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The Medium of Exchange in Mergers and Acquisitions: The Cases of Travel Agencies and Tour Operators

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A B S T R A C T

The choice of the means of exchange is one of the critical decisions in mergers and acquisitions. Travel agencies and tour operating-industries compete in a volatile environment, and in addition to generating economies of scale, investments in the industry involve important sunk costs. This paper's focus is on the determinants of the medium of exchange in mergers and acquisitions in the travel and tour-operating industries. Previous research on the 'law and finance' perspectives argues that some country of origin legal systems offer better investment protection to investors. Accordingly, civil law-based systems offer weaker protection to investors when compared to common-law-based systems. For this purpose, we use a logistics regression to model the determinants of cash in a sample of 750 mergers and acquisitions by combining the research streams above. Our results provide evidence of the relationship between investor protection and the use of cash.

1.   INTRODUCTION

Mergers and acquisitions are a common form in which for firms to expand, particularly in the case of travel agencies and tour operators. The study of the means of exchange in mergers and acquisitions impacts the financial outcomes of the transactions. The shareholders of the initiator and of the acquired firm need to balance between managing risks and returns (Myers and Majluf1984;Hansen1987; Huang et al.2016).

The service industries of tour operators and travel agencies are generally described as intermediaries, connecting customers with service providers (Klemm and Parkinson2001;Chand 2011;Romero et al.2019). For the purpose of this study, as a reference, we follow the definitions of the standard industrial classification (SIC) to select the target industries. Therefore, a 'travel agency' is a company that 'furnishes travel information and acts as agent in arranging tours, transportation, car rentals, and lodging for travelers' (SIC Code 4724). Travel agencies are important intermediaries between producers (hotels, rental car firms, cruise lines, airlines, etc.) and end-users (prospective travelers) (Lewis and Talayevsky1997). Similarly, a 'tour operator' includes the companies ' primarily engaged in arranging and assembling tours for sale through travel agents' (SIC Code 4725).

These firms show very little loyalty to tourism destinations (Ioannides and Debbage1998). Furthermore, in service industries performances are mainly intangible. Services are value creators which provide benefits for consumers in specific times and locations (Lovelock1983).

In recent years, firms have been impacted by increasing consolidation in the industry and a wave of new entrants (online companies, independents, direct sales, etc.) reshaping market structures (Klemm and Parkinson2001). Mergers and acquisitions foster concentration and consolidation and provided strategic learning opportunities (innovative products and services, technology accelerators, etc.). The profitability of tour operators is driven by the following strategies: vertical and horizontal integration, improved market segmentation and targeting, and branding (Klemm and Parkinson2001;

Theuvsen2004;Picazo and Moreno-Gil2018), as well as technological innovations, changes in demand, and new patterns in tourist distribution channels (Hatton2004;Aguiar-Quintana et al.2016).

Surprisingly, very few investigations have addressed the determinants or the influence of mergers and acquisitions in the industry. For example, by using a data envelopment analysis (DEA) method,Assaf et al.(2011) documented how mergers and acquisitions impacted positively on tour operators' efficiency.Yilmaz and Altintas(2007) explained the impact of concentration of travel operators from Germany and Europe in the Turkish tourism market through vertical integration and geographic expansion.Clerides et al.(2008) indicated that the four main tour operators in the UK control more than half of the market share, and they are vertically integrated both upstream (air transportation) and downstream (travel agencies). Furthermore, as those firms tend to be multi-location, cross-border mergers and acquisitions lead to the creation of major gatekeepers in the tourism industry (Theuvsen2004).

Therefore, this study explores what means of exchange occur most frequently and in what circumstances.

As far as we know, this is the first study to address the choice of the means of exchange in mergers and acquisitions in travel agencies and tour operators. Furthermore, in the context of related literature emphasizing studies in Western-centered countries, this paper points out the need to extend research on mergers and acquisitions to Asian countries.

The first part reviews the main conceptual streams related to the choice of the means of exchange in mergers and acquisitions. Following the literature review, we introduce the data and methods, followed by the presentation of the results of the logistics regression. The last part of this paper discusses our findings and conclusions.

2. MERGERS AND ACQUISITIONS OCCUR FREQUENTLY IN TRAVEL AND TOURISM

2.1. *There Are Incentives to Merge/Acquire in This Industry*

As an intermediary, the main functions of tour operators consist in providing access to information and lowering transaction costs for end-users (I) and making a contribution to increase the occupancy rates and reduce the cost of advertising for suppliers (II) (Sheldon1986). To remain competitive in the industry, firms make considerable investments in information technology and marketing (sunk costs) (Ioannides and Debbage1998).

The development of the tour operators was fostered not only through mergers and acquisitions but also through strategic alliances and partnerships (see, for example, Sheldon(1986); Chand and Katou (2012); Chand(2011)). In the UK context, strategic behavior included vertical integration with retailers and airlines, pricing and contracting systems in the resort, and market segmentation. Continuous concentration among the top firms led to an oligopolistic situation (Klemm and Parkinson2001). Many touristic destinations are often portrayed in advertising as 'homogenous and interchangeable', as large firms are able to easily substitute destinations in response to changes at destination or at origin (Ioannides and Debbage1998;Picazo and Moreno-Gil2018).

Such strategies are controversial because their ultimate goals tend not to include the long-term development of tourist destinations (Klemm and Parkinson2001). As intermediaries, their geographic scope and market power impact the management and performance of small and medium companies located downstream of the value chain (Romero et al.2019).

Travel agencies also face a major shift in competition (Lewis and Talayevsky1997;Aguiar-Quintana et al.2016;Chang2020) with a high rate of firms exiting the business and increasing concentration between traditional travel agencies and newcomers (online competitors). As tourism packages are not protected by patent rights, imitation among peer firms is common (Chang2020). These trends foster strategies of vertical and horizontal concentration and the search for economies of scale and scope. Cross-border investments might be attractive to undertake the control of large national travel agencies (Aguiar-Quintana et al.2016). The volume of mergers and acquisitions involving travel agencies is by far more important than for tour operators (see Table1).

Table 1. Summary statistics of the sample and of the top six target countries.

Target Countries	#	Cash Only	Mixed Payment	Shares Only
Sub-total (2 industries)	717	558	83	76
Travel Agencies	598	456	73	69
Tour Operators	119	102	10	7
Payment Methods (SIC 4725 & 4725)		77.8%	11.6%	10.6%
United Kingdom	140	107	26	7
%		76.4%	18.6%	5.0%
United States	111	62	26	23
%		55.9%	4.1%	20.7%
China (mainland)	58	44	8	6
%		75.9%	23.4%	10.3%
Japan	45	37	0	8
%		82.2%	0%	17.8%
Australia	41	25	9	7
%		60.9%	21.9%	17.1%
South Korea	34	27	0	7
%		79.4%	0%	20.6%

2.2. The Industry Is Subject to Uncertainty and Risks

Travel agencies and tour operating activities are also portrayed as risky business (low prices, discounts, bankruptcies, etc.).Sheldon(1986) documented that, for the period 1978–1985, the entry and exit from the American tour operator industry was easy and reported significant performance differences between large firms and small and medium size operators. Many tour operators exited the industry during and after the international financial crisis (Assaf et al.2011). Within the European Union, the harmonization of competition rules also facilitated cross-border mergers and acquisitions and the standardization of marketing strategies (Picazo and Moreno-Gil2018). For example, Spanish tour operators acquired some of the leading Portuguese firms; Netherlands-based firms acquired tour operators in Italy and Germany.

2.3. The Transactions Happen in a Context of Imperfect Information

The choice of the means of exchange is a critical decision in mergers and acquisitions, particularly in businesses such as the travel agencies and tour operators as those businesses are influenced by many uncertainties and risks (weather conditions, political risks, safety issues, etc.) (see, for example, Oroian and Gheres2012). When uncertainties arise, acquirers have more difficulties assessing the value of the target firm and will prefer to use means of exchange that facilitate risk sharing on future performances (examples: earn-outs, shares). Furthermore, financial markets' imperfections influence mergers and acquisitions and cash policies for some firms. In such conditions, acquirers often face difficulties to assess the value of the target firms either overpricing or underpricing the assets. To solve evaluation discrepancies, acquirers choose an appropriate means of payment that mitigates risks of misevaluation.

More precisely, according to the rational payment theory, the acquirers can choose between setting a fixed price (such as cash, debt, etc.) or a contingent payment (earn-outs, etc.) to finance the transaction and mitigating the valuation risks.

Several research streams address this issue in order to explain the strategy of acquirers and sellers in mergers and acquisitions. The means of exchange in mergers and acquisitions is usually conditioned by several factors: asymmetric information variations, taxes, equity control structures, past performances, the alternative opportunities available for investors, and the solvency ratio.

Information asymmetries influence the choice of the means of exchange (Lelland and Pyle1977; Myers and Majluf1984;Hansen1987;Fishman1989).

Asymmetries of information in mergers and acquisition relates to acquirer misevaluation. In this case, the means of exchange can be used as an instrument for resolving the asymmetry of information between managers and investors.

Several other studies have focused on the acquirer's trade-offs between cash and shares in the presence of asymmetric information to prevent misevaluation (Hansen1987;Stulz1988; Fishman1989 ; Eckbo et al.1990;Huang et al.2016). Accordingly, the literature predicts that cash o   ffers enable an acquirer to avoid the mispricing arising from information asymmetry concerning the acquirer's value. On the contrary, shares offered as consideration can help the acquirer to reduce the cost of an excessive payment related to the misevaluation of the target's value. Therefore, shares facilitate risk sharing in cases where the merger is not completely successful.Eckbo et al.(1990) stated that neither payments in cash nor shares could mitigate such risks related to post-acquisition performances. However, contingent payments could solve asymmetric information problems.

Current theories lead to opposite predictions on the effects of the target information on the choice of the means of exchange (Zhang et al.2020). Acquirers can make use of the means of exchange to solve information asymmetries related to the target or, alternatively, they can adopt an opportunistic behavior, to take advantage of the information weaknesses associated with less informed targets (Shleifer and Vishny2003;Zhang et al.2020). Another theoretical explanation is derived from the mimetic behavior of the acquirer in the choice of the means of exchange: acquirers imitate payment decisions in the target country in presence of strong uncertainties (Chhabra and Popli2018).

Some other alternative theoretical contributions showed that equity control (Stulz1988; Amihud et al.1990 ;Faccio and Masulis2005), past experience of the bidders (Travlos1987), and the expected gains from target shareholders also determine the choice of the means of exchange.

An acquirer must determine the means of exchange related to the offer on a merger and acquisition deal, that is, whether the payment will be in the form of cash, debt, equity, or a mixed offer. Those trade-offs can vary across industries (García-Feijóo et al.2012).

Several other reasons, either firm-specific, deal-specific or country-specific, influence the choice of the means of exchange, including the uniqueness of the acquirer and target firms (size, location, listed or private companies, etc.) and the distinctive features of the legal and institutional environment (La Porta et al.1999). Legal origins (civil law, common law, etc.) influence the environment of mergers and acquisitions and therefore the decisions related to the choice of the exchange means. According to La Porta et al.(2008), this is particularly relevant in cross-border transactions.

Therefore, the choice of the means of exchange has important consequences for the information revealed by the acquirer and the target and to the outcomes of the transaction.

The concise choice of the means of exchange can also reduce the risk of overpayment and deal failure.

Bidders use more stock in cross-border deals to mitigate risk in target countries (Huang et al.2016).

An alternative view is represented by the agency theory model (Jensen1986). This theory considers the classic conflict between principals (shareholders) and agents (managers) arising because of 'cash'. This theory predicts, on the one hand, that shareholders want higher dividends, and on the other hand, that managers prefer to keep cash reserves for making future investments.

Therefore, the choice of the means of exchange can be driven by other motivations. As a synthesis, we can conclude that the means of exchange are an important, yet understudied, aspect of the transactions. This study explores what means occur most frequently and under what circumstances. The literature review highlights that there are incentives to merge/acquire in the industry (I), the industry is subject to uncertainty and risk (II), and the transactions happen in a context of imperfect information (III). With these factors in mind, the study hypothesizes that the choice of the means of exchange is influenced by the legal, regulatory, and institutional environments where the target firms are located (La Porta et al.1998,2008).

3.   DATA AND METHODS

3.1. The Context

This paper's focus is on the determinants of the choice of the means of exchange in mergers and acquisitions among tour operators and travel agencies. Tour operators and travel agencies are polarized, with strong asymmetries between firms (Sheldon1986). Mergers and acquisitions are an important strategy to help firms to increase their size and to achieve economies of scale and scope, and to adapt in different legal and institutional settings.

3.2. Modeling the Determinants of Cash

In the following section we introduce a model to assess the determinants of 'cash' in the travel agencies and tour operators' industries.

3.2.1. Dependent Variable

We use a binary logistic regression to test the determinants of cash (see Tables1–3). We model the means of exchange as a binary variable that takes the value of "1" if the payment method includes 100 percent of cash and it takes the value of "0" if the payment method includes other types of financing, including mixed payment methods (cash, shares, etc.).

Table 2. Variable definitions.

Variable	Definition
Payment	Payment is the dependent variable (dichotomy). It takes the value of "1" if the payment was made with cash. It takes the value "0" if otherwise. Source: SDC.
SameSIC3	Intra-industry concentration. It equals to "1" if the Target and the Acquirer share the same 3-digit SIC code. It equals to "0" if otherwise. Source: SDC.
Attit	Attitude. This variable equals to "1" if the case of a 'friendly' transaction. It takes the value of "0" if otherwise.
Merger	Acquisition mode. This variable equals to "1" if the case of a 'merger'. It takes the value of "0" if otherwise.
TargetListed	Number of public listings in the stock exchange: Target company. Source: SDC.
TargetCivilLaw	Value equals to "1" if the countries share the same Civil Law tradition. It takes the value of "0" if otherwise. Source: La Porta et al. (1999).
AcqEcFreedom	Financial Freedom in the Acquirer country (2018). Source: Heritage Foundation.
ProtMinority	Protection of Minority Investors in the Acquirer country. Index (0–10). Source: World Bank.
CreditorRights	Getting Credit. Strength of legal rights index (0–12) in the acquirer country. Source: World Bank.
QualityJudicial	Quality of judicial processes index (0–18) in the acquirer country. Source: Doing Business.
AcqListed	Number of public listings in the stock exchange: Acquiring company. Source: SDC.

Table 3. Summary of the descriptive statistics.

Variables	Obs	Mean	Std. Dev.	Min	Max
Payment	717	0.776848	0.4166501	0	1
SameSIC3	717	0.3988842	0.4900107	0	1
Attit	717	0.9037657	0.2951182	0	1
Merger	717	0.1352859	0.3422675	0	1
TargetListed	526	0.4087452	0.6341395	0	6
TargCivilLaw	709	0.1622003	0.3688947	0	1
AcqEcFreedom	702	73.71966	8.684443	51.4	90.2
ProtMinority	673	6.111738	1.10062	3	8.7
CreditorRights	702	7.287749	2.651911	1	12
QualityJudicial	702	12.68718	2.85274	3	15.5
AcqListed	545	0.6568807	0.5195386	0	3

3.2.2. Explanatory Variables

The choice of the means of exchange can be impacted by the firms' characteristics (target/acquirer), the transaction, and the uniqueness of the firms' business environment.

A detailed explanation of the explanatory variables is listed in the table hereafter. The operationalization of the explanatory variables is consistent with the previous literature.

Consistent with earlier research, the likelihood of an acquirer and target being in the same industry (Same SIC3) is higher for all-share deals and lowest for all-cash deals.

Cash facilitates deal completion. It decreases the likelihood of bid rejection by the management of the target firm and of a competitive bidder (Fishman1989) (Attit).

Managers of the acquiring firm tend to be reluctant to acquire a non-listed firm (TargetListed) with shares because it tends to create block-holders that might want to control managers' actions.

Previous studies in mergers and acquisitions showed the impact of geographic and institutional factors on the choice of the exchange method. The origin of the legal rules influences the coverage of protection of owners and creditors (La Porta et al.1998,2008). Therefore, we also controlled for the influence of origin of legal systems (Civil law versus other systems such as the Common law or German-origin law).

FollowingFeito-Ruiz et al.(2015), acquiring shareholders' value, mergers and acquisitions paid with cash in countries with strong legal and institutional environments were higher due to the higher costs of extracting private benefits. However, the cost of external financing is lower in countries with strong legal and institutional environments, and the price demanded by target shareholders to accept the acquiring firm's stocks is lower. Therefore, we would expect that acquiring shareholders' value, mergers and acquisitions paid with cash would be worse.

Economic Freedom (i.e., 'Acquirer Economic Freedom') is a measure obtained from the Heritage Foundation. It is an index that measures the degree of economic freedom within a country and it was collected for each host country. It is based on 10 specific, freedom-related criteria, such as trade policy, taxation, government intervention, foreign investment policy, banking, pricing controls, property rights and regulation (Feito-Ruiz et al.2015).

In the final equation we suppressed the variables geographic distance and language as those variables were highly correlated with the number of cross-border operations.

3.3. Sample

We test the influence of the legal and institutional environment (Shleifer and Vishny2003) in the choice of means of exchange in mergers and acquisitions in the industry of travel agencies and tour operators.

Data was collected through the SDC Thomson Financial database. SDC provides authoritative, consistent, and global coverage of mergers and acquisitions worldwide in different industries. The sampling procedure follows identical previous studies (see, for example,Faccio and Masulis2005).

A summary of the descriptive statistics of the dependent and independent variables in presented in Tables1and3. We used the following screening criteria to extract the data:

1. Our data includes a sample of approximately 750 completed deals worldwide for the period 1990 through mid-August 2018;

2. The target is a firm included in the U.S. Standard Industrial Classification (SIC) Codes 4724—Travel Agencies and 4725—Tour Operators;

3. There is no restriction on the choice of the target country or in the deal value;

4. The database includes public and private corporate transactions.

Non-completed transactions, withdrawn transactions and transactions pending and subject to regulatory approval were not considered. The sample includes transactions involving all the public and private firms.

Target firms included in the sample are as follows: 598 travel agencies (SIC 4724) and 119 tour operators (SIC 4725). The transactions involving 'cash only' are the most widespread in the industry. However, the transactions targeting operations in some countries include a significant amount of payments in shares only, surpassing 15 percent of the total (United States, Australia, South Korea, and Japan) (see Table1). Descriptive statistics suggest di fferences in choices in the target countries.

While no previous studies on the means of exchange have been performed in the travel agency and tour operator industries, the structure of our sample is in line with most of the empirical studies in the literature, showing the dominance of cash (see, for example,Faccio and Masulis2005).

Table3presents a summary of the descriptive statistics of the variables included in the sample.

3.4. Regressions

The following table (Table4) reports the results of the four equations.

Table 4. Regressions on the determinants of the choice of the means of exchange.

	(1) Payment	(2) Payment	(3) Payment	(4) Payment
SameSIC3	−0.450 * (0.039)	−0.475 * (0.037)	−0.524 * (0.019)	−0.0129 (0.960)
Attit	−1.363 * (0.029)	−1.871 * (0.013)	−1.621 * (0.011)	−1.726 * (0.011)
Merger	0.0801 (0.836)	−0.133 (0.747)	−0.161 (0.691)	0.0601 (0.902)
TargetList	0.251 (0.221)	0.196 (0.331)	0.0960 (0.643)	0.0800 (0.762)
TargCivilLaw	1.546 *** (0.000)			
AcqEcFreedom		−0.0885 *** (0.000)		
ProtMinority		0.593 *** (0.000)		
Creditor Rights			−0.279 *** (0.000)	−0.257 *** (0.000)
QualityJudicial				−0.0614 (0.291)
AcqList				−1.612 *** (0.000)
_cons	2.455 *** (0.000)	6.246 ** (0.001)	5.182 *** (0.000)	6.637 *** (0.000)
N	521	499	514	442
pseudo R^2	0.062	0.111	0.101	0.177

p-values in parentheses: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Regression 1 is the baseline model.

In Regression 2 we examine the influence of economic freedom and the protection of minority shareholders in the acquirers' country.

In Regression 3 we examine the influence of the protection of creditor rights in the acquirer's country.

In Regression 4 we examine the influence of the protection of creditor rights, the quality of the legal system in the acquirer's country.

4. RESULTS OF THE REGRESSIONS

The results of our econometric modeling are summarized below. Our results demonstrate (see Table4):

1) The importance of target's civil law system (+) In this case, investors would prefer to use cash in order to avoid the target's asymmetric information.

2) The importance of the economic freedom (−) and protection of minority shareholders (+) in the country of the acquirer firm The costs of external financing (e.g., shares) are lower in countries with higher economic freedom. Therefore, acquirers based in countries with higher economic freedom will prefer to use means of payment other than cash. In acquiring countries with strong protection of minority investors, acquirers will prefer to use cash due to the higher costs to extract private benefits. In such countries, the incentives to use cash and other firm resources to pursue private interests will be considerably lower (De Cesari2012; Feito-Ruiz et al.2015).

3) The importance of Creditor Rights (−) The costs of external financing (e.g., shares) are lower in countries with higher creditor protection. Therefore, acquirers based in countries with higher creditor protection will prefer to use other means of payment than cash.

4) The importance of Creditor Rights (−) and when the acquirer is a listed company (−) If the acquirer is a listed company in countries with higher protection of creditor rights, companies will prefer to use means of payment other than cash (shares or mixed methods). Listed companies have the possibility to diversify payment methods, and due to the higher costs of external financing, acquirers might prefer use other means of payment.

5. DISCUSSION

Using a dataset of 750 completed deals worldwide involving travel agencies and tour operators, we find support for our hypothesis that firms use cash as a means to manage the constraints and opportunities in the acquirer's and target's countries.

Previous studies on mergers and acquisitions demonstrated the importance of cash in both domestic and cross-border mergers and acquisitions (Sankar and Leepsa2018;Xie et al.2017; Chhabra and Popli2018). This means of exchange offers the advantage of maintaining the ownership structures unchanged. However, in the case of the transactions paid in cash, the shareholders of the target

firm are immediately subject to a tax. Payments in cash provide a positive signal (Ross1977) implying confidence of the acquirer on achieving post-acquisition performances (Chhabra and Popli2018).   In line with these results, findings suggest stock payments may be beneficial in cross-border deals whenever the target is located in a weak institutional environment and when cultural distance is significant (Cho and Ahn2017). Despite the above considerations, this explanation does not shed light on the opportunistic behavior of the acquirer when negotiating with less informed targets (Shleifer and Vishny2003).

The findings of our empirical study are in line with the predictions of the legal origins and the nature of investor protection (La Porta et al.2008;Sarkar2011). Investor protection is highly associated with transnational mergers and acquisitions (Rossi and Volpin2004). Target countries with a civil law system offer stronger investor protection, including for minority shareholders. In these countries, acquiring companies face higher costs related to the extraction of private benefits.

The second regression denotes a positive association between the use of cash and the economic freedom in the country of the acquiring firm. Such countries ensure stronger protection of property rights. In such countries, the cost of external financing is lower. Furthermore, the cost of issuing shares is also lower in such countries. Therefore, the acquiring firms may prefer to make use of other sources of financing than cash or alternatively to diversify the sources of financing. Countries with lower economic freedom benefit from weaker investor protection and the cost of external financing is higher (Rajan and Zingales1998). As a result, in such countries, the acquiring firms would prefer to make use of cash.

Higher levels of protection of minority shareholders in the acquirer country make the expropriation of private benefits difficult (profits, transfer of assets, etc.) (Dyck and Zingales2004). Private benefits of control are difficult to observe and to qualify. Our results suggest acquiring firms would prefer to use cash in such transactions.

On the contrary, in countries where targets benefit from stronger protection of minority shareholders it will be more difficult for the controlling shareholders to extract private benefits   of control (pecuniary benefits, opportunities to obtain inflated salaries, etc.). In such conditions, shareholders of the acquiring firms will prefer to use cash (De Cesari2012).

The results of regression 3 also suggest that strong credit rights in the acquirer country decrease the probability of using cash as a payment method.Djankov et al.(2007) conclude that stronger creditor rights encourage greater supply of credit as it limits the ability of opportunist acquirers   to expropriate firm resources. Therefore, in acquiring countries with strong safeguards of creditor protection, firms will decrease their willingness to borrow money and investors will make less use of cash as a means of exchange. In such countries, acquirers will make reduced risk investments to lower the likelihood of distress such as the diversification on low-value investments (Acharya et al.2009).

The third regression suggests that when the acquirer is a listed firm and in presence of strong creditor rights in the acquirer country, firms will tend to use less cash. Listed firms have the possibility to diversify their financing sources (Faccio and Masulis2005) and, similar to the explanation provided for the third equation, acquirers will decrease their ability to borrow money from creditors (Acharya et al.2009).

Surprisingly, as the first three regressions suggest, transactions involving related mergers and related acquisitions decrease the probability of acquirers using cash. From the acquirer's perspective, it might suggest the presence of important asymmetries of information between investors and sellers or uncertainties related to the targets to achieve the expect returns in the future. Acquirers might consider the value of the targets to be overestimated. In such cases, the use of methods of payment other than cash can mitigate potential future risks related to misevaluation (Dong et al.2006). Although misevaluations might be related to asymmetries of information between investors and sellers, industry-specific uncertainties in travel agencies and tour operators might also be a concern.

In summary, the empirical study finds support for the signaling (Ross1977) and the 'law and finance' theories (La Porta et al.2008).

6. CONCLUSIONS

According to (García-Feijóo et al.2012), the methods of payment for mergers and acquisitions vary significantly among industries and across time. From this perspective, this paper explores the importance of the means of exchange in the travel and tourism industries.

While most previous studies' focus has been on asymmetric information, this study also contributes to the literature on the relationship between the legal origins and the investment decisions.

Few studies have investigated the importance and impact of mergers and acquisitions in travel agencies and tour-operating industries, particularly in Asian markets. Most studies on mergers and acquisitions related to the travel and tourism industries tend to be Western-centric. The inclusion in this study of new data from Japan, China, and South Korea also addresses this gap. However, region-centered studies are required to better understand the logics operating in such a context.

These firms are important gatekeepers for the tourism industry. The industry is polarized, and it is quite volatile, with a significant number of firms entering and exiting. Large firms need to achieve significant economies of scale and scope in the industry and mergers and acquisitions are a fast way to increase horizontal and vertical integration. Furthermore, firms have incentives to stay in business due mainly to important sunk costs related to previous investments (Ioannides and Debbage1998). Similarly, in the competition landscape small and medium firms tend to specialize in target segments in order to avoid direct competition.

These intermediaries play an important function in reducing the asymmetries of information and lowering transaction costs for customers and reducing promotional expenditures for suppliers (Sheldon1986).

The current competitive landscape and the presence of important sunk costs (infrastructure   in information technology and marketing) justify the need to ensure that mergers and acquisitions operations need to be successful. Under this assumption, the choice of the means of exchange is an essential condition of the future success of the operation and of the value created to both the initiator and of the target firm.

In this paper, we demonstrated the importance of signaling theory (Ross1977) and of the institutional and legal environment in the choice of the means of exchange in mergers and acquisitions in the industry of travel agencies and tour operators. Findings are in line with the predictions of the legal origins and the nature of investor protection (La Porta et al.2008;Sarkar2011). However, we did not consider the opportunistic behavior of acquirers when facing less informed targets.

Therefore, the dynamics of tourism development also requires an improvement of legal conditions and of the institutional to protect and attract investors for the industry.

The principal limitation of our empirical study relies on the fact that we did not directly control for the size, equity control, or the financial constraints of the firms involved in the transactions. This limitation is due to the fact that many of the firms included in our database are private companies and, therefore, the financial data disclosed is limited.   Furthermore, our logistics regression uses   a dependent binary variable (i.e., cash versus other sources of financing) and we do not test the determinants of the amount of 'cash' used in the operations.

Future extensions of this study might include the inclusion of financial constraints (cash holdings and debt leverage), the nature of the ownership in both acquirers and sellers, the comparison of domestic and cross-border transactions, and controlling for the size and shareholdings of the operations. Followingde La Bruslerie (2012), it would also be suggested to investigate not only all-cash operations, but also the cash percentage (hybrid payments).

Conflicts of Interest:

The authors declare no conflict of interest.

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