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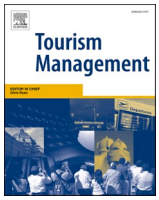

Navigating market waves: How CEO political ideology shapes the currents of innovation-induced tourism value

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ABSTRACT

The upper echelons theory postulates that the cognitive frameworks of top executives shape organizational decisions and behaviors. Based on this theory, this study contributes to the literature by analyzing the effects of the chief executive officer's (CEO) political ideology and political climate on variations in the market value of tourism firms resulting from their innovation activities. An empirical application was conducted on major U.S. hotel companies that have traded on the stock market for the last 25 years (1998–2022) and made innovation-related announcements. This application shows that, although the implementation of innovative activities positively affects a firm's market value, both the CEO's political ideology and the political climate influence the degree of change in the said market value. This study has fundamental theoretical implications for upper echelons theory by improving the understanding of how cognitive diversity derived from political ideology influences decision-making and its outcomes.

1. Introduction

Do the values of chief executive officers (CEOs) of publicly traded tourism companies influence their behavior? To what extent can these personal beliefs influence the effect of innovation on the market value of the companies they lead? Does the national political climate affect stock profitability when tourism organizations undertake innovative actions?

Innovation has been widely recognized as a critical element for tourism and hospitality companies and emerges as an indispensable strategic factor for their long-term success and growth (Gao & Zhang, 2023; Martínez-Ros & Orfila-Sintes, 2009; Pikkemaat et al., 2019; Sundbo et al., 2007; Vu & Hartley, 2022). Tourism literature has highlighted multiple benefits associated with innovation: it enables the tourism sector to be more resilient, productive, and adaptable (Zenker & Kock, 2020); it helps cope with an increasingly competitive and uncertain environment (Gao & Zhang, 2023; Martínez-Ros & Orfila-Sintes, 2009; Vu & Hartley, 2022); it facilitates the creation of new products and tourist experiences (or improves the quality and efficiency of existing processes and services) that contribute to stimulating demand and increasing business performance (Hall & Williams, 2019; Hjalager, 2010; Nicolau & Santa-María, 2013a, 2013b; Raad et al., 2023; Sharma et al., 2021; Zach et al., 2020); and it helps tourism companies grow (Love et al., 2011) and remain competitive (Aldebert et al., 2011; Martín-Rios & Ciobanu, 2019; Pikkemaat et al., 2019). In the context of hotel management, Chen (2011) states that "innovation appears to be the only means for an organization to convert change into opportunities and thus succeed [in the market]" (p. 64).

Although the study of tourism innovation has intensified in recent years (e.g., Hall & Williams, 2019; Kim, Tang, & Bosselman, 2018; Raad et al., 2023; Sharma et al., 2021), this area of academic research remains considerably unexplored. Hjalager (2010) describes the study of tourism innovation as a relatively recent phenomenon with multiple research gaps that should be addressed to gain deep insights that contribute to establishing solid theoretical foundations. Due to the immense importance of innovation in the tourism industry (Gomezelj, 2016; Martín-Rios & Ciobanu, 2019; Nguyen et al., 2021; Sharma et al., 2021), it is crucial for empirical research to analyze in greater detail the factors that influence the implementation of such strategic actions and how these elements impact business performance.

In this context, studying CEOs is essential. Tourism and hospitality are highly dynamic industries constantly evolving due to intense competition, technological and environmental changes, and continuous shifts in tourists' demands and preferences (Chen, Wu, Wang, & Stantic, 2025; Yang, 2012). Furthermore, tourism companies are more likely

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than other organizations to be affected by external factors related to the macroenvironment, such as economic and health crises, regulatory changes, or natural disasters (Wut et al., 2021). These characteristics imply that, in the tourism industry, the strategic choices made by CEOs have a decisive influence on the performance of the companies they lead. Only through their decisions can organizations remain profitable and adapt to new realities (Ruiz-Palomino et al., 2021).

Tourism literature—using the upper echelons theory (Hambrick & Mason, 1984)—has shown that the values of top executives can explain the behavior of the organizations they lead (e.g., Ahn et al., 2020; Kim et al., 2018). These studies are grounded in the underlying premise that how CEOs perceive challenges and opportunities and how they retain and interpret information are determined by their cognitions and beliefs (Hambrick, 2007). These individuals wield significant power within the organization (Nadler & Heilpern, 1998) as they have the authority and the responsibility to chart the course of the company (Hambrick & Mason, 1984). This circumstance results in their decisions having a decisive influence on business success. Although some papers analyze how innovation influences the market value of tourism companies (e.g., Nicolau & Santa-María, 2013a, 2013b; Raad et al., 2023; Sharma et al., 2021; Zach et al., 2020), none of these studies have explored the impact of factors linked to the values of these executives. In this paper, we aim to fill this gap by analyzing the ideology of CEOs because, unlike other idiosyncratic traits that shape personality, political cognitions reflect individuals' core attitudes, beliefs, and values (Tedin, 1987), which help to understand and explain how they make decisions and why they "do what they do" (Jost, 2006).

Specifically, literature linked to political psychology strongly emphasizes that ideology is a precise manifestation of the values that drive human behavior (Jost, 2017). A recent body of research has empirically validated that liberal and conservative individuals diverge in idiosyncratic traits that shape their personality (in areas as diverse as openness to experience, romantic, cultural, or aesthetic preferences, kindness, conscientiousness, and consumption preferences) (Carney et al., 2008; DellaPosta et al., 2015; Eastwick et al., 2009; Hirsh et al., 2010; Klofstad, McDermott, & Hatemi, 2013; Sibley et al., 2012), in their motivational interests and concerns (Pyszczynski et al., 2003), in prioritizing their values (Jost et al., 2016), in cognitive processing styles (Jost et al., 2017; Pfattheicher & Schindler, 2016; Sterling et al., 2016), and in the neurological structures and processes that condition brain activity (Amodio et al., 2007; Jost et al., 2014; Nam, Jost, Kaggen, Campbell-Meiklejohn, & Van Bavel, 2018). Political cognitions significantly impact how socioeconomic development and individual rights and liberties are conceived, making tourism one of the industries most markedly conditioned by different ideological approaches (Kim et al., 2007; Matthews & Richter, 1991; Scott, 2011). Consider, for example, the political uses of tourism (such as economic embargoes or travel warnings) and the degree of government involvement in developing tourism infrastructure or preserving cultural heritage and protecting the environment to realize the impact these belief systems can have on the tourism industry. Some studies even show that travelers with conservative political opinions are much more reluctant to choose hotels that offer more innovative services that use robotics or artificial intelligence (e.g., van Esch et al., 2022).

Just as with tourists, we understand that the political ideology of CEOs decisively influences their innovation decisions (and, consequently, the benefits they will obtain through implementing such strategic moves). Therefore, given the enormous impact of ideology on tourism and hospitality companies, it is essential to analyze whether innovative initiatives implemented by liberal CEOs are more or less able to generate "abnormal returns" (AR) compared with innovative efforts undertaken by more conservative CEOs. To evaluate this question (hitherto unexplored in the literature), we will draw on works linked to the upper echelons theory that examine the influence that ideology exerts on the actions taken by top managers (e.g., Chin et al., 2013; Semadini et al., 2022). These studies have found that CEOs' political convictions bias how these executives approach strategic situations they encounter. Building on this premise, we contend that ideology will condition investors' perception of the legitimacy (or appropriateness) of the strategic alternatives adopted by CEOs, which will influence the market value of the tourism companies they manage.

We also evaluate how the national political climate (represented by the prevailing political ideology of the popularly elected governing bodies that hold power) affects the market value of tourism companies in actions that deviate from the path set by organizational inertia. Political conservatives are risk-averse, averse to change, and tend to be staunch defenders of tradition (e.g., Jost, 2017; Jost et al., 2003). Given that risk is inherent in innovation (especially in radical innovations), it is unlikely that political conservatives would consider altering the status quo as desirable behavior. We argue that when conservative parties hold power, it is unlikely that investors perceive government bodies as favoring substantial deviations from the path set by organizational inertia. The opposite should occur with liberal parties, which are staunch advocates of social changes and transformations (including those that occur within the business sphere). These contexts should significantly influence the impact of innovation on the stock price of tourism companies.

The paper is further organized as follows. To address the significant research gaps, Section 2 includes a literature review highlighting, from the perspective of upper echelons theory, the importance of top executives' personal values (particularly their ideology) in their strategic choices, and the success of the organizations they lead. Based on this literature review, Section 3 presents the hypotheses and details the expected relationship, from a theoretical standpoint, between innovation activities and the market value of tourism companies, including CEOs' ideology and the national political climate as underlying mechanisms. Subsequently, Sections 4, 5, and 6 describe our empirical analysis and the information sources used, present our findings, and draw our conclusions, respectively.

2. Theoretical background

2.1. Upper echelons theory

The upper echelons theory, originating from Hambrick and Mason (1984), aims to decipher the reasons underlying organizational actions and the factors influencing the profitability of these strategic moves. Before the emergence of this theoretical framework, explanations for these crucial issues were grounded in deterministic constructs based on organizational ecology (Carroll, 1984; Hannan & Freeman, 1977) and institutional theory (Greenwood et al., 2008; Scott, 1987). Academics used to link firms' strategic choices with techno-economic factors, detached from the individuals involved in decision-making processes (e.g., Porter, 1980). The prevailing logic assumed that organizations, limited significantly by their external environment, could objectively and rationally choose optimal strategic alternatives through an analysis of the situation centered on the threats and opportunities offered by the market and on their own resources and capabilities.

Upper echelons theory demystifies this trend by positing that strategic situations are laden with highly ambiguous and complex information. Thus, making perfectly rational decisions becomes an "unattainable ideal" in such contexts (Hambrick, 2007; Hambrick & Mason, 1984). This argument is based on bounded rationality theory (Simon, 1990), acknowledging that decision-makers have cognitive limitations hindering their ability to always choose the best option from a technical point of view.

In this study, similar to other research in strategic leadership, we focus on CEOs as the primary decision-makers. The literature demonstrated that CEOs' choices are inherently complex (Hambrick, 2007; Mannor et al., 2016), significantly impacting organizational outcomes (Finkelstein et al., 2009). Considering that these strategic choices are not objectively "knowable" but subject to interpretation, decision-making

processes are more influenced by behavioral factors (related to past experiences, personal interpretations, mental shortcuts, or perceptions of reality) than by the mechanical pursuit of economic optimization (e.g., Hambrick, 2007). Therefore, when CEOs face a problem, their choices reflect, to some extent, their own idiosyncrasies, as they must develop subjective evaluations based on their knowledge, assumptions, and beliefs (Hambrick & Mason, 1984).

2.2. Personal values and political ideology

A significant body of literature has analyzed the influence of experience on business outcomes (for more details, see Finkelstein et al. 2009). The literature related to tourism and hospitality has also examined issues linked to the resignation (Jackson, 2014) and hiring (Kim & Jang, 2021) of CEOs, the duality of executive positions (which occurs when the CEO is also chairman of the board) (Song & Kang, 2019; Uyar et al., 2022), gender (Ozdemir & Erkmen, 2022), their leadership ability (Huang et al., 2016; Ruiz-Palomino et al., 2019; Wang, Ye, & Liu, 2023), overconfidence (Seo et al., 2017), or entrepreneurial narcissism (Ahn et al., 2020; Kim et al., 2018). However, the impact of other crucial personality traits, such as values guiding human behavior, has surprisingly received limited attention. This result is intriguing because values (which occupy a prominent place at the heart of upper echelons theory) typically affect decisions in two ways (Finkelstein et al., 2009):

i) *Behavior channeling:* Generally, after considering available alternatives, facts, probabilities, and potential outcomes, individuals tend to explicitly advocate for courses of action aligned with their personal convictions (England, 1967).
ii) *Perceptual filtering and motivated cognition:* People seek and interpret information to support their values, recognizing instrumental benefits in decisions aligning with their belief system (Kunda, 1990; Weick, 1979). This case directly impacts evaluations of potential action effectiveness (Higgins & Molden, 2003).

Values can encompass multiple dimensions, but recent literature highlighted the importance of the ideological spectrum. According to Erikson and Tedin (2003), political ideology relates to convictions about how society should be governed and the most suitable methods to achieve this goal. These sentiments usually emerge during the later stages of adolescence or early adulthood (Jost et al., 2009) and remain reasonably constant throughout people's lives (Sears & Funk, 1999). Considering that ideology shapes our perception of the surrounding reality, it tends to create enduring discrepancies among individuals and groups with antithetical beliefs (Bartels, 2002; Brewer, 1999). This situation fosters a Manichean view, tending to reject any explanation conflicting with personal cognitions (Haidt, 2012).

Slomp (2000) pointed out a wide variety of ideological trends in politics, including egalitarianism, communism, fascism, classical liberalism, socialism, rightism, leftism, or communitarianism. However, in this study, we use the liberal–conservative spectrum owing to its capacity to decode fundamental individual values (Poole & Rosenthal, 1984; Schwartz, 1996). Following Jost (2006), this categorization has stood the test of time as the most practical and concise method for differentiating political attitudes for over two centuries. Schwartz (1996), a reputable scholar in value studies, referred to this taxonomy as one of the most effective classifications for comprehending individuals' fundamental beliefs.

2.3. Influence of political ideology on tourism and CEO decision-making

Tourism literature has indicated that, unlike other sectors, tourism (and the socioeconomic conditions under which it develops) is heavily influenced by political ideology and holds a prominent position on governmental agendas (Allen & Brennan, 2004; Harrison, 2004; Strain, 2003). Without proper public regulation, inequalities, exclusion processes, and the loss of cultural heritage can occur (Dwyer & Forsyth, 1993). From this perspective, tourism can be conceptualized as a transversal activity involving various public elements directly or indirectly associated with politics (Jenkins, 1980; Matthews & Richter, 1991; Scott, 2011). Examples include societal development, investment in infrastructure to improve the quality and availability of existing tourism services, cultural and environmental impacts, border management, public security, and the management of local resources. Tourism also impacts other aspects related to government management, such as economic policy, international image, cooperation, and trade exchange.

Moreover, it is common for governments to use tourism to promote their own ideological positions (Richter, 1989). Paradigmatic cases where tourism is used for political purposes include economic sanctions or embargoes, travel warnings (which, in their extreme form, can involve a total travel ban to a specific country or region), or the use of domestic tourism (especially heritage tourism) as a means to strengthen patriotic sentiment (Kim et al., 2007). An economic embargo is a government order restricting the exchange of goods and trade with certain countries. When these ideological decisions are made in the political sphere, tourism in the embargoed country is likely to be negatively affected. For example, people who visit Cuba cannot travel to the United States under the Visa Waiver Program (ESTA). With this measure, the United States aims to discourage tourism in Cuba by making it more difficult for tourists to travel to the U.S. if they have previously visited Cuba. On the other hand, travel warnings are official statements issued by a country's government to provide information on the advisability (generally for security reasons or to harm other nations) of traveling to or visiting certain territories. Such recommendations are usually quite detrimental to the tourism industry of the listed countries (Timothy, 2002). For instance, with the war in Ukraine, the United States and other European Union countries advise their citizens not to travel to the Russian Federation and recommend those already in Russia to consider leaving while the conflict in Ukraine persists. Tourism is also used to reaffirm national identity and legitimize certain ideological positions (McLean, 1998; Richter, 1989), and is seen in many countries as the primary alternative for gaining international prominence (Kim et al., 2007). In this regard, it is common for many regions to use war heritage and sites associated with national heroes to encourage the patriotic sentiment of their citizens. There are also countries (such as North Korea) that use tourism as a propaganda tool to present a favorable image to foreign visitors (controlling the areas and aspects of their culture to which tourists have access).

The significant impact of ideology on tourism and hospitality is also evident in the ability of these beliefs to predict the specific behavior of tourists (due to their influence on value prioritization). In this context, van Esch et al. (2022) demonstrate that travelers with conservative political views are much more likely to prefer hotels that use human staff for room cleaning instead of robots enabled with artificial intelligence. In this paper, we argue that the ideology of CEOs (like that of tourists) is also likely to influence their decision-making processes.

In recent years, researchers in the field of upper echelons theory have started to analyze the impact of CEOs' political ideology, demonstrating its significant influence on corporate social responsibility initiatives (Chin et al., 2013; Gupta et al., 2017, 2019), social activism (Briscoe et al., 2014), tax evasion (Christensen et al., 2015), executive compensation policies (Chin & Semadeni, 2017; Kalogeraki & Georgakakis, 2022), new product launches (Kashmiri & Mahajan, 2017), workforce reductions through layoffs (Gupta et al., 2019), mergers and acquisitions (Elnahas & Kim, 2017), resource allocation (Gupta et al., 2018), R&D intensity and retained earnings (Semadeni et al., 2022), or lobbying strategies (Nalick et al., 2023).

In this study, following these research trends, we analyze the role of ideology in the market value of hotel companies engaged in innovation activities. There are only three articles that analyze the relationship between ideology and innovation. Semadeni et al. (2022) analyze the impact of ideological divergence on the development of R&D-related

activities. Our article differs from this study in two fundamental aspects: (1) we analyze the political ideology of CEOs and not how close (or far) they are to the prevailing political discourse held by the governing bodies in a country; and (2) we do not analyze the impact on the development of R&D activities, but rather the effect that ideology has on the impact that innovation has on the market value of hotels. Kashmiri & Mahajan (2017) analyze the effect of ideology on the decision to launch new products. Similar to the previous study, this paper cannot capture the influence exerted by ideology on the company's stock price. Moreover, our study analyzes innovation in a broad sense (and not exclusively the decision to market new products). Finally, Hutton et al. (2014) focus on the influence exerted by CEOs' ideology on the corporate actions taken by the companies in which they work in crisis contexts (specifically on R&D expenditures) but do not analyze how CEOs' political beliefs determine how investors react to the innovative activities undertaken by organizations, affecting their market value. From this point of view, our study is unique in exploring in depth a transcendental aspect: how ideological beliefs influence the ability of innovative actions developed by firms to generate abnormal returns. Analyzing this issue is crucial because it is an unexplored mechanism directly affecting the tourism and hospitality industry.

3. Impact of political ideology on the market value of hotel organizations engaged in innovation: research hypotheses

3.1. Influence of innovation on the market value of hotel organizations

In general terms, innovation acts as a catalyst for companies to boost profitability by expanding market share, cutting costs, and enhancing the quality of their products (Walker et al., 2011). In the realm of services (including tourism and hospitality), innovative efforts (which are usually more incremental, interactive, and focused on enhancing the organization as a whole) typically involve renovating resources and processes to create value through improved social interactions (e.g., Camisón & Monfort-Mir, 2012). Previous studies (e.g., Ebersberger et al., 2021; Garay et al., 2019; Hjalager, 2015; Lee et al., 2016; Martínez-Román et al., 2015; Peters & Pikkemaat, 2006; Raad et al., 2023; Sundbo et al., 2007; Verreynne et al., 2019) have demonstrated the positive impact of innovation on the performance of organizations that operate in the hospitality and tourism industry. Among the various methods to assess how performance is affected by innovative activities, we choose the market value, as do Nicolau and Santa-María (2013a, 2013b) and Sharma et al. (2021). The market value, characterized by the present value of future cash flows, has a forward-looking character (Nicolau & Santa-María, 2013a, 2013b; Sharma et al., 2021). Unlike accounting metrics, market value captures the immediate effect on a hotel's performance around the date of the event analyzed and incorporates shareholders' expectations regarding the event. With accounting measures, any factors or circumstances that occur from the event date until the publication of the accounting metric, may have an impact on firm performance. Consequently, the accounting measure would not necessarily reflect changes in performance due exclusively to the event analyzed.

In line with neoclassical financial theory, we argue that investors are rational and adhere to the "efficient market hypothesis" (Fama, 1970).[1] In this scenario, stock prices, encapsulating all available information about the company, capture the present value of its future cash flows. This circumstance leads to hotel market value being an excellent unbiased indicator to assess the impact of innovative initiatives on companies' performance. Any news related to hotels' innovative activities quickly influences stock prices. Consequently, fluctuations in market value occurring after the announcement can be directly attributed to innovation.

This study posits, in line with the previous literature, that hotels' innovative efforts will positively affect their market value. Among other reasons, we can highlight the key role of innovation. It plays a role in firms' competitiveness and survival (Souto, 2015), in achieving sustainable long-term competitive advantages (Orfila-Sintes & Mattsson, 2009), in adapting to environmental changes (Sharma et al., 2021), and in increased productivity resulting from cost reduction and higher occupancy rates and service quality (Nicolau & Santa-María, 2013a, 2013b). These potential benefits collectively contribute to organizational growth, which should lead to high profitability. Consequently, given the enormous potential advantages associated with innovation, we argue that it is highly plausible for investors to positively evaluate any innovative activity undertaken by hotels.

3.2. Influence of CEOs' political ideology on the market value of hotel organizations embracing innovation

As previously noted, political ideology represents a complex concept that can be summarized on the liberal-conservative spectrum (Jost et al., 2003). CEOs' position within this taxonomy reflects, to some extent, their values, and beliefs, decisively influencing their decision-making (Chin et al., 2013). Among other traits, liberal ideology aligns with a willingness to embrace ambiguity and accept change (Conover & Feldman, 2004; Jost et al., 2003), whereas political conservatism is driven by fear of uncertainty and defense of traditions (Giddens, 1998).

Hutton et al. (2014) demonstrate that conservative CEOs (who typically prioritize defending traditions and financial interests of shareholders) have a distinctive profile characterized by incurring lower research and development expenses, preferring less risky investments, reducing corporate debt, and maximizing short-term financial profitability of the organizations they lead. This behavior aligns with the underlying theoretical premise in political psychology that individuals with conservative ideologies exhibit a higher aversion to financial losses (Jost et al., 2003). Specifically, empirical evidence reveals that political conservatives are less inclined to alter the status quo, care deeply about financial and job security, and manifest higher levels of risk aversion compared to their liberal counterparts (Glasgow, Cartier, & Wilson, 1985; Jost, 2017; Jost et al., 2003, 2016; McAllister & Anderson, 1991; van Esch et al., 2022).

Consequently, in line with the theoretical frameworks posited by You et al. (2020), we understand that hotel companies led by CEOs with

[1] However, following sociological approaches to financial market behavior, we also argue that stock valuations largely depend on investors' perceptions of the legitimacy (or desirability) of actions taken by organizations (Zajac & Westphal, 2004). There is extensive literature recognizing that these individuals pay attention to companies receiving media coverage (e.g., Bushee et al., 2020; Drake et al., 2014; Pollock et al., 2008). How investors process and interpret news about strategic choices made by companies directly impacts their behavior. These individuals make decisions in environments with high levels of uncertainty and ambiguity (Guo & Yu, 2024). In such conditions, their judgments are likely influenced by cognitive biases, mental shortcuts, or reliance on their "instinct" to evaluate organizations and their activities (e.g., Huang & Pearce, 2015; Scott et al., 2020).

liberal tendencies—more inclined to deviate from the path set by organizational inertia (Kashmiri & Mahajan, 2017)—are likely to intensify their innovation efforts (Hutton et al., 2014) compared with organizations led by their conservative counterparts. However, by controlling the expense of these initiatives, conservative management should also increase profitability and, consequently, companies' cash flows and performance (You et al., 2020). At this juncture, how will the market value of tourism companies be affected when liberal and conservative CEOs venture to alter the organization's status quo through innovation?

According to Barber and Odean's (2008) attention theory, humans have bounded rationality. The amount of information we can process has cognitive and temporal constraints. Generally, we are not capable of classifying hundreds, let alone thousands, of alternatives. Doing so is highly challenging when the elements to consider differ in multiple dimensions. In this scenario, investors often try to reduce the spectrum of options by resorting to heuristic methods or mental shortcuts to make decisions. Specifically, they tend to better value (and buy) the shares of companies that capture their attention through the development of strategic moves (in our case, innovation), leading to an increase in stock values (Clarke et al., 2019; Madsen & Rodgers, 2015; Shane et al., 2020).

As conservative CEOs are unlikely to undertake actions that deviate from the established organizational path, it is highly plausible that the innovations they implement (publicly disclosed in the media) easily capture investor attention (because they do not occur frequently), leading to a greater increase in the stock quotation price of the organizations they lead. Moreover, this effect is even more likely when considering the so-called "confirmation bias" or "the tendency to overvalue (undervalue) new evidence that confirms (disconfirms) one's existing beliefs" (Guo & Yu, 2024).

Investors develop specific cognitions that become the lens through which they interpret the activities and performance of the companies they analyze (Dorobantu et al., 2017; Sekerci et al., 2022). In light of the arguments previously outlined, innovations implemented by conservative CEOs (compared to those made by liberal CEOs) should not be perceived "a priori" as a very risky strategic moves that could lead to large financial losses (if the innovation does not succeed) for the companies they work for. It is highly feasible (unless there are objective reasons to alter this expectation) for investors to believe that, by controlling the expenses of innovative initiatives, more conservative management should increase financial profitability and, consequently, the cash flows and results of the companies (although this does not correspond 100% with reality) (You et al., 2020). In other words, investors likely think a conservative CEO would not venture into innovation unless there was a very low risk of their company being harmed by it.

Based on these premises, we understand that investors are more likely to perceive greater uncertainty (about the potential profitability of hotel innovations) when they are led by liberal CEOs; that is, investors are more likely to believe that hotels have a higher chance of generating profits (albeit lower in a successful scenario)—and, consequently, increasing future cash flows—when hotels are managed more conservatively. Investors become more pessimistic as uncertainty increases, which will translate into a smaller increase in stock prices (e.g., Epstein & Schneider, 2008; Gilboa & Schmeidler, 1989). Thus, we can conclude that these beliefs should elicit a more favorable reaction from investors towards innovations carried out by hotels led by more conservative CEOs, which should lead to a further increase in their market value. We do not intend to suggest that when tourism companies announce similar innovative actions, the effect of innovation on market value will be positive for organizations led by conservative CEOs and negative for those led by liberal CEOs. The announcement of an innovation will likely generate an increase in the stock price of any company that announces innovations regardless of the CEO's ideology. We intend to say that the increase in the market value of companies led by conservative CEOs will be greater than that of liberal CEOs when they announce innovations.

H1. The implementation of innovation activities by hotel companies led by more liberal CEOs (compared with those led by conservative CEOs) will result in lower abnormal stock price returns.

3.3. Influence of national political climate on the market value of hotel organizations embracing innovation

In democratic societies, the national political climate reflects the ideology of the dominant party elected by popular vote in each legislature (Parsons, 1963), which ultimately has a direct effect on the economy and people's lives. Although often personified through an individual leader (usually the president), in this study, we consider—following Nalick et al. (2023)—that this dimension extends to other popularly elected bodies (e.g., the House of Representatives and the Senate in the United States). This expansion leads to a greatly realistic view of what happens in the political sphere, as we are considering branches of government holding legislative and executive power in a country.

As we have previously indicated, the literature linked to psychology and political science identifies conservatism as a doctrine or movement driven by fear of uncertainty and the defense of traditions (Giddens, 1998). Researchers demonstrate that individuals with conservative ideologies show a greater aversion to financial losses (Jost et al., 2003). Specifically, empirical evidence reveals that political conservatives are more risk-averse, greatly concerned about their financial and job security, and less likely to alter the status quo compared to their liberal counterparts (e.g., Glasgow et al., 1985; Jost, 2017; McAllister & Anderson, 1991). Since innovation is inherently a risky activity that can bring significant benefits (if successful) or enormous financial losses (if it culminates in failure), it is inherently contrary to the idiosyncratic values pursued by political conservatives. It should be noted that innovation (especially when it is radical) also involves altering the business model to try to find a new engine of growth, which is contrary to the defense of traditions advocated by conservatism.

On the other hand, liberal ideologies are more committed to social change (including the business fabric) and are much more resistant to conservative approaches contrary to altering the organizational status quo (You et al., 2020). This situation favors viewing innovation as a fundamental element for liberal theses. Among the measures adopted by these parties to promote this type of initiative, we can highlight the following: granting tax incentives, supporting startups and entrepreneurs, creating flexible regulatory environments that allow experimentation and the introduction of new technologies, or establishing quality certifications for hotels that promote technological and digital transformation and environmental protection.

With these arguments, we do not intend to imply that conservative parties directly seek to discourage innovative actions developed by organizations. It is even probable that these parties seek to support business growth by reducing tax rates, promoting policies favorable to the free market and competition, implementing tax incentives, approving flexible labor policies, or facilitating access to credit for the development of business activities linked to the private sector.

What we mean to say is that investors are likely to perceive, influenced by the prevailing political discourse in spheres of power (which is not inclined to favor major changes), that companies may opt for slightly fewer radical innovations and seek more incremental innovations (which would somewhat reduce the potential positive effects associated with innovation). Furthermore, following Semadeni et al. (2022), if a conservative party is in power, liberal CEOs (who are more inclined to swim against organizational inertia) may perceive a risk from the political environment that leads them to adopt a more conservative management approach (reducing investments and retaining earnings) to address the potential negative consequences arising from such a perceived threat (in the form of laws or policies contrary to the interests of their companies). These considerations are what led us to consider that investors should pay less attention to innovations announced by

companies when conservative parties are in power, leading to a lower increase in the market value of hotels regardless of the political ideology of the CEOs.

H2. The implementation of innovation activities by hotel companies will lead to higher abnormal returns in stock prices when a liberal party has greater control over the governing bodies than a conservative party.

4. Data, methodology, and variables

We utilize the event study methodology to assess the effects of the CEO's political ideology on the potential abnormal returns resulting from innovation activities, which is based on the previously alluded efficient market hypothesis. According to this hypothesis, the price of an asset at any given moment reflects its value based on all available data (Fama, 1970). Moreover, any deviation in an asset's price following an event is considered an indicator of the event's influence on the market value. Central to this method is the process of distinguishing "abnormal returns," which can be attributed to the event, from "normal returns."

Note that we use abnormal returns to analyze how much the market value changes derived from the event examined. Therefore, we do not observe the market value itself but its variation as a consequence of the event. To conduct this analysis, we need to measure the difference between the actual returns of a stock and the expected returns of that stock (based on its risk and the performance of the overall market), and this difference—if significant—reflects abnormal returns. In essence, abnormal returns result from comparing the actual returns of the stock during a specific time period surrounding the event of interest to the expected returns that would be anticipated if the stock were not affected by this event and affected only by systematic risk factors and general market movements. Consequently, if positive (negative) abnormal returns are obtained it means that the stock performed better (worse) than expected during the event period because of the event.

Compared to stock returns, using abnormal returns allows us to analyze events by controlling for market movements and systematic risk factors and, therefore, by adjusting for the expected return of a stock. It is precisely this adjustment that enables us to isolate the impact of specific events on a stock's performance without being influenced by general market trends. Alternatively, Tobin's q also provides a market evaluation of a firm's assets by measuring their market value relative to their replacement cost. However, Tobin's q focuses on providing insights into long-term investment decisions and market perceptions and is less sensitive to short-term events and fluctuations in stock prices (Nasr et al., 2019). Given that we are interested in examining shareholders' immediate reaction to innovation announcements, we use abnormal returns. Generally speaking, abnormal returns are more suitable for analyzing short-term market reactions to specific events compared to Tobin's q, which provides a broader perspective on a firm's investment behavior and market valuation over the long term.

The event study methodology involves a series of stages following the guidelines outlined by McWilliams and Siegel (1997), and for this study, the steps are as follows:

Determining the dates of events and the companies involved in these events. We utilize the Factiva database, a comprehensive global source of news, business information, and financial data, to pinpoint the dates when companies make announcements about their innovations. In terms of companies, our focus encompasses major U.S. hotel businesses listed on the stock market that have issued innovation announcements within the past 25 years (from 1998 to 2022). Specifically, these major hotels meet specific criteria, including: i) being firms primarily engaged in the hotel business, with partial or continuous trading on the stock market between 1998 and 2022; ii) issuing innovation announcements during this period; and iii) being based in the United States to ensure that their CEO's donations are registered with the Federal Election Commission. The hotel companies included are Choice Hotels, Hilton, Hyatt, Marriott, Starwood, and Wyndham. Factiva generated 422 news items using keywords such as "innovation," "new product," "new service," "new system," "new technology," "technology advancement," "product development," "invention," "prototype," "patent," or "R&D." After reviewing each of them, we discarded publications that were not entirely related to the topic of innovation announcement, such as announcements of past investments in innovation or winning innovation awards, besides the large number of news related to one same topic. In that case, we had to select the older news related to a specific announcement so that we analyze the first time such an announcement is made. In the end, we obtained a final sample of 61 relevant announcements. We also checked for potential confounding events that occurred around the announcement date and found sixteen announcements that could be affected by dividend announcements, mergers, ranking publication, business conflicts, or results announcements. Thus, finally, we are left with 45 innovation announcements.[2]

Examples of announcements are: (1) With the headline "Marriott Hotels Serves Up a 'Fresh' Approach—Healthy Vending Machine Debuts, a Traveler-Inspired Innovation,[3]" Marriott "launched its first traveler-inspired innovation - a healthy vending machine, featuring handcrafted salads, sandwiches, and snacks made fresh everyday using local ingredients." (2) With the headline "Soon, the Desk Clerk Will Know All About You—Hilton Hotels' New System Helps It Customize Service,[4]" Hilton announced "a sophisticated customer and hotel-management system in its 2100 hotels. The $50 million computer network will amass a sizable marketing database of customers' habits and spending (…) The system sifts and sorts customers, spitting out lists ranking new arrivals in order of their value to Hilton – how often they stay with the company and how much they spend."

Establishing the event timeframe. In line with the guidance provided by McWilliams and Siegel (1997), event windows should be kept as brief as possible to exclude any effects that may be unrelated to the specific event under scrutiny, thereby minimizing potential sources of confounding effects. As a result, we analyze several windows within the (−5, +5) interval, which permits the capture of both expected responses owing to possible leaks on the days preceding the announcement and delayed reactions resulting from shareholders reevaluating information.

Calculating abnormal returns. To accomplish this task, we employ the market model, which provides estimates that are subsequently used to calculate abnormal returns. Accordingly, the daily price returns of company *i*'s shares on day *t* (R_{it}) are determined as follows:

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

where R_{mt} stands for the market portfolio returns, α_i represents the returns of firm *i*, β_i indicates the firm's market sensitivity, and ε_{it} represents the random component. Using Eq. (1), we can calculate the abnormal returns (AR_i) for firm *i*, as demonstrated below:

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

where $\widehat{\alpha}_i$ and $\widehat{\beta}_i$ are the parameter estimates obtained through ordinary least squares regressions using data from Eq. (1) in a 255-day period leading up to the event.

We compute average cumulative abnormal returns (ACAR) across the event window lasting for *k* days to evaluate the impact of innovation

[2] As Nicolau and Sharma (2022) indicate, this sample size is reasonable for studies employing event study methodologies in the tourism and hospitality field. To cite some recent examples, Su and Chen (2020) use samples of 47 and 21 observations, Demiralay and Kilincarslan (2019) use a sample of 14 observations, and Sharma and Nicolau (2019) use a sample of 49 observations. Our sample size is comparable to those in previous studies.

[3] https://www.prnewswire.com/news-releases/marriott-hotels-serves-up-a-fresh-approach—healthy-vending-machine-debuts-a-traveler-inspired-innovation-submitted-to-travelbrilliantlycom-274341331.html.

[4] https://www.wsj.com/articles/SB105234458282442600.

announcements on the hotel company's stock prices, considering the set of N announcements, as illustrated below:

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

where

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

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

$$SAR_{it} = AR_{it}/S_{it}, \tag{5}$$

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

where S_i is the standard deviation of the residuals before the announcement. We assessed the statistical significance of $ACAR_t$ using Cowan's (1992) generalized sign test and Giaccotto and Sfiridis's (1996) Jackknife test by using Garch models.

Following the computation of abnormal returns, we test the effects of the CEO's political ideology on the potential abnormal returns stemming from hotel innovations using panel data models with fixed effects (which allow us to cope with the existence of unobserved heterogeneity). In particular, this method allows us to correct for omitted variable bias and to avoid the presence of alternative explanations for the existence of differences in the market value of the hotels in our sample (Benner & Tushman, 2002). In this analysis, the cumulative abnormal returns (CAR_{it}) serve as the dependent variable, whereas the CEO's political ideology ($CEO's\ political\ liberalism_{it}$), the political climate ($Political\ climate_{it}$), and some control variables selected using the branch-and-bound algorithm developed by Hofmann, Gatu, Kontoghiorghes, Colubi Cervero, and Zeileis (2020) (CV_{it}) function as the independent variables. Considering the presence of an error term μ_{it}, the resulting regression model is as follows:

$$CAR_{it} = \pi_0 + \pi_1 CEO's\ political\ liberalism_{it} + \pi_2 Political\ climate_{it} + \sum_{i=1}^{I} \rho_i CV_{it} + \mu_{it}.$$

A crucial issue to be considered in the analysis of the explanatory factors of cumulative abnormal returns is the potential selection bias (Ding et al., 2018). In our case, this bias could arise because cumulative abnormal returns are only observed for firms that announce their innovations. For instance, there may be unobserved factors that might influence a firm's decision to carry out and announce innovation initiatives, and these unobserved factors would be included in the residuals of the cross-sectional model, thereby resulting in a correlation between the residuals and the explanatory variables as well as the dependent variable (Clougherty et al., 2016).

Heckman's (1979) two-stage procedure is an approach that is commonly used in the literature to control for selection bias, and the context of event studies is not an exception (e.g. Chen et al., 2009; Fang et al., 2015; Wiles et al., 2012). The first step implies the estimation of a probit model to the whole sample of 84 hotels that have ever operated in the stock market under the 7011 SIC code during the study period (as found in the Center for Research in Security Prices database), to estimate the likelihood of a hotel announcing innovation activities. From the parameter estimates of this equation, we obtain the inverse Mills ratio which will be appended to the set of regressors in the second step to control for potential selection bias. In the probit model, the dependent variable takes value 1 if the firm made an announcement in any year of the study period. In this model, we use factors that are likely to explain the hotel's decision to communicate its innovation actions.

We accounted for profits as firms with higher profits often signal financial strength and stability, providing firms with the resources to invest in innovation initiatives (Damanpour, 1996). Moreover, firms with healthy profit margins may view innovation as a means to sustain or further increase their profitability (Lin, 2013; Matear et al., 2004). As a measure of firm size, we also add assets. Larger firms tend to have more resources and capabilities to support innovation efforts and promote them (Orfila-Sintes & Mattsson, 2009). Additionally, the book value per share is a measure of a company's net worth on a per-share basis, calculated by dividing the total shareholder equity by the number of outstanding shares. As an indicator, it has been shown to have a relationship with innovation (Chiu et al., 2020), and, as such, it may also influence a firm's willingness to communicate innovative actions, although the relationship may not be as direct as with revenues or profits. A high book value per share may indicate that the firm has significant tangible assets, hence a conservative financial approach, which could lead to a perception of low-risk tolerance. In such cases, the firm may be less predisposed to taking risks associated with innovation or may be more cautious in communicating innovation-related activities.

The measurements and independent variables used in the regression analysis (second step in Heckman's procedure) are as follows:

i) *CEO's political liberalism*: when evaluating the political ideology of CEOs, we utilized a validated measure widely recognized in prior literature (Chin et al., 2013). This indicator is constructed from the contribution records of these top executives for the 10 years preceding their appointment as CEOs of publicly traded hotels, disclosed by the Federal Election Commission. We calculated four metrics to construct this index:
   a) *Behavioral commitment*: represents the proportion of donations made by the CEO to the Democratic Party relative to the total number of donations made to both parties.
   b) *Financial commitment*: reflects the monetary value (in dollars) of donations to the Democratic Party relative to the total amount donated to both parties.
   c) *Persistence of commitment*: identifies the proportion of years in which the executive contributed to the Democratic Party compared with the total number of years of donations made to either party (within the 10-year window prior to being appointed CEO of the company).
   d) *Scope of commitment*: measures the proportion of different Democratic recipients who receive donations relative to the total number of distinct recipients from both parties who receive money.

Following the approach used by Chin et al. (2013), we added 0.1 to all numerators and 0.2 to all denominators to handle cases where no partisan donations were made. Subsequently, we calculated the average of these four indicators to create our variable *CEO's political liberalism*. The Cronbach's alpha coefficient is 0.99, indicating the strong internal consistency of our index (Fornell & Larcker, 1981). This metric ranges on a scale of 0–1, where 1 indicates that the CEO is deeply liberal and 0 indicates that the CEO is fully conservative.

We meticulously examined the details of each CEO to ensure the accuracy of our data, including their abbreviated names, middle names, employment information, and addresses. This thorough review aimed to exclude donations made by any potential individual who shared similar names with the CEOs in our sample. Our verification process involved cross-referencing information from multiple sources, such as LinkedIn, the websites of the hotel companies where they served as CEOs, and various media outlets to confirm the identity of each donor.

ii) *Political climate*: Following Nalick et al. (2023), we calculated this variable as the percentage of Democratic control in the U.S.

Presidency, Senate, and House of Representatives. We assigned equal political influence weight to each of these governing bodies (one-third). In this context, where the President is a Democrat, and there is a Republican majority in the House of Representatives and the Senate, the variable would be 0.33. Therefore, this regressor will have a value of 1 if Democratic control is complete and 0 if Republicans hold all the power.

4.1. Control variables

We potentially considered the following control variables for this study:

i) *Age*: We have calculated the age of CEOs because the literature considered that it can be an important indicator of their experience (You et al., 2020). Previous research has analyzed the impact of this variable on innovation-related investments and its impact on the stock market returns of organizations (e.g., Serfling, 2014). To obtain this information, we searched the websites of hotels where they are or were CEOs, LinkedIn, and news published by the media.
ii) *Firm characteristics*: We have created, using information from Compustat, three variables that measure the gross profit, the volume of assets, and the revenues of the hotel chains included in the study, respectively, to control aspects linked to the performance of the organizations and their size, and their possible influence on market value.
iii) *Innovation types*: We used a set of dummy variables to show the effects of innovation types, according to the Oslo Manual's typology of innovations, namely, product, process, and marketing (note that no organizational innovation announcements were found in the sample). Marketing innovation is used as the baseline alternative.
iv) *Periods.* We have created three dummy variables to reflect what happened in the periods 1998–2009, 2010–2019, and 2020–2022. These variables aim to control for the effect that innovations developed during these periods have on the market value of hotels.
v) *Year fixed effects are included through dummy variables.* Thus, we can control for unmeasured factors, such as the possible time-varying effects of changes in the economy that are common in the tourism industry (e.g., the 2008 international financial crisis or the COVID-19 pandemic) and other unobserved characteristics.

Table 1 shows the descriptive statistics and the correlation matrix.

4.2. Selection of variables

We employed the branch and bound algorithm designed by Hofmann et al. (2020) to choose the most relevant variables explaining CAR_{it}. A good selection ensures estimation parsimony (eliminating irrelevant variables that do not provide significant information), prevents model overfitting (penalizing complexity), and ensures high predictive power of the model. We have opted for this methodology due to its high efficiency in finding the best regression and its low computational cost (compared to other optimization methods). With this method, we will select the control variables that minimize the Akaike Information Criterion (AIC). To find the optimal solution, these authors apply a variation of the descending column algorithm, which groups the potential candidate models into a regression tree. The nodes of the tree represent the different specifications to be estimated. The first node (located at the top of the tree) identifies the full model (one that includes all control variables). The other nodes, descending from the first one, arise by removing a single regressor. Hofmann et al. (2020) use an efficient method to avoid calculating all nodes. Specifically, a node will only be generated if the AIC of the candidate model is lower than the AIC of the best solution calculated previously. This process will be iteratively repeated until reaching the optimal solution that minimizes the AIC. Model 2 in Tables 4 and 5 presents the variables selected through the algorithm. Additionally, Model 1 assesses the extent to which the results hold if we include all the variables selected by the algorithm, except for the dummy variables related to the periods.[5] Finally, considering the relevance of innovation types, Model 3 in the two tables adds the types of innovation to Model 2 to assess whether differences in effects among types exist.

5. Results

Table 2 presents the results for different windows, 5 days before and after the innovation announcement. The (−4, +4) window is significantly different from zero. This result supports the argument that the implementation of innovation activities positively affects the market value of hotel companies, in line with prior research that suggests that hotels' innovative initiatives are expected to yield favorable impacts on their market value through competitiveness enhancement, long-term sustainable advantages, adaptability to environmental shifts, and improved productivity (Nicolau & Santa-María, 2013a, 2013b; Orfila-Sintes & Mattsson, 2009; Sharma et al., 2021; Souto, 2015).

These windows encompass days before the event so that potential leaks of information are captured, and days after the event to reflect the fact that, once the official information has been published, it may take some time for the shareholders to incorporate this new information into their expectations. Shareholders who did not receive leaked information prior to the event may react after the information is officially released, and even those who reacted before the event may adjust and update their initial expectations further. The finding that the (−4,+4) window shows a significant reaction (while shorter windows do not), reflects the time the market needs to process and react to the information. Sometimes shareholders may require some time to process and assimilate new information before reacting. To confirm this point, we conducted a day-by-day analysis, revealing that significant reactions, if any, occur on days −4 and + 4 (Table 3).

The following equation presents the results of the probit model associated with the first step in Heckman's two-stage procedure. With a McFadden's ρ of 0.40, shows significant parameters (t-statistics in parenthesis below each parameter) in all three explanatory variables: profits, assets, and book value per share.

$$Innovation\ Decision = \underset{(-16.10)}{-1.632} + \underset{(3.671)}{0.0008}Profit + \underset{(5.357)}{0.0009}Assets - \underset{(-2.247)}{0.0001}BookValuePerShare$$

Positive parameters are obtained for profits and assets, showing that firms with higher profits and larger size have more financial strength, stability, and resources to invest in innovation initiatives and promote them, in line with Damanpour (1996), Lin (2013), Matear et al. (2004), and Orfila-Sintes and Mattsson (2009). A negative sign is found for the parameter associated with book value per share, which may be associated with a perception of low-risk tolerance and a lower predisposition to taking risks associated with innovation (Chiu et al., 2020). From this probit model, we obtain the inverse Mills ratio which is introduced in the regression model as an additional regressor to control for potential selection bias.

Prior to describing the parameter estimates of the regression analysis, we first ensure that the F-test is statistically significant at the 1%

[5] Since including year-fixed effects may come to control how technology evolves, we have decided to remove the period-related dummy variables to test the robustness of our results.

Table 1
Descriptive statistics and correlation matrix.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. CAR	1											
2. CEO's political liberalism	−0.1271	1										
3. Political climate	−0.0284	−0.2444	1									
4. Gross profit	−0.0930	**−0.3317**	**−0.3653**	1								
5. Revenues	−0.0632	**−0.3436**	−0.2250	**0.7272**	1							
6. Assets	−0.0923	−0.2487	−0.2052	**0.8140**	**0.5620**	1						
7. Age	0.0647	0.2574	**−0.4983**	0.1069	**0.3327**	0.0626	1					
8. Product	−0.0086	**−0.3474**	0.2043	0.2822	0.2575	0.2484	**−0.3194**	1				
9. Process	−0.1193	**0.3228**	−0.1042	−0.2280	−0.2687	−0.1918	0.2398	**−0.8180**	1			
10. Inverse Mills Ratio	0.2269	**0.4139**	−0.1272	**−0.6598**	**−0.6392**	**−0.5258**	−0.0542	**−0.4603**	0.2425	1		
11. 2010–2019	−0.1026	**−0.4171**	0.0327	0.2853	**0.4151**	0.0266	−0.0947	0.2269	−0.1733	**−0.4328**	1	
12. 2020–2022	−0.1599	−0.0773	0.2809	−0.0607	−0.0190	0.2446	0.1708	0.0360	0.0385	−0.1321	**−0.5547**	1
Mean	0.0188	0.5939	0.4370	1514.875	9563.908	12040.060	55.667	0.6222	0.2889	0.3068	0.6667	0.1333
SD	0.0646	0.1946	0.3243	792.535	6055.550	7465.213	5.032	0.4903	0.4584	0.3342	0.4767	0.3438
Min	−0.1362	0.3466	0	−31	961.873	2791.478	39	0	0	0.0001	0	0
Max	0.2848	0.9657	1	3169	22891	26562	64	1	1	1.4886	1	1

Note: Coefficients in bold are significant at the 95% confidence level.

Table 2
Effect of innovation activities on hotel market value (windows).

Window	Cumulative abnormal returns CAR	Cowan (1992) test	Giaccotto and Sfiridis (1996) test
(−5,5)	1.72%	1.846	1.623
(−4,4)	1.88%	2.144[a]	1.993[a]
(−3,3)	1.29%	1.547	1.451
(−2,2)	0.95%	0.652	1.136
(−1,1)	0.57%	1.547	0.994

[a] p-value <0.05.

Table 3
Effect of innovation activities on hotel market value (individual days).

Day	Abnormal returns	Cowan (1992) test	Giaccotto and Sfiridis (1996) test
−5	−0.15%	−0.839	−0.840
−4	0.40%	3.039[a]	1.992[a]
−3	0.36%	1.547	1.933
−2	0.13%	1.249	1.083
−1	0.30%	0.951	0.708
0	0.15%	1.249	0.846
+1	0.12%	−0.242	0.543
+2	0.25%	−0.839	0.073
+3	−0.02%	0.354	0.032
+4	0.19%	2.144[a]	1.111
+5	−0.01%	0.652	0.229

[a] p-value <0.05.

level in the three models estimated in Table 4. This allows us to reject the null hypothesis that the individual effects are equal to 0 (thus confirming the appropriateness of using panel data models). Additionally, none of the variance inflation factors (VIFs) surpass the recommended threshold of 10 (Hair et al., 2010). Hence, collinearity is not a concern in this study. Key to the Heckman model is that the parameter associated with the inverse Mills ratio represents the degree of self-selection bias. If this parameter is zero, then self-selection bias should not be a concern for the regression of cumulative abnormal returns. As Models 1, 2, and 3 in Table 4 report, this is indeed the case. The parameters associated with the inverse Mills ratio are not significantly different from zero. Consequently, the parameter estimates should yield unbiased estimates.

The parameter estimate associated with a CEO's political ideology presents a significant and negative sign in all three models, which means that the implementation of innovation activities by hotel companies led by liberal CEOs (as compared to those led by conservative CEOs) results in low abnormal returns, thereby supporting Hypothesis 1. This result does not entail that these innovative actions would lead to negative effects on the market value; rather, the unexpected information on conservative CEO's innovations causes an increased reaction from shareholders. As previously mentioned, liberal ideology is associated with a readiness to embrace ambiguity and accept change, whereas political conservatism is characterized by a tendency to fear uncertainty and uphold traditional values (Conover & Feldman, 2004; Giddens, 1998; Jost et al., 2003). In this context, according to the framework provided by Barber and Odean's (2008) attention theory and the consequent bounded rationality that prompts investors to employ heuristic methods or mental shortcuts to simplify their decision-making process, information that captures their attention will stand out. Hence, as conservative CEOs exhibit a low inclination to innovate compared with their liberal counterparts, innovations introduced by organizations under conservative leadership are likely to attract investors' attention as they represent relatively uncommon events.

The parameter that shows the effect of national political climate has a significant and positive sign in all three models, in line with Hypothesis 2, which states that the implementation of innovation activities by hotel companies leads to high abnormal returns in stock prices when a liberal party has greater control over the governing bodies than a conservative party. Liberal ideology tends to be favorable toward innovation and is less resistant to approaches that lead to changes to the organizational status quo (You et al., 2020). Hence, this governmental support for innovation activities is welcomed by shareholders and manifested in increased abnormal returns.

Regarding the control variables, the variable "Assets" is positive and significant in all three estimated regressions, indicating that hotels with higher assets experienced a greater increase in their market value following the announcement of innovation. Apart from the fact that larger hotels often benefit from economies of scale (Ivanov, 2016), investors are likely to perceive that they have greater resources and capabilities to address the challenges inherent in innovation. CEO age also positively influences the impact of innovations on hotel market value. While a solid and extensive literature acknowledges that younger CEOs often disrupt the status quo (e.g., Barker & Mueller, 2002; Serfling, 2014), investors probably perceive older CEOs as having more potential to generate higher cash flows. This is primarily due to two factors: 1) older executives are more likely to strengthen cohesion among the members of their organization (You et al., 2020); and 2) their extensive professional and personal experience makes them better equipped to satisfactorily resolve more complex and ambiguous problems (e.g., Worthy et al., 2011), thus yielding greater benefits. Furthermore, the statistical significance of the periods 2010–2019 and 2020–2022 (in

Table 4
Panel data model with fixed effects to assess the effect of CEO's political ideology and political climate on market response to innovation announcements.

Variable	Model 1				Model 2				Model 3			
	Parameters	Std. Error	t-Value	VIF	Parameters	Std. Error	t-Value	VIF	Parameters	Std. Error	t-Value	VIF
Constant	−0.245[b]	0.102	−2.41		−0.244[c]	0.125	−1.95		−0.315[b]	0.131	−2.40	
CEO's political liberalism	−0.159[a]	0.049	−3.27	1.891	−0.236[a]	0.057	−4.11	2.455	−0.249[a]	0.055	−4.49	2.706
Political climate	0.067[a]	0.022	3.01	4.843	0.268[a]	0.051	5.24	8.317	0.278[a]	0.049	5.62	8.825
Assets	3.39e-06[b]	1.23e-06	2.76	1.811	2.34e-06[c]	1.14e-06	2.04	2.259	2.78e-06[b]	1.12e-06	2.48	2.465
Age	0.005[b]	0.002	2.46	1.941	0.007[a]	0.002	2.85	2.596	0.007[a]	0.002	3.09	2.933
2010–2019					−0.073[b]	0.029	−2.49	4.786	−0.074[b]	0.028	−2.63	4.874
2020–2022					−0.211[a]	0.042	−5.07	4.854	−0.219[a]	0.040	−5.45	5.255
Inverse Mills Ratio	0.043	0.042	1.01	2.131	0.044	0.041	1.08	2.871	0.067	0.042	1.62	3.724
Product									0.040[c]	0.023	1.76	5.398
Process									0.046[c]	0.023	1.98	4.631
Year fixed effects	Yes				Yes				Yes			
Overall R-squared	0.462				0.666				0.658			
Rho	0.944				0.862				0.885			
Sigma_e	0.030				0.033				0.032			
Sigma_u	0.123				0.083				0.089			
F test	11.91[a]				4.63[a]				5.44[a]			

[a] p-value <0.01.
[b] p-value <0.05.
[c] p-value <0.1.

Table 5
Bayesian models estimating the effect of the CEO's political ideology and political climate on market response to innovation announcements (standard errors in parentheses).

Variable	Model 1				Model 2				Model 3			
	Estimat.	Prob. of coef.	$\widehat{R}$	Effic.	Estimat.	Prob. of coef.	$\widehat{R}$	Effic.	Estimat.	Prob. of coef.	$\widehat{R}$	Effic.
Constant	−0.264 (0.152)	95.99%	1.000	99.33%	−0.259 (0.175)	93.20%	1.000	100%	−0.329 (0.192)	95.80%	1.000	97.96%
CEO's political liberalism	−0.159 (0.070)	98.83%	1.000	99.21%	−0.236 (0.080)	99.77%	1.000	100%	−0.249 (0.081)	99.77%	1.000	98.36%
Political climate	0.067 (0.032)	98.06%	1.000	100%	0.268 (0.072)	99.97%	1.000	100%	0.277 (0.072)	99.98%	1.000	100%
Assets	3.39e-06 (1.76e-0.6)	97.29%	1.000	99.34%	2.33e-06 (1.60e-06)	93.06%	1.000	100%	2.77e-06 (1.65e-06)	95.47%	1.000	98.93%
Age	0.005 (0.003)	95.59%	1.000	98.49%	0.007 (0.003)	97.79%	1.000	100%	0.007 (0.003)	98.05%	1.000	99.39%
2010–2019					−0.073 (0.041)	96.14%	1.000	100%	−0.074 (0.041)	96.31%	1.000	99.30%
2020–2022					−0.211 (0.058)	99.94%	1.000	100%	−0.219 (0.059)	99.97%	1.000	100%
Inverse Mills Ratio	0.043 (0.061)	76.47%	1.000	100%	0.044 (0.057)	78.71%	1.000	98.09%	0.067 (0.061)	87.02%	1.000	97.49%
Product									0.040 (0.034)	88.98%	1.000	98.64%
Process									0.046 (0.034)	91.55%	1.000	99.16%
Year fixed effects	Yes				Yes				Yes			
Firm fixed effects	Yes				Yes				Yes			
Avg. accept. rate	100%				100%				100%			
Avg. efficiency	99.47%				99.59%				99.14%			
Avg. log (ML)	−89.037				−105.904				−120.904			

Models 2 and 3) reveals the need to consider innovation as an evolutionary phenomenon in continuous expansion encompassing both the adoption of advanced technologies (linked to artificial intelligence and robotics) and the general development of new products and services. Additionally, in Model 3 we observe that product and process innovations contribute to generating higher positive abnormal returns than marketing innovations. These results are consistent with the results obtained by Sharma et al. (2021). This finding shows that innovations aimed at optimizing service delivery and improving guest experience are more important than innovations aimed at improving promotional activities or communication with customers.

Finally, we have re-estimated the three previous models using Bayesian methods in Table 5 to ensure that the small sample size is not affecting our results. If we focus on the Gelman-Rubin test ($\widehat{R}$), it seems clear that there are no pseudo-convergence issues because none of the variables exhibit magnitudes above 1.2 (Brooks & Gelman, 1998). Moreover, all efficiency parameters are above 97%, indicating that the Monte Carlo Markov chains can unravel the stationary posterior distribution of the different coefficients of the models at high speed. This circumstance allows us to know with certainty that the regressions have been satisfactorily estimated and that there is no high autocorrelation that invalidates convergence. All parameters have signs analogous to those obtained in the panel data models with fixed effects in Table 4. In addition, focusing on the variables of theoretical interest, we detect that almost 100% of the posterior distribution of CEO political ideology and national political climate takes negative and positive values, respectively. These results, which confirm the hypothesized relationships in the study, provide greater confidence in the validity of the findings.

6. Conclusions

This study has assessed the potential effects of a CEO's political ideology on the abnormal returns resulting from hotels' innovations investments. In particular, the empirical application looks into the major

U.S. hotel companies that have traded on the stock market for the last 25 years (1998–2022) and made innovation-related announcements. The results show that, although the implementation of innovation activities positively affects the market value of hotels, a CEO's political ideology affects the level of reaction on the part of shareholders. Specifically, the implementation of innovation activities by hotel companies led by liberal CEOs (compared with those led by conservative CEOs) results in low abnormal returns. Moreover, when a liberal party has greater control over the governing bodies than a conservative party, the implementation of innovation activities leads to high positive effects on a hotel's market value.

These results have relevant theoretical implications. First, this study represents a significant advancement in the literature related to tourism innovation, as it strengthens the connection between the hospitality industry and political ideology. While existing literature has highlighted that political decisions profoundly impact the development of tourism activities (including innovation), this study goes a step further by revealing that hotels must consider the ideology of their CEOs as a critical factor when evaluating and implementing tourism innovations. The political beliefs of these top executives significantly influence the ability of hotels to generate positive abnormal returns through the announcement of any innovative initiative. This approach not only optimizes the positive impact associated with innovations in the stock market but also provides a pathway for companies in the sector to increase their market value in an increasingly dynamic and complex competitive environment.

Second, the significance of a CEO's political ideology on the effect of innovation activities on firm value underscores the relevance of ideological factors in CEO decision-making. Upper-echelon theorists have traditionally focused on experience or demographic factors (e.g., gender or age). However, this study suggests that political ideology should be included as an additional dimension of analysis. The upper echelons theory posits that the cognitive frames of top executives shape organizational decisions and behaviors, and the results of this study highlight the importance of recognizing cognitive diversity among CEOs. Noticeably, these results suggest that as not all CEOs—even within the same industry—have similar cognitive frames, the same action can lead to different outputs; specifically, the decision to engage in innovation activities can be affected by a CEO's political ideology, with implications for firm performance. Therefore, scholars should consider in their theoretical approaches that a certain spectrum of cognitive diversity is related to political ideology that influences decision-making.

Third, the relevance of a CEO's political ideology in the innovation–firm value relationship also highlights the role of risk perception in upper echelons theory. This result indicates that CEO cognitive frames, influenced by political ideology, can shape investors' risk perceptions. Liberal CEOs, associated with a great openness to ambiguity and change, may engage in innovation activities as a routine part of their strategic planning. Moreover, their initiatives may not come as a surprise to investors. Conversely, conservative CEOs, who tend to be risk-averse and value tradition, may be less inclined to pursue innovative initiatives. Therefore, when they do so, this case stands out as a relatively uncommon event, capturing the attention of investors and leading to increased significant market reactions when they occur. This outcome highlights the importance of considering the impact of political ideology and the associated decision-making behaviors of CEOs in the context of financial markets and innovation. CEOs, as if they were captains of ships that navigate through the uncertainties and waves of the ocean (complexities of the market), use their mindset (political ideology) to decide the currents (level of investment in innovation) to take without knowing where these currents along with the winds (investors' reactions driven by risk perception) will take them. This finding shows that investor reactions can be influenced by their perceptions of the unexpected and that market responses to innovation actions may be driven not only by the objective value of the activities but also by the relative novelty or rarity of such initiatives. This insight can contribute to a nuanced understanding of how political and ideological factors intersect with corporate strategies and market dynamics.

Fourth, although the market seems to incorporate innovation information into stock prices "efficiently," the effect of a CEO's political ideology on the relationship between innovation activities and firm value may challenge the efficient market hypothesis, specifically in terms of behavioral aspects of market participants. The efficient market hypothesis assumes that investors are rational and make decisions solely based on available information; however, investors may exhibit behavioral biases, such as attention bias, related to the political ideology of CEOs, which may lead to market inefficiencies.

Fifth, the result that innovation activities lead to high abnormal returns in stock prices when a liberal party has greater control over the governing bodies than a conservative party helps understand the relationship among government ideology, innovation activities, and market value. This result suggests that government ideology, whether liberal or conservative, can significantly influence the stock market's response to innovation activities. This finding suggests that investors consider government policies and their alignment with innovation activities when evaluating a firm's potential for innovation and growth.

Regarding managerial implications, hotel companies led by liberal CEOs may experience lower abnormal returns when they implement innovation activities compared with those led by conservative CEOs. This result implies that managers need to consider the potential market reactions and investor perceptions when making innovation-related decisions. Moreover, this finding highlights the importance of effective communication and managing expectations whereby they can mitigate investors' concerns—communicating the right arguments helps clarify the motives behind specific innovation decisions and address any uncertainties. As investors generally prefer predictability and stability, providing a clear rationale for the decision and outlining the potential benefits are fundamental to building trust and confidence in the company's management.

Additionally, understanding the behavioral biases of investors can be crucial for decision-making and managing investor relations. The result that hotel companies experience increased abnormal returns during liberal governments means that managers should consider the political climate when making strategic decisions about innovation. That is, they can capitalize on this phenomenon by increasing their innovation efforts during such periods. Moreover, leveraging innovation activities during liberal administrations may lead to a competitive advantage, thereby opening up the possibility of turning innovation into a source of differentiation and value creation.

This study has a main limitation. The study was conducted only in one country, the United States, which limits the generalizability of the findings to a global context. The United States has a unique political landscape, and thus, the relationship among CEO political ideology, innovation activities, and stock market reactions may differ in other countries with distinct political systems, ideologies, and business environments. To address this limitation, future research can replicate this study in multiple countries, allowing for cross-border comparisons. This would provide a comprehensive understanding of how CEO political ideology influences innovation-related stock market reactions in different global contexts. Additionally, considering the different levels of innovation activities and expenditures in the tourism and hospitality industry (Singal, 2015), a comparative analysis including non-hospitality industries would enrich the contribution of this article.

Impact statement

Psychological traits play a critical role in any sphere of decision-making. Although the literature in corporate leadership, marketing, and finance suggests that CEOs' experiences and demographic characteristics directly impact their strategic choices and business outcomes, the influence of their personal values on whether their strategic actions affect the market value of the organizations where they work remains an

unexplored question. In this framework, this study focuses on the strategic decision of R&D owing to the pivotal role of these activities for contemporary tourism companies in coping with an increasingly competitive and uncertain environment. The significance of a CEO's political ideology on the effect of R&D activities on firm value underscores the relevance of ideological factors in CEO decision-making. Cognitive frames of top executives shape organizational decisions and behaviors, and the results of this study highlight the importance of recognizing cognitive diversity among CEOs.

Declarations of interest

None.

CRediT authorship contribution statement

Fernando Campayo-Sanchez: Writing – review & editing, Writing – original draft, Methodology, Investigation, Formal analysis, Conceptualization. **Francisco José Mas-Ruiz:** Writing – review & editing, Writing – original draft, Methodology, Investigation, Formal analysis, Conceptualization. **Juan Luis Nicolau:** Writing – review & editing, Writing – original draft, Methodology, Investigation, Formal analysis, Conceptualization.

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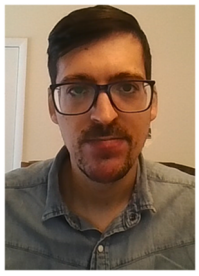

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