-finance interface in hospitality and tourism research, further studies need to investigate various interrelationships between marketing and finance disciplines.

Human resource management and finance/accounting issues

For a long time, HRM has been recognized as an independent, unique discipline within management. As Becker and Gerhart (1996) indicated, human resources, both as a job and a business function, has traditionally been viewed as both a cost to be minimized and a potential source of efficiency gains. Traditionally, labor costs are understood as the single largest operating cost in many organizations, and employment reduction is used as a major aspect of strategies to restructure operations and reduce costs (Duran, 2011; Schneider *et al.*, 2003; Uchitelle and Kleinfield, 1996). Accordingly, the main research question has been whether these decisions create value or just reduce costs.

However, the impact of HR on shareholders' value creation needs to be examined further. Empirically, the challenge is to distinguish between staffing reductions that are cost-cutting measures and restructurings that create value because the new structures are more appropriate for the firms' particular strategies. For example, Davidson *et al.* (1996) found that market investors favorably react to the announcement of early retirement programs. Palmon *et al.* (1997) reported that investors considered layoffs an effective cost-reduction tool that increase firm value, but layoff decisions induced by adverse market conditions are negative information to investors. A few studies (Boudreau, 1991; Cascio, 1991; Schmidt *et al.*, 1979) have tried to quantify the dollar value of improvements in employee selection and other human resource activities. However, these studies have rather broad confidence intervals and are not robust (Becker and Gerhart, 1996). Considering the importance of service in the hospitality industry, the impact of HRM on firm performance is critical. Strategic HRM could directly reduce costs and increase efficiency. This enhanced performance might be reflected in a firm's financial performance as well. Further, the announcement of policy changes in HRM could directly affect the stock market because investors may react to the decision.

One issue hindering the linkage between HRM and firm performance is the measurement problem. Among the most common performance measures are profitability, productivity and service quality, which are generally used separately (Delery and Doty, 1996; Huselid, 1995; Ichniowski *et al.*, 1997; MacDuffie, 1995; Perry-Smith and Blum, 2000). However, Delaney and Huselid (1996) combined various measures into a single composite measure that provides superior results compared with one-dimensional measurements. Hendricks and Singhal (2001) also demonstrated a significant relationship among such measures. The endogenous relationship between human resources and financial performance is another problem that requires attention. For example, Schneider *et al.* (2003) found that overall job satisfaction and satisfaction with security were predicted by ROA and earnings per share (EPS) more strongly than the reverse, although some of the reverse relationships were significant. Satisfaction with salary suggested a more reciprocal relationship with ROA and EPS (Schneider *et al.*, 2003).

Another complex implication of this topic is the association between internal marketing and firm performance. Most M&A studies in finance examine stock market reactions from the perspective of the market price for acquirers and/or target companies. The success of M&As has also been investigated based on the type of M&A, firm size, prior M&A experience and payment methods. However, scholars in HRM argued that the success of M&As depends upon human factors. Schuler and Jackson (2001) contended that human factors in the integration phase of M&As include:

- retention of key talent;
- communications;
- retention of key managers; and
- integration of corporate cultures.

In line with these arguments, Charman (1999) reported that a lack of integration planning is found in 80 per cent of underperforming M&As. However, some early studies (Blake and Jane, 1985; Hambrick and Cannella, 1993; Walter, 1985) reported that employees of acquired companies react unfavorably to M&As, a result often cited to explain why many M&As are not successful. With few exceptions (Chatterjee *et al.*, 1992; Datta, 1991), the notion that negative employee reactions help explain unsuccessful M&As seems to be anecdotal rather than empirical. These inconclusive empirical results suggest that hospitality researchers need to examine the M&A issue further from various perspectives, including HRM. Due to the unique characteristics of the hospitality industry, which distinguish it from the manufacturing industry, a view from the human side is critical in finance/accounting issues, such as firm performance and M&As. Consequently, further studies need to jointly examine HRM and finance/accounting issues in the hospitality industry (Table I).

Other interdisciplinary issues

As an additional interdisciplinary research topic, risk management issues could be aggregated with finance/accounting studies in the hospitality industry. First, food safety-related research has potential for further studies. From the perspective of risk management, food safety events are critical in restaurants. Recently, Seo *et al.* (2013) examined the impact of food-borne illness on firm value based on the stock market using an event study method. Likewise, operational risk management could be extended to other issues, such as the effect of nationwide negative news on stock market investors. Second, Tang and Jang (2011) investigated two promising weather risk management strategies using a ski resort: geographical diversification and financial hedging. This study demonstrated that diversification and hedging strategies can be utilized by ski resorts to address weather risk. Similar to this study, finance/accounting concepts and theories could be adapted to other disciplines or management cases in the hospitality industry. Third, as Gray *et al.* (2000) indicated, adaptation of information technology (IT) in hospitality firms could improve firm performance. For instance, Gray *et al.* (2000) indicated the effectiveness of web-based marketing, Burgess and Bryant (2001) argued that IT is important to financial performance in terms of revenue management, and Winata and Mia (2005) mentioned the availability of IT in manager's budgeting participation. More specifically, Ham *et al.* (2005) found that front-office applications, restaurant and banquet management systems and guest-related interface applications positively affected the performance of lodging operations, but the guest-related interface applications were not significant. While most prior studies were based on surveys, Lee and Connolly (2010) investigated the impact of IT news on firm value. However, they failed to find that IT news had a significant impact on cumulative abnormal returns. So far, the relationship between IT investment and financial performance remains fertile ground for further studies. There are many types of IT implementation in lodging and restaurant firms and the effectiveness of each IT category should be addressed. Consequently, various hospitality disciplines could be effectively integrated with finance/accounting research.

Concluding remarks

Hospitality academia consists of various disciplines of management and other industry-unique functions, which means that hospitality research is already well poised to integrate different disciplines. Yet despite these unique characteristics of the hospitality industry, not enough attention has been given to interdisciplinary research. To fill this research gap and inspire future researchers, this study briefly reviewed main streams of finance and accounting research topics and introduced possible interdisciplinary research topics that combine hospitality with finance/accounting

Table I.
Summary of interdisciplinary research reference papers in management areas

Interdisciplinary research area	Interdisciplinary research topics	Reference papers
Behavioral finance	Equity premium puzzle Prospect theory Ambiguity aversion	The equity premium puzzle implies that although stocks appear to be an attractive asset, investors appear unwilling to hold them. They appear to demand a substantial risk premium to hold the market supply Benartzi and Thaler (1995); Barberis *et al.* (2001); Thaler *et al.* (1997) Epstein and Wang (1994); Anderson *et al.* (1999); Maenhout (2004)
	Volatility puzzle Beliefs Preferences	The volatile puzzle means that the following does not always hold true: “more volatile assets should have higher returns” Shafir *et al.* (1997); Ritter and Warr (2002) Barberis *et al.* (2001); Thaler and Johnson (1990)
Marketing–finance interface	Customer value	Customer value is closely related to the market valuation of a firm Srivastava *et al.* (1998); Berger *et al.* (2006)
	Financial value of market-based assets	Market-based assets contribute to shareholder value because they increase the present value of cash flows by realizing the cash flow earlier, increasing the amount of cash flow, lowering the cost of capital and generating value beyond the project life Singh *et al.* (2005); Chauvin and Hirschey (1993); Gupta and Lehmann (2003)
	Marketing performance enhancement	When finance concepts are incorporated into marketing strategies, customers and channels are considered assets that must be cultivated and leveraged Baldauf *et al.* (2000); Lovett and MacDonald (2005)
	Performance measurement	Measures for marketing performance do not appropriately reflect firm performance. Thus, marketers are moving beyond traditional market measures to include financial measures Zinkhan and Verbrugge (2000a, 2000b); Bauer and Hammerschmidt (2005)
HRM and finance/accounting	HRM and shareholder value	HRM decisions create value as well as reduce costs Davidson *et al.* (1996); Palmon *et al.* (1997); Schneider *et al.* (2003); Hwang and Chi (2005)
	Post M&As performance	Post-M&A success depends on HRM Larsson and Finkelstein (1999); Schuler and Jackson (2001)

disciplines. As we indicated earlier, accounting research has been very rare in hospitality academia. Thus, we challenge future HFA researchers to go beyond the current HFA agendas. However, knowledge transfers and improvements are not possible if HFA research merely replicates or reexamines main streams of finance and accounting research. For instance, CEO compensation studies have increased in the hospitality literature. However, those studies were focused on the incentive association between compensation structure and firm performance, similar to mainstream finance and accounting research. To expand on this study, further hospitality research needs to examine the paradigms using a corporate governance view. The three-way relationship among shareholders, boards and the CEO has not been paid enough attention in hospitality research. Further, voting rights and cash flow rights are still an untouched field. The research opportunities from a behavioral finance perspective are vast for future researchers. This is very similar to accounting research as well.

In conclusion, to expand the hospitality research horizon and ultimately contribute to new knowledge and theory development, we suggest that interdisciplinary research, which combines HFA with other disciplines, is necessary at this point. We expect this study to open a new door for interdisciplinary research for non-finance/accounting researchers as well.

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