AN ANALYSIS OF
THE IMPACT OF CORPORATE AND BUSINESS LEVEL STRATEGIES UPON POSTMERGER INTEGRATION PRACTICES OF FIRMS ACQUIRING FOODSERVICE ORGANIZATIONS FOR A SIX YEAR PERIOD

by

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DISSERTATION submitted to the Faculty of the

Virginia Polytechnic Institute and State University

in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

in

Business

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October, 1983
Blacksburg, Virginia

DEDICATION

This dissertation is lovingly dedicated to my mother and father. Their support and understanding of my efforts throughout the graduate program were invaluable to me as I worked to turn this dream into a reality.

ACKNOWLEDGEMENTS

The successful completion of a doctoral degree can by no means be attributed to an individual effort. To the contrary, this entire undertaking would not have been possible without a host of individuals who freely devoted both time and effort in helping me through the many phases of my graduate experience.

I sincerely thank Dr. Max S. Wortman Jr. for the guidance he afforded me throughout the program. His faith in my ability to complete the degree requirements never faultered in spite of the many ups and downs along the way. His caring and understanding attitude truly made this endeavor a special experience.

Sincere thanks are also extended to the other members of my committee, Dr. Robert J. Litschert, Dr. Kent B. Monroe and in particular Dr. Thirwall H. Bonham and Dr. Michael D. Olsen. Their encouragement and assistance always were there when I needed it.

Special thanks also go out to all of my colleagues and friends from Virginia Tech's Doctoral Program. Getting to know each and every one of them was an exciting experience in and of itself. Individuals such as ,
, , , ,

, , , and will always come to mind when I reflect back on my years in graduate school.

Special thanks are also extended to my typists, editor and word processing consultant. Their combined efforts have led to the production of this document. With heartfelt appreciation I would like to acknowledge , , , , and .

Last but not least, I extend a warm thank you to my personal friends who provided the much needed moral support which allowed me to persevere through six years of graduate school. At the risk of unintentionally omitting someone, I would like to specifically acknowledge the following people for their contributions along the way. In no special order they are: , , , and , , and , , and , and , , , , (one and all), , and , , , , , , , , and , and Cousin .

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Chapter I

INTRODUCTION

Corporate growth through acquisitions is a strategy that has been utilized quite often by firms throughout the current century. In fact, economists have traditionally identified three periods when acquisitions were not only highly prevalent but also took on a distinctive character. The earliest merger period, extending from the late 1800's to the early 1900's, was spurred by expansion and integration efforts within a given industry. During this time frame, many consolidations took place which usually resulted in monopolies in such industries as steel, oil, tobacco and sugar. The second wave, extending from approximately 1916 until the end of the 1920's, saw a move toward large oligopolistic competition and vertical integration. These usually involved a few companies in such industries as public utilities, drugs, chemicals, food processing and retail stores. Occurring during the 1960's and extending into the early 1970's, the third wave represented the rise of conglomerate organizations. Here the emphasis was on diversification via acquiring firms in totally unrelated businesses. It involved both large and small organizations in all types of fields (Seetoo, 1977; Davidson, 1981).

The fourth and most recent surge in merger / acquisition activity began approximately during 1978 and has continued strongly into 1982 (Davidson, 1981; Allen, et al., 1981; Salter and Weinhold, 1982). The most distinctive characteristic of these current acquisitions appears to be the size of the individual transactions. Mostly conglomerate in nature, these transactions (representing both acquired and acquiring firms) involve some of the largest and most established organizations in the country. Tables 1.1 and 1.2 represent findings by W. T. Grimm & Co., which provide some indication of the relative dollar volume involved in the current trend.

In attempting to explain this current movement, Salter and Weinhold (1982) pointed to three underlying forces that tend to reinforce this acquisitive behavior. First, in an uncertain economic environment, buying the assets of existing companies usually proves to be cheaper than purchasing them on the open market. Second, with the increasing sophistication of information and data processing technology, the task of directing a portfolio of businesses becomes more manageable. Third, the increased involvement in the U. S. economy of foreign organizations has motivated many domestic firms to keep up with the merger and acquisition trend.

TABLE 1.1

MERGERS IN THE UNITED STATES FOR THE PERIOD 1970-1980

Year	Annual Dollar Volume ($ In Billions)
1970	$16.4
1971	12.6
1972	16.7
1973	16.7
1974	12.5
1975	11.8
1976	20.0
1977	21.9
1978	34.2
1979	43.5
1980	44.3

SOURCE: W. T. Grimm and Co. See: Kenneth M. Davidson, "Looking at the Strategic Impact of Mergers," The Journal of Business Strategy 2 (Summer 1981), pp. 13-22.

TABLE 1.2

MERGERS IN THE UNITED STATES FOR THE PERIOD, 1975-1980, FOR TRANSACTIONS OVER $100 MILLION

Year	Number
1975	14
1976	39
1977	41
1978	80
1979	83
1980	94

SOURCE: W. T. Grimm and Co. See: Kenneth M. Davidson, "Looking at the Strategic Impact of Mergers," The Journal of Business Strategy 2 (Summer 1981), pp. 13-22.

Because of both the high level of current activity and the high dollar volumes involved, it is extremely important for top corporate executives to manage and monitor carefully the performance of their acquired firms. Allen, et al. (1981) discussed this problem in terms of the premium usually paid for an acquisition. Since it is not uncommon for a premium of 50 to 100 per cent over market value to be paid for the stock of an acquired firm, corporate managers are, in turn, hard pressed to achieve a commensurate "performance premium" over the level of performance expected by the market.

Despite the fact that some researchers have found acquisition strategies quite risky (Drucker 1977; Salter and Weinhold, 1979; Hall, 1980; United States House Small Business Committee, 1980; Wrapp, 1980), the current high level of merger activity indicates that many companies still view mergers and acquisitions as a viable means of implementing growth strategies. Davidson (1981), however, has pointed out that the whole concepts of portfolio management of diverse corporate enterprises, interchangeability of managerial skills and the value of being "number one" in a product market are all subject to severe criticisms. Since many unsuccessful mergers have taken place (i.e., subsidiaries having not adequately met their parent company's expectations), study of the acquisition process in order to improve a firm's chances of successful acquisition transactions remains essential.

Background

The process of one company merging with or acquiring another company involves many different facets. Beginning with the parent company's strategic decision to expand via the merger or acquisition route, the process entails such activities as finding an appropriate merger partner, negotiating with prospective candidates, tendering an offer and setting the appropriate details, closing the agreement, integrating the two companies and measuring the impact. Within this overall framework, the literature (descriptive, conceptual and empirical) on mergers and acquisitions, though voluminous, primarily focuses on such issues as the motivations for mergers; the synergistic and financial effects of mergers; the identification, evaluation and analysis of candidates; the negotiation phase; public policy implications; the effects of the merger upon the acquiring company's performance; competition and determinants of exchange ratios in mergers (Copeland and Weston, 1979; Cox, 1981). Yet researchers have pointed out that management practices after the firm has been acquired are equally crucial to the overall success of the merger (Brockhaus, 1970; Wicker and Kauma, 1974; Ebeid, 1976; Shirley, 1977; Drucker, 1977; Helmich, 1978; Glueck, 1980; Cox, 1981). Indeed, poor management after the acquisition is finalized, can nullify what could very well have been a successful venture.

Unfortunately, the literature dealing with this critical issue of postmerger integration practices has not been quite so prevalent. While searching through 15 years of published materials, Cox (1981), for example, found fewer than 10 articles dealing specifically with the topic.

This study focuses on the integration activities that go on after the acquisition has been consummated. Specifically, it is concerned with how top managers of the acquiring firm deal with various organizational choices associated with a new acquisition.

Another facet of the study focuses on the service sector of the economy. Within the past two decades, this sector of the United States economy has taken on a new level of significance. During the period from 1947 to 1975, services have grown from 54.7 per cent of the economy to 65.5 per cent (see Table 1.3). This growth has resulted in a shift in emphasis of the economy from primarily the manufacture of goods to primarily the creation of services. As Sasser, et al. pointed out in 1978, very little research has been done in trying to understand the social, political and economic implications of such a shift.

Since most of the existing empirical merger and acquisition studies specifically addressing postmerger managerial decisions have utilized primarily manufacturing firms in their samples, the question arises as to whether or not these findings are appropriate in a service setting. This study attempts to deal with this issue by restricting the sample only to those firms that have purchased foodservice organizations.

Purposes of the Study

The purposes of this study were to (1) investigate whether variations in corporate and business level strategies have any impact upon postmerger integration practices of firms acquiring foodservice organizations; and (2) develop some preliminary explanations as to any relationships that may exist between the two.

Within this framework, the key objectives were to: (1) conduct an empirical study of mergers and acquisitions which focuses solely on acquired firms within the service sector of the economy; (2) ascertain which of the managerial choices available to the parent company in integrating its new acquisition would be most appropriate in testing for any

TABLE 1.3

UNITED STATES GROSS NATIONAL PRODUCT ORIGINATING
IN THE SERVICE SECTOR, 1947 and 1975
(Percent of Current Dollar, GNP)

Sector	Proportion of U.S. GNP	
	1947	1975
Transportation	5.8%	3.7%
Communications	1.3	2.5
Activities	1.6	2.4
Wholesale Trade	6.7	7.9
Retail Trade	12.2	10.0
Finance, Insurance, Real Estate	10.0	13.8
Miscellaneous Services	8.7	12.0
Government	8.4	13.2
TOTAL	54.7%	65.5%
TOTAL EXCLUDING GOVERNMENT	46.3%	52.3%

SOURCE: Earl W. Sasser, R. Paul Olsen, and D. Daryl Wycoff, Management of Service Operations: Text, Cases and Readings (Boston: Allyn and Bacon, Inc., 1978), p. 3.

association with the overall performance of the merger / acquisition transaction; and (3) determine whether these managerial choices have any association with the acquiring firm's corporate strategy.

Some specific questions investigated were:

1. What types of acquisition strategies (horizontal, vertical, concentric, conglomerate) are most frequently employed by firms which invest in the foodservice industry?
2. How related to the foodservice industry are firms which acquire restaurant operations?
3. What types of business strategies (turnaround, growth, profit, share increasing) are most frequently employed by firms which invest in the foodservice industry?
4. How aggressive / defensive are firms which invest in the foodservice industry?
5. Is there any association between acquisition type and managerial decisions made during the postmerger integration process?
6. Is there any association between the parent company's past experience in the foodservice industry and the types of managerial decisions it makes during the postmerger integration process?

7. Is there any association between the type of business strategy a firm employs in making a foodservice acquisition and managerial decisions implemented during the postmerger integration process?
8. Is there any association between a firm's degree of aggressiveness / defensiveness in making a foodservice acquisition, and managerial decisions implemented during the postmerger integration process?

Significance of the Project

The determinants of either a successful or unsuccessful merger extend far beyond those activities leading up to the consummation of the legal transaction. What goes on _after_ the lawyers, accountants, investment bankers and other consultants have been phased out of the process is just as important as all the preplanning that had gone into locating and purchasing compatible merger partners. Accordingly, a study of this type is significant to the development of the field of business policy in that it focuses on _implementation matters_ related to the strategic decision to grow via the merger / acquisition route. Despite all of the attention mergers and acquisitions have received in the academic journals, relatively few studies have addressed this most crucial issue. The significant results (i.e., certain managerial decisions were found to correspond significantly with different types of corporate strategies), led to at least two major implications. First, from the practitioner's standpoint, this initial study lays the groundwork for more detailed research efforts to be conducted on mergers and acquisitions within the foodservice industry. A logical extension would be to compare these managerial decisions to some form of objective measure of acquisition performance. This type of research may then eventually lead toward a body of normative literature that can be utilized by firms which are considering acquisitions of foodservice organizations.

Second, for students of business policy, this line of research can be expanded to merger and acquisition activity among firms in another portion of the service sector, or across firms in all portions of the service sector of the economy. In the first case, researchers may wish to focus attention on environmental and technological variables that may have influenced the results. In the second case, researchers may wish to focus attention on the differences that exist between manufacturing and service sector firms within the economy which may be influencing any conflicting results.

Project Outline

This investigation is subdivided into six additional chapters.

Chapter II reviews the underlying factors leading to the development of the study. In addition, it discusses the empirical and conceptual literature specifically addressing the postmerger integration process. Finally, it presents a conceptual model of the determinants of postmerger performance of the acquired firm.

Chapter III presents the definitions, research questions and hypotheses, methodology, data analysis, and description of the pilot study utilized in the investigation.

Chapter IV discusses the results of the pilot study. Included here is a description of the activities undertaken to conduct the pretest, a discussion of the actual survey results, and a presentation of the set of methodological modifications utilized in carrying out the remainder of the project.

Chapter V reviews the procedures used in gathering data from participating organizations, presents an overview of the data, and discusses the results of the checks for validity, reliability and a constant environment.

Chapter VI reports the results of the statistical analyses of the three sets of conceptual and operational hypotheses comparing acquisition type, relàtedness and strategy type, respectively, to the parent company's postmerger managerial decisions. It then presents a discussion of these results.

Chapter VIII provides an overall review of the study. In addition, this chapter discusses the study's implications, limitations and suggestions for future research.

Summary

This chapter emphasizes that corporate acquisitions have been and continue to be utilized extensively by firms attempting to implement growth strategies. However, because of both the high level of current activity and the high dollar volumes involved, it is extremely important for top corporate executives to manage and monitor carefully the performance of the acquired firms. Accordingly, these factors usually result in a high degree of pressure on those managers to achieve a commensurate "performance premium" over the level of performance expected by the market.

Since postmerger management plays such a crucial role in the overall success of the merger, this study focuses on the integration activities that go on after the acquisition has been consummated. Specifically, it is concerned with how top managers of the acquiring firm deal with various organizational choices associated with a new acquisition.

The purposes of this study were to (1) investigate whether variations in corporate and business level strategies have any impact upon postmerger integration practices of firms acquiring foodservice organizations and (2) develop some preliminary explanations as to any relationships that may exist between the two.

This project is significant to the development of the field of business policy in that it focuses on implementation matters related to the strategic decision to grow via the merger / acquisition route. In addition, the thrust of this empirical investigation centers around the service sector of the economy.

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Chapter II

LITERATURE REVIEW

The review of the literature is divided into three parts. First, the underlying factors in the general environment leading to the development of this study are reviewed. Second, empirical and conceptual literature specifically addressing the postmerger integration process are discussed. Finally, the third section outlines a model of the determinants of postmerger performance of the acquired firm. This model ultimately serves as the conceptual underpinning for the development of a set of testable hypotheses for this study.

Factors Underlying the Project

Given the current surge in merger and acquisition activity (see Chapter I), three additional factors which have influenced the development of this study include: (1)the high risks associated with implementing a merger / acquisition strategy; (2)the fundamental differences between the service sector and the manufacturing sector of the economy; and (3)the high degree of merger and acquisition activity within the foodservice industry. This section of the literature review briefly discusses some causes of merger failures, some basic differences between service sector and manufacturing sector firms, and an overview of the foodservice industry.

Causes of Merger Failures

In a similar review of both the empirical and conceptual literature dealing with the causes of merger failure, Seetoo (1977) developed a classification system that roughly corresponded to the time frame of the merger process. Of the seven categories included in this scheme (motives, involvement, strategy and planning, investigation, reporting and controlling, responsibility, and attitude of the acquired), at least four (involvement, reporting and controlling, responsibility, and attitude of the acquired) can be directly related to problems in the postmerger integration process. The other three (motives, strategy and planning, and investigation) primarily pertain to activities taking place in the parent organization before the merger is consummated. Since these last three activities are outside the scope of the study, they are not discussed.

Involvement

According to Mace and Montgomery (1962) and Kitching (1967), a high degree of executive involvement is necessary throughout the merger process. Without such involvement, the organization risks not having a broad perspective of the situation and effective procedures for implementation and control.

Reporting and Controlling

Either a too loose or a too tight system of reporting and control developed for the acquired organization can lead to detrimental results. Clearly, a reasonable level of reporting and controlling is necessary for merger success. However, both Kitching (1967) and Levinson (1970) pointed out that an over-organized and over-procedured system may inhibit creativity and entrepreneurial tendencies in the acquired firms. The important consideration here is that the system be set up to facilitate growth instead of restricting action.

Responsibility

Kitching (1967) and Mace and Montgomery (1962) stressed the importance of having a designated person and / or staff team in the parent company directly responsible for the acquisition. Failures often occur when there are major shifts in that responsibility and / or there is confusion at the subsidiary level as to whom in the parent company is in charge.

Attitude of the Acquired

Morale among the personnel in the acquired firm is also critical to the success or failure of the merger. A morale problem can result from immediately firing or freezing out unwanted executives (Harvey, 1969), failing to agree on an appropriate organizational structure prior to the acquisition (Smith, 1963) and / or failing to divide responsibility for the integration process equally between the acquiring and acquired firms (Ansoff, et al., 1971).

Thus, after a merger has been consummated, certain pitfalls such as low executive involvement in the postmerger integration process, a breakdown in the reporting and controlling relationships between the parent and the newly acquired firm, changes in responsibility within the parent company for overseeing the acquired firm's activities, and the attitude of the personnel in the acquired firm can all significantly affect the degree of success of the venture. In this light, focusing research attention on specific types of postmerger managerial practices may eventually lead toward the development of management guides to cope with these problems.

The Service Sector of the Economy

With the shift in emphasis from a manufacturing to a service orientation in the United States economy (see Chapter I), various researchers are concerned with whether empirical findings derived from samples involving manufacturing firms are applicable for service-oriented organizations (Sasser, et al., 1978; Mills and Margulies, 1980; Carman and Langeard, 1980). This concern stems from some fundamental differences that affect the running of service - oriented versus manufacturing - oriented organizations. Sasser, et al. (1978) discussed some of these differences from a management perspective. First, service organizations are usually characterized by an intangible product. Second, short life cycles for new innovations are commonplace, since there are no patents for intangible services. short life cycles for new innovations usually result. Third, services are highly perishable, meaning that they cannot be inventoried. This characteristic precludes the use of buffering techniques often utilized by manufacturing managers in dealing with fluctuations in demand.

Fourth, as Sasser et al. pointed out (1978), services are generally characterized by a high degree of heterogeneity of output. Since the consumer usually directly interacts with the service production system, there is more of a chance for variability in output even within a single firm. Therefore, service managers must place more emphasis upon the quality control and training and development functions to ensure that their employees present an appropriate image to the customer. Fifth, service goods are usually produced and consumed simultaneously. Since services generally do not move through distribution channels, a service producer must locate smaller units closer to prospective customers. This means that unlike manufacturing firms, service organizations are more limited in their ability to take advantage of economies of scale.

Given both the shift in emphasis from a manufacturing oriented to a service oriented economy, and the underlying differences between the two types of organizations, this study is concerned with the acquisition and integration of foodservice organizations.

Overview of Acquisition Activity in the Foodservice Industry

Foodservice acquisitions (defined in Chapter III) have closely paralleled the merger and acquisition trend in the overall economy (Berlinski, 1978; Perlmuter, 1978). This section breifly reviews some of the reasons why this activity was so high.

As Berlinski (1978) pointed out, foodservice transactions parallel overall merger and acquisition activity in two areas. The first is the relatively high frequency of such transactions (i.e., The American Institute of Food Distribution, Inc. recorded 96 restaurant acquisitions between 1976 and 1981). The second parallel is the relatively large size of most of the individual transactions (i.e., Pepsico acquiring Pizza Hut and Taco Bell, Imasco acquiring Hardee's, and Pillsbury acquiring Steak and Ale). In effect by the end of 1978, Berlinski (1978) revealed that eleven of the top twenty-five fastfood franchised chains were owned by another company.

To explain why foodservice companies seemed to be attractive acquisition candidates during this time, Berlinski (1978) credited a combination of undervalued stocks and a growth oriented foodservice market. Although tempered somewhat during the recession within the first three years of the 1980's, the foodservice industry in the late 1970's represented a growth-oriented market. As Brian Little (a senior vice president of the merger group at White, Weld and Company, an investment banking firm which has advised several restaurant chains) explained:

> The leading restaurant companies are showing profit gains that exceed 20 percent annually. In fact there are a number of restaurant companies that have performed much better in their markets than their stocks have on Wall Street.

> Their stocks are selling for 7 to 10 times earnings which is 20 to 30 percent below the price that companies with comparable performance records but outside the restaurant industry are getting. For instance, prior to their merger announcements, Taco Bell and Hardee's were selling for seven times earnings and Pizza Hut was selling for about nine times earnings (Berlinski, 1978, p. 149).

Because of the seemingly undervalued price of the stocks in a growth oriented market, foodservice companies became quite attractive to acquisition minded firms.

Addressing the issue of the depressed market for restaurants stocks, Frank Carney, President of Pizza Hut, discussed fears of stock analysts at the time (Berlinski, 1978). These fears centered around the highly competitive nature of the industry, the threat of market saturation, the inconsistent growth rate of restaurant companies, and the relatively poor payback to investors. Accordingly, foodservice firms also seemed to have quite a few incentives to merge with major corporations. From this perspective, Norman Brinker, a Vice President and Board member of the Pillsbury Company (owner of the Burger King and Steak and Ale restaurant chains) argued that foodservice firms seek continuity of earnings, greater stock liquidity, increased dividend yield for their stockholders, a more reliable source of capital to finance continued growth, and access to a superior pool of management resources from a parent organization (Berlinski, 1980).

In light of this high degree of merger and acquisition activity involving the foodservice industry, several executives quickly pointed out potential problems in attempting to integrate the new acquisition into the overall organization. Most of these problem areas seemed to arise from the retail / service oriented nature of the restaurant business. For instance, Andy Pearson, President and Chief Operating Officer of Pepsico, stated that:

> Retailing is a 'hands on' business which involves direct contact with the customer. In the case of Pizza Hut with 4,000 units, it represents a greater investment and greater risk than in the consumer product business. If a grocery store in a market encounters difficulty, we can pull our food products out and put them into the new store that comes along. You can't do that in the restaurant business because you are the store operator (Berlinski, 1980, p. 178).

Along the same lines, Stuart Watson, Chairman of Heublein (owner of the Kentucky Fried Chicken restaurant chain), discussed the underlying differences between managing a brand and managing a fastfood restaurant as follows:

> If a consumer goes into a liquor store to buy a bottle of Smirnoff and the clerk is rude, or the store isn't as clean as it should be, he doesn't get mad at Smirnoff. But the same customer who goes into a KFC and is met by a rude clerk or a dirty store, gets mad at KFC. The fastfood business is an operational business, and can't be run like a brand item. The best brand manager is not necessarily the best manager for a fastfood chain (Berlinski, 1980, p. 191).

Pillsbury's Norman Brinker highlighted several types of postmerger problems in integrating newly acquired restaurant operations, all related to attitude (Berlinski, 1978). The items on Brinker's list are similar to problems cited by Harvey (1969), Smith (1963), and Ansoff, et al. (1971) in discussing attitude of the acquired firm as a cause of merger failures. Brinker stated that restaurant entrepreneurs may have a tendency to lose their spirit and excitement after a merger. This he be attributed to corporate management's lack of understanding of the restaurant business, which is usually manifested by:

1. Pressuring the restaurant into economies of scale that reduce the quality of product and service.
2. Instituting scientific controls which depersonalize the business.
3. Failing to realize that service, atmosphere and the personal touch of restaurant employees are the critical components of success in the restaurant business.
4. Fostering disharmony between the parent and subsidiary by filling management slots in the restaurant chain with people from the parent company (Berlinski, 1978).

These pitfalls, coupled with the earlier comments by foodservice executives about running a restaurant, seem to suggest that a parent company would be wise in not attempting to move in and completely dominate their new foodservice acquisition.

Summary

Three factors, in addition to the recent surge in merger and acquisition activity (see Chapter I) which have significantly influenced the development of this study include: (1) the high risks associated with implementing a merger / acquisition strategy; (2) the fundamental differences between the service and manufacturing sectors of the economy; and (3) the high degree of merger and acquisition activity within the foodservice industry.

Numerous researchers have indicated that poor management, after a merger has been consummated, can most definitely affect the success or failure of the transaction. This can happen as a result of low executive involvement in the post-merger integration process, a breakdown in the reporting and controlling relationships between the parent and the newly acquired firm, changes in responsibility within the parent company for overseeing the acquired firm's activities, and a poor attitude on the part of employees from the acquired firm.

Given the increased significance of the service sector within the United States economy, researchers have become more concerned with whether empirical findings derived from samples involving manufacturing firms are applicable for service - oriented organizations. This concern stems from basic differences involved in running service - oriented versus manufacturing - oriented organizations. Some of these differences include (1) the intangible nature of a service; (2) the short life cycle for new innovations; (3) the inability to inventory a service; (4) the heterogeneity of service outputs; and (5) the simultaneity of production and consumption of services.

The foodservice industry has had its fair share of merger and acquisition activity during the past few years. A potential explanation for this high degree of acquisition activity was the seemingly undervalued price of foodservice stocks in a growth oriented market.

The next section of this literature review presents empirical and conceptual work specifically addressing the postmerger integration process.

Postmerger Integration Studies

The empirical and conceptual literature dealing with the postmerger integration phase of the overall merger / acquisition process is less prevalent than such other facets as the motivations for mergers, the synergistic and financial effects of mergers, the identification, evaluation and analysis of candidates, the negotiation phase, and public policy implications (Copeland and Weston, 1979; Cox, 1981). However, the most common references to postmerger integration practices usually occur in studies covering multiple phases of a merger. This section briefly discusses those studies which are most closely related to this project.

The Kitching Study

One of the more significant empirical studies concerning characteristics of successful / unsuccessful acquisitions was conducted by Kitching (1967). This research project consisted of two parts. Initially an in-depth survey of the management literature on the topic was undertaken. This was followed by field interviews with top executives from twenty-two companies which have managed a combined total of 181 acquisitions in the period 1960 - 1965. More specific data on the actual results of sixty-nine acquisitions made by twenty of the twenty-two companies sampled were also collected and analyzed. Kitching's objective was to obtain both qualitative and quantitative assessments of the success or failure of an acquired company.

The relevant management literature, included in Kitching's survey, concentrated on the events leading up to and immediately following acquisition. However, based on the opinion of the majority of managers interviewed, Kitching found that the results of an acquisition are not apparent until at least two years after it had taken place. He thus concluded that the existing literature, at the time, provided no real assessment of the success or failure of an acquisition.

Field interviews were conducted with twenty-five top level executives from the textiles, electronics, communications, automotive supply, marketing, recreation products, toiletries, food, aviation products, tobacco, finance, retailing, rubber goods, building supplies and chemicals industries. These interviews were designed to solicit information on: (1) top managers' qualitative assessments of the success or failure of the acquisition process, measured against the original strategy; (2) the financial results actually obtained, compared with the forecasts made before the merger (where these existed); and (3) the ease and dollar payoff of the synergy achieved. To measure "dollar payoff" and "synergy achieved", the executives were asked, for each acquisition, to rank the above constructs (on a scale of high, medium, low or none) in terms of the four functional areas of finance, marketing, technology (including research and development) and production. Synergy rankings were also obtained for organizational motivation and organizational efficiency.

Essentially, Kitching's study yielded four objective (obtained from statistical evidence) and six subjective (drawn from top executives' reflections on their experience) results. Highlights of these findings, taken directly from Kitching's work (1967), are briefly discussed below.

Objective Results

1. There is a relatively high risk of failure in concentric and conglomerate acquisitions and a relatively low one in horizontal mergers. The sample consisted of conglomerate mergers (45%), horizontal mergers (25%), concentric technology mergers (14%), concentric marketing mergers (13%) and vertically integrated mergers (5%) (working definitions of these terms are provided in Chapter III). Of all the acquisitions classified as failures in the study, concentric marketing, concentric technology, and conglomerate mergers occurred most frequently (Kitching, 1967).

2. A "size mismatch" (where the acquired company's sales were less than 2 per cent of the parent company's sales volume before the merger) occurs in 84 per cent of the acquisitions considered as failures. This is partly explained by parent companies' frequent underestimation of the capital and managerial time requirements of their new smaller subsidiaries (Kitching, 1967).

3. In 81 per cent of the failures, the organizational format (either the reporting relationships established after the merger or the extent of autonomy allowed) is disturbed at least once after the acquisition is first brought into the organization. This problem usually results from inadequate planning at an earlier stage. Most of these reorganization attempts usually occurred in a makeshift fashion when failure seemed imminent. Such actions usually resulted in confusion at the subsidiary level and a lack of knowledge at the parent company level (Kitching, 1967).

4. Synergy is most easily accomplished and dollar payoff is highest where financial resources are pooled, while synergy is most difficult to achieve, and dollar payoffs lowest, where production facilities and technological resources are combined. These results were explained primarily by the

consideration that additional funds were much easier to obtain and the cost of capital was lower when the asset backing of the merged companies was larger (Kitching, 1967).

Subjective Results

1. <u>The element critical to success / failure is the presence or absence of managers of change (people who can catalyze the combination process).</u> In the most successful mergers, either the acquiring company brought in new managers of change or it motivated the old management to introduce profitable change (Kitching, 1967).

2. <u>Sufficient managerial manpower resources must be available to meet the additional demands in the joint management task.</u> Serious problems occurred when the parent company underestimated the demands a merger would make on management time (Kitching, 1967).

3. <u>The nature of the reporting relationships, organizational responsibilities and control systems are dominant influences on the success or failure of the merger.</u> Three characteristics of successful acquisitions included (a) the parent company appointed a top executive to oversee the subsidiary immediately after the acquisition; (b) the reporting

relationships among key people were immediately made clear; and (c) control systems were instituted at the outset with the major emphasis on information reporting rather than on budgets (Kitching, 1967).

4. Acquisitions that fit into an overall corporate strategy are usually more successful than those that are bought merely as a reaction to an opportunity. The findings indicated a distinct difference in the success rate of companies with a strategy for growth and diversification, of which an acquisition program may be only a part, and that of companies which merely react to opportunities to buy (Kitching, 1967).

5. Successful companies formulate a set of acquisition criteria which are consistent with overall strategy, and then rigorously apply them. This acted as a deterrent to acquisition decisions influenced by impulses and emotions which may materialize in the environment surrounding purchase negotiations (Kitching, 1967).

6. Successful companies make a careful analysis of their subsidiaries' future requirements for parent company funds. Miscalculations of future fund requirements often led to a lower than expected return on investment (Kitching, 1967).

The Brockhaus Study

Brockhaus (1970) undertook a comprehensive research study of the integration process in mergers and acquisitions from an organizational and administrative perspective. After conducting an extensive search of the existing literature on mergers and acquisitions, he inductively developed a five part integration determinant model consisting of corporate purpose, organizational structure, organizational culture, personnel, and administration and control. Each determinant represented a consolidation of statements from business merger and acquisition literature specifically devoted to that area. Taken as a whole, Brockhaus' model was designed to depict the key relationships which determine either the success or failure of the post merger / acquisition integration process.

The first part, corporate purpose determinant, related to the work steps that should actually be performed before initiation of the integration process. Essentially, Brockhaus suggested that objectives of the merger be clearly identified and evaluated (Hollman, 1968). Common objectives may include a linkage of technologies, an aggregation of assets, an increase in productive physical capacities or an increase in corporate earnings. Based on these objectives, appropriate strategies (which may lead to the merger or acquisition route) should be developed. This normally includes the establishment of expected sales and other bench marks for the merger. Finally, after the above steps have been performed, a set of merger and acquisition criteria can be developed in order to evaluate potential candidates.

The second part of Brockhaus's model was the organizational structure determinant. This dealt with decisions relating to the centralization / decentralization of the acquired unit, the organizational basis of the acquired unit, and the number of authority levels contained within the acquired unit. Generally, according to Brockhaus's findings, acquired firms should be organized in a decentralized fashion, especially in those cases where the product lines or marketing approaches of the two firms are substantially different (Mallatratt, 1957). In terms of organizational basis (function, product, market, geographic area, or similar factors) and hierarchial levels, Brockhaus's findings suggested that there should be a consistency between the two organizations (Hennessy, 1966; Lord, 1964). However, this stress on consistency does not necessarily mean an automatic restructuring of the acquired firm to conform with the basis of the parent. The final choice depends upon the people involved, and how best to facilitate their cooperative functioning (Mallatratt, 1957).

The organizational culture determinant constituted the third part of Brockhaus' model. It specifically dealt with the four parameters of size, leadership style, management philosophy and external threats. A discrepancy in relative firm size may impact numerous aspects of the two firms, including the level of sophistication of information systems to the personal relationship between management and employees (Wendel, 1967; Kitching, 1967; Blansfield, 1964). Leadership styles must be compatible between the two organizations since a culture is associated with each style (Perry, 1963; Riggs, 1963). Management philosophies, espoused through company policies and rules, are usually unique for each organization. Therefore, it is necessary to reconcile the differing philosophies of each firm, as part of the integration process (Kilmer, 1967; U. of Maryland Extension Bulletin, 1965; Hollman, 1968). As for external threats, Brockhaus, in this part of the model hypothesized that the more common the external threats of the two merging organizations, the easier the integration process would be (Weston, 1963).

The fourth part of Brockhaus' model was the personnel determinant. It focused upon managerial depth, and compensation and personnel practices in both firms before the merger. Brockhaus found that the literature stressed the importance of excess managerial time and talent prior to a merger or acquisition (Fish, 1967; Kitching, 1967; Mallatratt, 1957; Weiner, 1965; Reed, 1965; Silbert, 1967). Since the integration process usually results in additional managerial tasks, a greater degree of managerial depth can facilitate a smooth transition. For the second factor, compensation and personnel practices, Brockhaus found that it was essential to iron out any inconsistencies during the integration process (Kilmer, 1967; Drayton 1963).

The fifth and final part of Brockhaus' model constituted the administration and control determinant. It dealt with the time period of the consolidation effort; the assignment of authority and responsibility for the integration process; the temporal sequence of integration of the various staffs and systems; the managerial personnel involved in planning and executing the consolidation; and the number of past consolidations experienced by the acquiring firm. The first aspect was the time period of the consolidation effort. It focused on the question of either a quick integration of operations and organizations versus a much slower evolutionary process. Brockhaus suggested that this should be determined by the degree of control the initiator of the consolidation has over its own operations prior to the merger. If the degree of control is high, then a quick consolidation may be possible. If low, then the latter course would be recommended (Mallatratt, 1957; Hollman, 1968; Reed, 1965).

The importance of establishing an explicit and operational control system, and naming a key executive as supervisor, directly related to the assignment of authority and responsibility for the integration process. (Mallatratt, 1958; Weston, 1963; Kilmer, 1967; Kitching, 1967; Matusiak, 1967). The temporal sequence of integrating the various staffs and systems basically addressed the question of which functions should be integrated first. Generally, so as to avoid the immediate assumption of the complex task of integrating activities that influence daily operations, Brockhaus concluded that service functions should be integrated before attempting to consolidate the production efforts (Scheu 1963). The success of the integration process is also influenced by which company's management and which level(s) of management planned and executed the consolidation. In this regard, joint planning and execution and active involvement of both chief executives are recommended for a successful integration process (Weston, 1963). Finally, the number of past consolidations experienced by the firm bears a positive relationship to successful integration, in that the merging firms begin to develop a certain expertise in the area (McLagan, 1964; Kitching, 1967).

The Ansoff Study

Ansoff, et al. (1971) conducted one of the most comprehensive empirical studies relating instances of success to the acquisition behavior of typical firms to date. Covering a span of twenty years of acquisition activity by U. S. manufacturing firms (1946 - 1965), the study sought to examine the acquisition process from the premerger planning to the postmerger integration phase and finally to the measurement of results. More specifically, the project was set up as three major substudies. The first attempted to analyze the characteristics of acquisition behavior, the degree and type of planning methods used for discovery and analysis of acquisition alternatives, characteristics of the negotiation, and the methods of postacquisition integration. The second attempted to analyze the financial performance of the acquiring firms during the twenty year period. Finally, the third correlated typical patterns of acquisition behavior (Part I) to the financial results (Part II) to determine whether particular types of behavior are more likely to produce success.

Ansoff, et al. (1971) obtained data for this study via a questionnaire instrument and Standard and Poor Compustat Tapes. The questionnaire was subdivided into two parts in order to take advantage of the perceptions of managers who participated in the acquisition activities and to make use of the formal record system of the firm. The first section relied on the memory of an executive intimately involved in the acquisition process, while the second was designed for completion by a staff analyst in the firm using the formal records. Ansoff, et al.'s (1971) instrument was sent to 412 manufacturing firms which had at least one acquisition during the period in question. The sample was restricted to manufacturing firms in an attempt to keep such external factors as economic climate and legal restraints constant throughout the study. Their findings were based upon 93 useable responses by firms which had acquired a total of 299 companies. Of this total, 62 were used in the third part of the project to correlate the objective financial measures from the Compustat Tapes to the typical patterns of acquisition behavior. Data on the Compustat tapes came from 271 manufacturing firms (in 20 industries) which qualified for inclusion in the sample. In total, 13 different variables were used to develop 21 different objective measures of performance.

The findings of the Ansoff, et al. study (1971), which are most relevant to this research, concern the analysis of the methods used by the sample firms in the postacquisition integration process. The following discussion, is limited to those results.

In describing and analyzing the integration practices of the firms sampled in Part I of this study, the relevant variables include the type of merger transaction, the relative importance of reasons for the acquisition, the executive in the parent company to whom the acquired firm reports, the degree of responsibility of the acquired firm concerning integration matters, the degree of integration of the acquired firm's activities, the question of experiencing integration problems, and top management's perceived attainment of acquisition objectives (Ansoff, et al., 1971).

The study revealed that the firms in the sample engaged in all four types of merger transactions (horizontal, vertical, concentric and conglomerate). However, due to certain biases in designing the sample parameters, the distribution of firms within each type did not appear representative of all firms making acquisitions during the relevant period, taken as a whole (Ansoff, et al., 1971).

The relative importance of reasons for the acquisition primarily centered around the strength or weakness of current markets or marketing abilities of the acquiring firm. For example, the top three reasons cited for engaging in acquisition activity included: (1) to complete product lines; (2) to increase market share; and (3) to utilize existing marketing capabilities, contacts or channels fully (Ansoff, et al., 1971).

In 53 per cent of the firms sampled, a separate executive or management group was given primary responsibility for the post acquisition integration process. The type of executive included the board or its chairman (24%), the president (87%), a vice president (61%) and a special staff position (15%). The responsibility of the acquired firm concerning integration matters ranged from little or no responsibility (35%), to responsibility proportional to the relative sizes of the two firms (35%), to an equal degree of responsibility (30%). The degree of integration of the acquired firm's activities showed that 41 per cent were allowed to operate autonomously, 24 per cent installed uniform policies and procedures in the acquiring and acquired firms, 15 per cent resulted in the integration of the functional areas only, and 15 per cent integrated all activities. The time frame for completing integration activities ranged from less than six months (34%), to between six months and one year (18%), to between one and two years (23%), to greater than two years (25%). In addition, 41 per cent of the firms indicated that they had experienced integration problems. Finally, 23 per cent of the firms perceived that they had achieved all of their objectives regarding the acquisition, 52 per cent perceived that they had achieved most of their objectives, and 21 per cent perceived that they had achieved few of their objectives (Ansoff, et al., 1971).

Cross correlation of these variables indicated that when the assignment of responsibility for the integration process was made to the president or special staff director, a smaller proportion of firms experienced integration problems. However, only a small subsample of 36 firms provided data for this analysis. The data also indicated that when the acquired firm was allowed approximately equal participation in integration decisions, there appeared to be a smaller incidence of integration problems (Ansoff, et al., 1971).

Comparing acquisition type to degree of integration, Ansoff, et al. (1971) found that conglomerate firms practice the least degree of integration, and horizontal and vertical mergers the most. The highest percentage of integration problems also was found to occur in concentric acquisition types (Ansoff, et al., 1971).

For perceived achievement of objectives, Ansoff, et al.'s (1971) data showed that the degree of success was similar among the different acquisition types. Finally, this analysis revealed that concentric acquisitions were slightly more successful when operated autonomously. Other than these observations, there seemed to be no other definite relationship between perceived success and degree of integration for horizontal, vertical or conglomerate mergers. The small sample size in each cell may have contributed to the insignificant findings (Ansoff, et al., 1971).

In comparing integration practices to the objective performance measures, the only results Ansoff, et al. (1971) discussed, related to the degree of integration of the acquired firm. They indicated that partial integration tends to produce the poorest performance. Thus the firm probably should either try for complete integration of its acquisitions or permit them to be autonomous.

The Pitts and Berg Studies

Berg (1973) and Pitts (1974; 1977) conducted a series of three empirical studies investigating differences in organizational policies toward subunits as they relate to firms following internal development versus acquisitive diversification strategies. In this context, Pitts (1977) pointed out that regardless of the type of diversification strategy adopted by the firm (internal / acquisitive), top corporate management is confronted with a set of issues to be addressed while integrating the subunit into the overall organization.

Essentially, Pitts (1977) divided these issues into three broad categories: (1) location of activities; (2) interdivisional transactions; and (3) performance measurement. The first, location of activities, concerns how the firm should divide the major functional activities (i.e., manufacturing, marketing, research and finance) between the corporate and divisional levels. The second, interdivisional transactions, related to the extent and means of interchange of products, services, and people required among the divisions. The third, performance measurement, addressed the question of how to measure the performance of division managers. Is it more appropriate for the evaluation to reflect solely the performance of the respective division, or should it also include corporate performance? In addition, should performance be measured strictly on an objective basis, or should certain subjective, judgmental assessments also come into play (Pitts, 1977)?

By distinguishing between firms that have diversified primarily through internal development, and firms that have diversified primarily through acquisition, each of these empirical studies (Berg, 1973; Pitts, 1974; 1977) focused on one of these policy issues. The intent of each study was to ascertain whether the type of diversification strategy (internal development / acquisition) had any impact upon the options exercised by the firms within each category.

Using data from four internal diversifieds and five acquisitive diversifieds, Berg (1973) investigated the size and makeup of corporate staffs found within each type of organization. His findings indicated that internal diversifieds tended to support larger corporate staffs, both as a whole and in the research and development function in particular.

In order to investigate the options included under the performance measurement issue, Pitts (1974) obtained data from eleven large diversified firms dichotomized into six internal developers and five acquisitors. In specific, he investigated the incentive compensation practices of these firms. His findings showed that internal diversifieds based incentive awards on both corporate and division performance, while acquisitors seemed to focus mainly upon division performance. Internal diversifieds also tended to give more credance to subjective evaluations than did the acquisitors.

Concerning the extent of interdivisional transactions occurring among the subunits, Pitts (1977) concentrated on a single aspect involving managerial personnel. Data on ten firms, once again dichotomized into four internal developers and six acquisitors, were collected. The results indicated that interdivisional transfers of management personnel had occurred with more frequency in the four internal growth developers than in the six acquisition growth developers.

These studies seemed to indicate that there is a difference in the way internal diversifieds and acquisitive diversifieds develop and implement organizational policies for dealing with their new subunits. For acquisition growth diversifieds (the type most relevant to this project), these studies suggested that two critical distinctive competencies may be: (1) their ability to obtain and to allocate financial resources efficiently; and (2) their ability to attract, to retain and to motivate acquired managers. In this light, a high degree of divisional autonomy which implies locating most activities at the division level, and downplaying the use of interdivisional transactions, seems to be most appropriate for capitalizing on these strengths. In addition, a strictly objective approach to performance evaluation would also seem to coincide with this idea.

The Seetoo Study

Seetoo's (1977) study attempted to explain the performance of large horizontal mergers in a framework of business strategy. Within this context, he investigated five research questions:

1. What are determining factors of the success of large horizontal mergers?
2. With the given profile of a firm, what is the proper strategy of large horizontal mergers?
3. Are some hypotheses of strategic behavior applicable in large horizontal mergers?

4. Should postmerger management follow merger strategy?
5. Are the causes of failure different for different large horizontal merger strategies (Seetoo, 1977)?

Accordingly, he described and classified five different strategic categories of large horizontal mergers:

1. "Major Merger" versus "Minor Merger": referring to the relative size of the two merging firms.
2. "Exchange Merger" versus "Expansion Merger": whether the major purpose of the merger was to strengthen a position in an existing business (Exchange Merger) or to go into a new field of business (Expansion Merger).
3. "Merger Exchange Strategy": how benefits in each functional area were taken and given between two merging firms.
4. "Aggressive Move" versus "Defensive Move": how much the acquirer provided its own points of strengths to the acquired in order to extend those strengths (aggressive), and how much the acquirer benefited from the acquired in areas where it was weak (defensive).
5. "Buy Profit" versus "Buy Bargain": How profitable the acquired firm was before the merger (Seetoo, 1977).

The population for Seetoo's (1977) study comprised the 92 large horizontal mergers listed by the Federal Trade Commission during the period from 1964 to 1973. Relevant data were collected via questionnaire and public sources. The major findings were based upon 30 firms which sent back usable responses.

Empirical indicators of the key constructs obtained via the questionnaire instrument were all numerically coded to facilitate the use of various statistical inference techniques. The primary techniques utilized were: (1) regression analysis to analyze the determinants of merger performance and to analyze and compare the postmerger practices on mergers of different characteristics; (2) the Student's t-test and F ratio to compare differences between means and variances in subgroups; and (3) scattergrams to plot the relations between any two variables. A summary of the major findings of this study follows.

Determining Factors of Successful Horizontal Mergers

The factors found to be most influential in leading to successful horizontal mergers included: (1) the profitability of the acquired firm before the merger; (2) the planning effort of the acquiring company; (3) the growth rate of the acquired company's market segment; and (4) a merger strategy that is designed to remedy an acquiring firm's weaknesses rather than to extend its strengths to the acquired firm.

The profitability of an acquiring firm before the merger showed a negative relationship to merger performance (Seetoo, 1977).

Proper Strategies for Large Horizontal Mergers With a Given Profile of a Firm

Seetoo (1977) described a firm's profile in terms of the complexity of its technology and the degree of maturity of its industry. When an acquisition was operating with a simple technology, it appeared appropriate for the parent company to take advantage of the acquired's sales force and distribution channels. When an acquisition was operating with a complex technology in a nonmature industy, the strategy of extending product technology from the parent to the acquired firm may have tended to bring unsatisfactory results (Seetoo, 1977).

The Application of Hypotheses of Strategic Behavior to Large Horizontal Mergers

Three specific hypotheses of strategic behavior proved to be applicable to large horizontal mergers in Seetoo's study. They were:

1. Entry into a fast growing market would help the merging firm's sales and profit.

2. Expansion horizontal mergers, which were similar to diversification, were more risky than exchange horizontal mergers, which were similar to "concentration" in the concept of business strategy.
3. The critical strategic emphasis in merger benefits given and taken was different when the nature of the industry was different.

One strategic hypothesis, concerning aggressiveness as a highly recommended strategic move, was contradicted by the results of this study. Defensive merger strategies were found to have a positive and substantial impact on the merger performance (Seetoo, 1977).

Postmerger Management and Merger Strategy

One of the most significant findings of Seetoo's (1977) study was that the appropriateness of postmerger management practices differs when merger strategies are classified according to "Major" versus "Minor", "Exchange" versus "Expansion" and "Buy Profit" versus "Buy Bargain". Table 2.1 presents a detailed summary of these findings (Seetoo, 1977).

Causes of Merger Failure and Different Large Horizontal Merger Strategies

The study did not yield significant findings here. Seetoo made only one conclusion, that all problems, such as

TABLE 2.1

THE MORE APPROPRIATE MANAGEMENT PRACTICES AT THE POST-MERGER STAGE IN DIFFERENT TYPES OF HORIZONTAL MERGERS

Post-Merger Management Practices	Types of Merger					
	Major HM*	Minor HM*	Exchange HM	Expansion HM	More Profitable Acquired Firm	Less Profitable Acquired Firm
Consolidation of Finance Function	Low	(High?)	(High?)	Low	-	-
Consolidation of Accounting	Low	(High?)	(High?)	Low	-	-
Consolidation of Personnel Function	?	?	(High?)	Low	-	-
Consolidation of Industrial Relations	?	?	?	?	-	-
Consolidation of Legal Function	?	?	High	(Low?)	-	-
Autonomy of Pricing Decisions	?	?	(Low?)	High	?	?
Autonomy of Advertising Decisions	?	?	?	?	?	?
Autonomy of R & D Decisions	?	?	(Low?)	High	(High?)	Low
Autonomy of New Product Decisions	(High?)	Low	?	?	(High?)	Low
Autonomy of Management Personnel Recruiting	?	?	(Low?)	High	?	?
Autonomy of Management Personnel Promotion	?	?	(Low?)	High	?	?
Control of Financial Budgeting	High	(Low?)	?	?	?	?
Control of Cash	High	Low	High	Low	?	?
Control of Capital Expenditure	(Low?)	High	?	?	(Low?)	High
Internal Audit	?	?	?	?	?	?

*HM is an abbreviation for Horizontal Merger.

SOURCE: Dah Hsian William Seetoo, "The Strategy of Large Horizontal Mergers: An Empirical Investigation" (Ph.D. Dissertation, Northwestern University, 1977), p. 182.

integration, personnel and marketing were important for all types of merger strategies (Seetoo, 1977).

The Hitt Study

Hitt, et al. (1982) conducted an empirical study to ascertain if there were any potential relationships between industrial firms' grand strategies and their top managers perceptions of the relative strategic importance of different organizational functions. One of the grand strategies considered was external acquisitive growth. Firms which emphasized growth primarily through acquisition or merger or through joint ventures with other firms were considered in this category.

In developing their hypotheses about which organizational functions would be considered most important by firms following this type of strategy, Hitt, et al. (1982) reasoned that:

1. Top management plays a critical role in selecting and negotiating acquisitions.
2. Finance plays a key analytical function.
3. Marketing synergy is often sought in mergers and acquisitions.
4. Relations with government bodies may play a key role in mergers and acquisitions because of government re-

gulations and enforcement of antitrust laws (Hitt, et al., 1982).

They hypothesized that the organizational functions of general administration, finance, marketing and public and government relations would be considered the dominant functions for those firms following an external acquisitive growth strategy.

In testing these hytpotheses, they identified seven major organizational functions which include, in addition to the four above: production / operations; engineering / research and development; and personnel. To obtain strategic importance scores for each function, they categorized 55 key result areas by functional grouping. Each participant was asked to rate each key area on a 7-point Likert-Type scale ranging from "completely strategically insignificant" to "of the greatest strategic significance". The scores were determnined by summing the responses within each group.

The following is a summary of the results they obtained upon analyzing the data:

> The marketing, general administration and finance functions were found to be significantly more important for external acquisitive growth strategy firms, and personnel and and public and government relations were relatively more important than engineering / research and development, and production / operations. These results lend general support to the hypothesis (Hitt, et al., 1982, p. 290).

Thus, their study provided some indication of which functional areas would take top priority in efforts on the part of a parent company to integrate the acquisition into the overall organization.

Summary

This section reviewed a series of studies which specifically addressed the postmerger integration process. Eight of those studies which were most closely related to this project included: Kitching (1967); Brockhaus (1970); Ansoff, et al. (1971); Pitts (1974; 1977); Seetoo (1977); and Hitt, et al. (1982).

Kitching's study (1967) concerned characteristics of successful / unsuccessful acquisitions. Some of his most relevant findings included: (1) there is a high risk of failure in concentric and conglomerate acquisitions and a relatively low one in horizontal mergers; (2) changes in reporting relationships between the parent and acquired organization usually result in a high percentage of merger failures; and (3) the pooling of financial resources usually results in the highest degree of synergy between the two firms.

Brockhaus (1970) conducted a comprehensive literature review of the integration process in mergers and acquisitions from an organizational and administrative perspective. This resulted in his developing a five part integration determinant model which was designed to depict the key relationships determining either the success or failure of the postmerger integration process. This model consisted of corporate purpose, organizational structure, organizational culture, personnel and administration and control.

Ansoff, et al. (1971) related instances of success to the acquisition behavior of typical firms. Their major findings from a postmerger integration perspective included: (1) a smaller proportion of merger failures occurred where the assignment of responsibility for the integration process was made to the parent company president or special staff director; (2) conglomerate firms practice the least degree of integration and horizontal and vertical mergers the most; and (3) concentric acquisitions appeared to be slightly more successful when operated autonomously.

Berg (1973) and Pitts (1974; 1977) conducted a series of studies investigating organizational policies of firms following internal development versus acquisitive diversified strategies. These studies suggested that two critical distinctive competencies of acquisitive diversifiers may be: (1) their ability to obtain and to allocate financial resources efficiently; and (2) their ability to attract, to retain and to motivate acquired managers.

They thus implied that a high degree of divisional autonomy while downplaying the use of interdivisional transactions seemed to be the most appropriate ways of capitalizing on these strengths.

Seetoo (1977) attempted to explain the performance of large horizontal mergers in a framework of business strategy. From a postmerger integration perspective, his findings included: (1) firms practicing an defensive (versus aggressive) strategy have a greater chance of succeding; and (2) postmerger management practices differ when merger strategies are classified according to "major" versus "minor", "exchange" versus "expansion" and "buy profit" versus "buy bargain" (see Table 2.1 for a detailed summary of these findings).

Hitt, et al. (1982) investigated if there were any potential relationships between industrial firms' grand strategies and their top managers' perceptions of the relative strategic importance of different organizational functions. They found that marketing, general administration and finance were the most significant functions for external acquisitive growth strategy firms.

The next section of this chapter presents a conceptual model depicting the interaction of corporate acquisition strategies and postmerger managerial decisions as they impact upon performance of the acquired firm. This model ultimately serves as the conceptual basis for the development and testing of future hypotheses.

The Conceptual Model

Figure 2.1 presents a conceptual model of the determinants of postmerger performance of the acquired firm. Three factors in the model, which are hypothesized to have a direct impact upon how a newly acquired subsidiary will ultimately perform, include: (1) premerger selection, planning and negotiating activities; (2) postmerger managerial decisions; and (3) X (other unexplained factors in the environment that could seriously affect overall business operations). The other component of the model predicts that the firm's corporate and business strategies (in relation to a specific acquisition) has a direct impact upon the parent company's subsequent postmerger managerial decisions.

This project is specifically concerned with that part of the model dealing with the interaction between a firm's corporate and business level strategies and subsequent postmerger managerial decisions made by executives from the parent company. Premerger selection, planning and negotiating activities and X are not addressed since the main emphasis of the project is on managerial decisions made by the parent

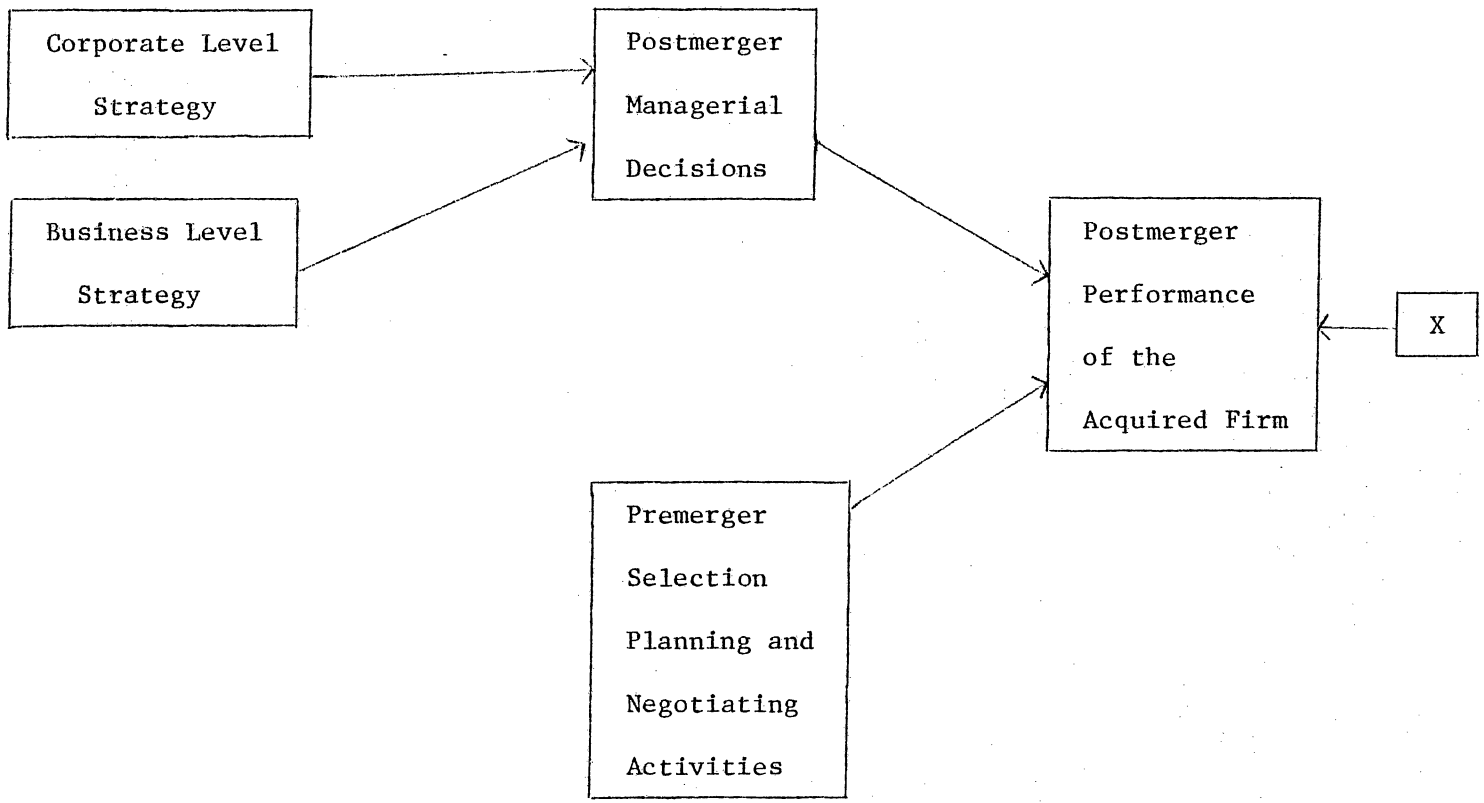

Fig. 2.1. Determinants of Postmerger Performance of the Acquired Firm

company *after* a firm has been acquired. The relationship between postmerger managerial decisions and postmerger performance of the acquired firm also are not investigated in this study because no suitable objective performance measures of the acquired firm can be obtained while utilizing the present methodology of data collection (discussed later).

The next four sections discuss the concept of strategy, corporate level strategies, business level strategies, and postmerger managerial decisions.

The Strategy Concept

The choice of utilizing the concepts of corporate and business level strategies in analyzing the variations in postmerger managerial decisions is based on the general view that strategies reflect "a pattern of important decisions that (1) guides the organization in its relationships with its environment, (2) affects the internal structure and processes of the organization, and (3) centrally affects the organization's performance" (Hambrick, 1980 p. 567: See also Andrews, 1971; Hofer, 1975; Schendel and Hofer, 1979; Aldrich and Pfeffer, 1976; Child, 1972). Since the operational set of postmerger managerial decisions to be used in this study encompasses both structure and process decisions related to the acquisition, the linkage between strategy and these two sets of variables is investigated.

The problem with utilizing the strategy concept in investigations of this type centers around the difficulties encountered in deriving empirical indicators that are appropriate to the types of research questions under study (Schendel and Hofer, 1979; Hambrick, 1980; Snow and Hambrick, 1980). Put another way, the strategy concept contains a host of dimensions that may or may not be addressed in any one operational measure.

In attempting to deal with these problems, Hofer and Schendel (1978) developed a conceptual classification scheme that stratifies the strategy concept at three organizational levels: (1) corporate; (2) business; and (3) functional. Corporate level strategies address the question: "What business(es) should we be in?" and deal with the ways that the firm integrates these separate businesses into an effective portfolio. Business level strategies address the question: "How should a firm compete in a given business?" and focus on how the firm should allocate its resources to achieve a competitive advantage over its rivals. Functional area strategies address the question: "How do we integrate the various subfunctional activities in the firm?" and relate the various functional area policies to changes in the functional area environments. Since mergers and acquisitions represent a way for firms to move into a particular line of business, this research initially focuses on the corporate level when developing operational measures of the strategy concept. Since the organization usually would have some preconceived goals in mind for the new acquisition, this study also focuses on the business level when developing operational measures of the strategy concept.

Corporate Level Strategies

Two dimensions of corporate level strategies (relatedness and acquisition type) are analyzed for their impact upon postmerger managerial decisions (see Figure 2.2). Both look at the relationship between the parent and acquired organizations. The relatedness construct focuses on the amount of similarity in business operations (i.e., products, markets, and technology) between the acquiring and acquired organizations. This dimension stems from the series of studies investigating the relationship between strategy and structure (Chandler, 1962; Wrigley, 1970; Channon, 1971; Pooley-Dias, 1972; Pavan, 1972; Thanheiser, 1972; Stopford and Wells, 1972; Rumelt, 1974; Franko, 1974; 1976; Montgomery, 1980). Each study, while utilizing different variations of the strategy construct, generally operationalized it by looking at the overall organization's degree of diversification which in turn was measured by how related its individual subunits were.

Chandler (1962), in an indepth research work on seventy of America's largest corporations, formulated a set of hypotheses which focused on the historical development of an organization, and the changes that take place over time in both the firm's strategy and structure. Essentially, Chandler proposed that:

1. Organizational structure follows the growth strategy of the firm.
2. There exists a stagewise developmental sequence for the strategies and structures of American enterprises.
3. Organizations do not change their structures until they are provoked by inefficiency to do so (Chandler, 1962).

Chandler differentiated a firm by four types of growth strategies: (1) Volume Expansion, which indicates the firm's practice of increasing sales of its existing products within its existing markets; (2) Geographic Expansion, which refers to selling existing products in new markets; (3) Vertical Integration, which characterizes a firm that absorbs both / either its suppliers and customers; and (4) Product Diversi-

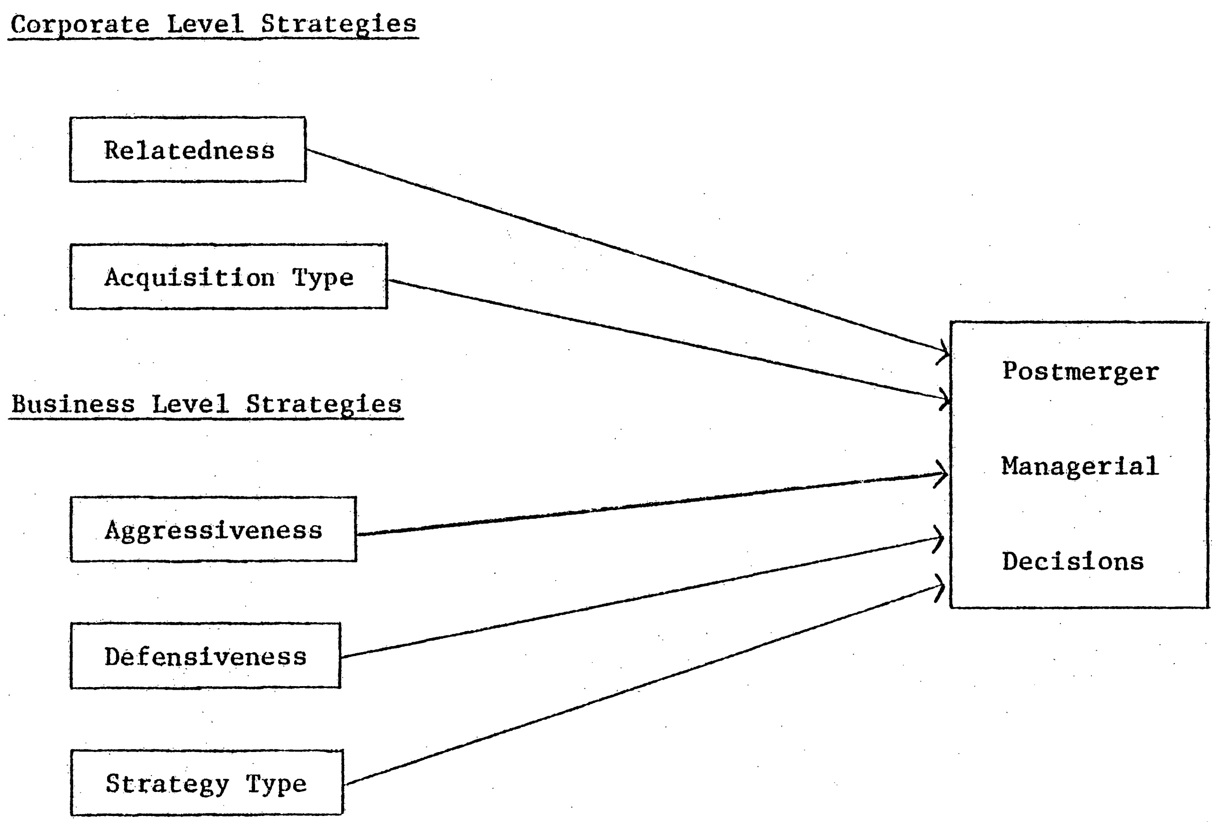

Fig. 2.2. Strategic Dimensions Impacting Upon Postmerger Managerial Decisions

<u>fication,</u> which happens when a firm acquires unrelated product lines.

He also differentiated a firm on two structural dimensions: (1) <u>Centralization / Decentralization,</u> which refers to the locus of power; and (2) a typology identifying <u>Functional, Multidivisional, Holding Company and Matrix structures.</u>

Chandler's main theme was that as firms change over time, they progressively adopt strategies corresponding to their previously mentioned ideal types. Each of the given strategies requires a different type of organizatinal structure. He assumed that top management is reluctant to change its organizational structure every time it changes its strategy, and will not do so until environmental and economic conditions force it upon them. New strategies pose new informational and procedural requirements on a firm which continue to reduce operating efficiency until management makes the necessary adjustments in structure to cope with these demands. Hence, organizational structure eventually follows the growth strategy of the firm.

Since the time of Chandler's work, a series of studies undertaken at Harvard University was performed in an attempt to test his hypotheses. Wrigley (1970) studied a sample of Fortune 500 companies and refined Chandler's theory of diversification strategies. His major conclusion was that the more diversified the strategy of an organization, the higher the probability was that the organization would adopt the multidivisional structure. By following Chandler's proposition of the existence of a stagewise developmental sequence, Wrigley's work supports the concept that as firms progress through the different stages of their life cycle and become more complex, they tend to decentralize their operations. Thus, as strategies change, so eventually does structure.

Rumelt (1974) also studied a sample of Fortune 500 firms, and further differentiated strategies of diversification. He specifically looked at the relationships among strategies, structures and organizational performance. Although his results were inconclusive as to the relationship between structure and performance, he did find that: (1) over the twenty year period of the study, his sample of firms did increase the degree to which they diversified product lines; (2) the overall use of the functionalized structure declined while use of the multidivisional structure increased; and (3) organizations following single and dominant business strategies usually used the functional form, while the more diversified firms tended to implement multidivisional structures.

In testing Chandler's theory internationally, Franko (1974) took a sample of European firms from the list of the Fortune 200 largest non-American firms. Initially, his results did not support Chandler's theory because in 1961 (the year in which he drew his original sample), a large number of the European multinationals were organized around an international holding company / domestic functional model. By the early 1970's, most of these firms were using the multidivisional structure. Franko explained this phenomenon largely on the grounds of the competitive state of the environment. As more penetration of firms from non-European countries occurred in the markets and as the individual governments began placing more emphasis on antitrust suits, a large number of the responding firms gradually began to adopt multidivisional structures.

Galbraith and Nathanson (1978) saw this result as lending support to Scott's (1971) contention that competition makes a difference. When the degree of competition within a given environment is weak, firms are more willing to absorb the inefficiences of a mismatch between structure and environment. Whereas, when the competitive environment is significant, firms will eventually fall into line. Therefore, strategy follows structure only when the competitive environment forces the firm to do so.

Other Harvard studies testing Chandler's thesis of structure following strategy have also been conducted on an international level. Each of these studies (Channon, 1971; Pooley-Dias, 1972 ; Pavan, 1972; Thanheiser, 1972; Stopford and Wells, 1972; and Franko, 1976) has attempted to monitor changes in a firm's organizational structure that have corresponded with moves to international expansion strategies. The primary conclusion is that firms cannot manage high diversification strategies within the context of a single structure. Accordingly, the basic premise of these studies was that the firm's diversification strategy has an impact upon both structure and process variables.

The acquisition type construct also focuses on the amount of similarity in business operations between the two organizations. Ansoff (1965) focused on the relationship between a parent and acquiring firm when discussing different types of acquisition transactions. Thus, depending upon the similarity between the two firms, of products and technology, he was able theoretically to classify acquisition transactions into horizontal, vertical, concentric and conglomerate types. Each of these acquisition types, in turn, corresponded to different degrees of relatedness between the two firms. Horizontal mergers indicated a close relationship, and conglomerate mergers indicated little to no relationship. Concentric and vertical mergers represent different degrees of relatedness between the two extremes. Both Kitching (1967) and Ansoff, et al. (1971) utilized this concept of corporate strategy in their earlier merger and acquisition studies.

Business Level Strategies

Three dimensions of a firm's business level strategy (aggressiveness, defensiveness and strategy type) were considered for use in this study (see Figure 2.2). Each focuses on either the acquiring firm's initial or overall objectives for its new subsidiary.

The first two dimensions of business level strategy (aggressiveness and defensiveness) were originally developed by Seetoo (1977). The aggressiveness construct, attempts to measure how much the acquirer provided its own points of strengths to the acquired in order to extend those strengths. The defensiveness construct attempts to measure how much the acquirer benefited from the acquired in areas where it was weak. These two dimensions of business level strategy, taken together, can provide some indication of the parent firm's initial objectives in acquiring a new subsidiary.

The *strategy type* construct attempts to identify the parent company's overall objectives for the acquisition. Hofer and Schendel (1978) developed a set of four generic strategies (share increasing, growth, profit, and turnaround) which differentiated between these objectives. This *strategy type* construct provides a means for identifying a parent company's general intentions for its new subsidiary over a period of time.

Thus, by utilizing two dimensions of corporate level strategy (relatedness and acquisition type) and three dimensions of business level strategy (aggressiveness, defensiveness, and strategy type), this project attempted to ascertain whether variations in any or all of these dimensions would have an impact upon the types of postmerger managerial decisions made by the parent company. The next section considers the set of postmerger managerial decisions used in this project.

Postmerger Managerial Decisions

Based on an analysis of the findings of both past empirical and conceptual studies dealing with the integration process, Table 2.2 represents a comprehensive summary of the various types of decisions confronting top management of the parent firm when attempting to integrate a newly acquired organization. The table is constructed so as to provide a review of both the empirical and conceptual literature addressing this specific aspect of the merger process.

In deciding which of these managerial choices would be most appropriate in testing for any association with the acquiring firm's corporate and business level strategies, the criterion for selection was the number of times each specific type of decision was addressed in the literature. Thus, if a particular decision had been addressed by at least five authors included in Table 2.2, it was selected for further investigation.

Table 2.3 represents a consolidated list of the primary postmerger managerial decisions (based upon the frequency of mention in the literature) which top corporate managers of the acquiring organization must act upon. Each parameter represents a separate and distinct decision that will eventually confront the top managers of the parent company in attempting to integrate the acquired firm into the overall organization. In accordance with one of the key objectives of this project, this consolidated list of managerial decision parameters serves as the basis for the development of specific research hypotheses.

The first two parameters (see Table 2.3) are related to the question of who in the parent company is in charge of

TABLE 2.2

LITERATURE REVIEW OF POSTMERGER MANAGERIAL DECISIONS

Author	Consolidation of Functional Areas	Reporting and Controlling	Autonomy	Compensation Scales	Personnel Policies	Employee Benefits	Executive Involvement	Responsibility of Acquired Firm in Integration Process
Mallatratt (1957)	X	X	X					
Van Pelt (1957)	X	X	X	X		X		
Mace & Montgomery (1962)	X	X		X	X	X	X	X
Costello, et al. (1963)			X	X		X		
Drayton, et al. (1963)	X	X		X	X	X	X	
Weston (1963)	X							
Hennessy (1966)	X			X	X	X		
Davis (1968)	X		X	X				
Harvey (1969)	X	X		X				
Kitching (1969)	X	X	X				X	
McLagan (1969)	X							
Brockhaus (1970)	X	X		X	X	X	X	X
Levinson (1970)		X						
Ansoff, et al. (1971)	X	X	X		X		X	X
Blumberg & Wiener (1971)	X	X			X			X
Barrett (1973)		X		X	X	X	X	
Berg (1973)	X		X					
Pitts (1974, 1977)	X		X		X			
Seetoo (1977)	X	X	X					
Shirley (1977)		X	X	X	X	X	X	X
Cox (1981)	X		X	X	X	X	X	X
Hitt, et.al. (1982)	X							
Total Citations	18	13	11	11	10	9	8	6
Managerial Decisions Selected for Further Investigation	*	*	*	*	*	*	*	*

TABLE 2.2 - Continued

LITERATURE REVIEW OF POSTMERGER MANAGERIAL DECISIONS

Author	Degree of Centralization	Timeframe for Integration Activities	Unwanted Executives	Authority	Composition of Board of Directors	New Function of President of Acquired Company	Coordinated Production Management	Consolidation of Facilities
Mallatratt (1957)	X		X	X	X			
Van Pelt (1957)	X							
Mace & Montgomery (1962)			X		X	X		
Costello, et al. (1963)				X				
Drayton, et al. (1963)								
Weston (1963)		X						
Hennessey (1966)	X						X	X
Davis (1968)				X		X		
Harvey (1969)			X		X			
Kitching (1969)							X	X
McLagan (1969)								
Brockhaus (1970)	X	X					X	X
Levinson (1970)								
Ansoff, et al. (1971)	X	X						
Blumberg & Wiener (1971)				X		X		
Barrett (1973)		X	X		X			
Berg (1973)								
Pitts (1974, 1977)								
Seetoo (1977)								
Shirley (1977)	X	X	X					
Cox (1981)		X						
Hitt, et.al. (1982)								
Total Citations	6	6	5	4	4	3	3	3
Managerial Decisions Selected for Further Investigation	*	*	*					

TABLE 2.2 - Continued

LITERATURE REVIEW OF POSTMERGER MANAGERIAL DECISIONS

Author	Basis for Organization	Performance Measures	Subunit Identification	Training and Development	Pooling of Financial Resources	Distribution Systems	Changes in Autonomy Levels	Disposition of Profits
Mallatratt (1957)		X						
Van Pelt (1957)								
Mace & Montgomery (1962)	X							
Costello, et al. (1963)								
Drayton, et al. (1963)						X		
Weston (1963)								
Hennessy (1966)	X							
Davis (1968)								X
Harvey (1969)								
Kitching (1969)					X		X	
McLagan (1969)								
Brockhaus (1970)	X							
Levinson (1970)								
Ansoff, et al. (1971)								
Blumberg & Wiener (1971)		X						
Barrett (1973)								
Berg (1973)								
Pitts (1974, 1977)		X						
Seetoo (1977)								
Shirley (1977)			X	X				
Cox (1981)			X	X				
Hitt, et.al. (1982)					X			
Total Citations	3	3	2	2	2	1	1	1
Managerial Decisions Selected for Further Investigation								

TABLE 2.2 - Continued

LITERATURE REVIEW OF POSTMERGER MANAGERIAL DECISIONS

Author	Fiscal Years	Allocation of Central Management Charges						
Mallatratt (1957)								
Van Pelt (1957)	X	X						
Mace & Montgomery (1962)								
Costello, et al. (1963)								
Drayton, et al. (1963)								
Weston (1963)								
Hennessy (1966)								
Davis (1968)								
Harvey (1969)								
Kitching (1969)								
McLagan (1969)								
Brockhaus (1970)								
Levinson (1970)								
Ansoff, et al. (1971)								
Blumberg & Wiener (1971)								
Barrett (1973)								
Berg (1973)								
Pitts (1974, 1977)								
Seetoo (1977)								
Shirley (1977)								
Cox (1981)								
Hitt, et.al. (1982)								
Total Citations	1	1						
Managerial Decisions Selected for Further Investigation								

TABLE 2.3

MANAGERIAL DECISIONS ASSOCIATED WITH THE POSTMERGER INTEGRATION PROCESS

Managerial Decisions
-- Executive Involvement
-- Reporting and Controlling
-- Consolidation of Functional Areas
-- Responsibility of the Acquired Firm in Handling Integration Activities
-- Centralization/Autonomy
-- Compensation Scales
-- Employee Benefits
-- Personnel Policies
-- Timeframe for Phasing Out Unwanted Executives
-- Timeframe for Completing Integration Activities

integrating the two organizations and ultimately coordinating the subsidiary's future activities. The next three parameters deal with the extent of consolidation and coordination of activities between the two organizations. The following three parameters consider parent company decisions with regard to employee compensation, benefits and personnel policies. The last two managerial decision parameters relate to the time taken by the parent company to phase out unwanted executives and complete overall integration activities.

Executive Involvement

This is a subjective assessment of how much top corporate executives from the parent company have participated in the actual merger process. Kitching (1967) and Mace and Montgomery (1962) cited a lack of top corporate involvement as a probable cause of merger failure. In 1971, Ansoff, et al. indicated that when the assignment of responsibility for the integration process was made to the president or special staff director, a smaller proportion of firms experienced integration problems. The first managerial choice is related to how much top corporate executives from the parent company involve themselves with the integration of the newly acquired firm.

<u>Reporting and Controlling</u>

This is a broad construct that attempts to identify both the level of parent company executives in charge of the acquisition, and the number of changes in executive levels in charge of the acquisition over time. Accordingly, the first dimension refers to the individual(s) in the parent company to whom the acquired firm reports. There are numerous potential alternatives to be considered. For instance, Ansoff, et al. (1971) revealed that the type of executive(s) filling this role ranged from the board of directors or its chairman, to the president of the organization, to a vice president, or to a special staff position. Kitching (1967) also found several options including a direct reporting relationship with the president, a group manager organized on a product line basis, or a merged channel (total absorption route) where the new organization is incorporated into the existing format. This aspect of the reporting and controlling parameter thus focuses on identifying the most appropriate individual to manage integration activities.

The second dimension is related directly to the first. However, the issue here is the number of times shifts in responsibility are made at the parent company level within a given time frame. Kitching's study (1967) revealed that in 81 per cent of the firms sampled which were considered failures, the reporting relationships had been disturbed at least once after the acquisition was first brought into the organization. Thus, the number of times that the parent company changes the executive levels in charge of the acquisition over time may affect how the acquired firm performs after the merger.

There seems to be a consensus in the literature as to the need for a high level of executive involvement and for stability in the reporting relationships over time if a merger has a chance of being successful (Mallatratt, 1957; Mace and Montgomery, 1962; Weston, 1963; Kilmer, 1967; Matusiak, 1967; Kitching, 1967; Brockhaus, 1970; Ansoff, et al., 1971).

Consolidation of Functional Areas

This is related to the decision as to which of the acquired firm's activities will be taken over by the parent company and which activities will be performed by the acquired organization. Kitching (1967) suggested that the pooling of financial resources would facilitate the attainment of synergy and high dollar payoffs, while combining production facilities and technological resources would make the attainment of these two objectives more difficult.

In Berg's study (1973), the major finding was that diversified majors (firms that have generated growth primarily through internal means) tend to support larger corporate staffs, both as a whole and in the research and development function in particular. This implies that in those cases where the parent company primarily expands via the acquisition route, one can expect smaller corporate staffs and therefore little to no consolidation of activities between the two firms.

Seetoo's (1977) findings (see Table 2.1) suggested that the degree of consolidation of each functional area was a function of the type of merger strategy employed by the parent company. For example, in major horizontal mergers (where the relative size, expressed as the ratio of asset sizes of the two firms, is more than 30 per cent) and expansion horizontal mergers (where the major purpose of the merger was to go into a new field of business), a low degree of consolidation of the finance function could be expected, while in the exchange horizontal merger, (where the major purpose of the merger is to strengthen a position in an existing business) a high degree of consolidation of the legal function could be expected.

Hitt, et al. (1982) suggested that the marketing, general administration and finance functions appear to be the most important for external acquisitive growth strategy firms, while engineering / research and development, and production / operations appeared to be of least significance. In addition, Ansoff, et al. (1971) concluded that partial integration leads to poor performance. Instead, they suggested that the parent company either fully consolidate the acquired firm's functional activities, or consolidate none of them. Decisions regarding the degree of consolidation of the acquired firm's activities can vary widely, and may represent a significant postmerger decision factor.

Responsibility of the Acquired Firm in Handling Integration Activities

These responsibilities relate to the amount of input executives from the acquired organization have in making integration related decisions. Ansoff's data revealed that when the acquired firm was allowed approximately equal particicipation in integration decisions, there appeared to be a smaller incidence of integration problems. This could be due to the fact that when personnel from the acquired organization feel that they have some input into the decisions affecting them, they will offer less resistance in conforming to new ways of doing things.

Centralization / Autonomy

This refers to both the locus of control for decision making within the new subsidiary, and the amount of flexibility it has to make decisions in various functional areas, without having to consult with the parent company. Should decision making authority be localized with the head of the new subsidiary, or should the parent company attempt to decentralize decision making authority throughout the acquired organization? As pointed out by Brockhaus (1971) and Mallatratt (1957), acquired firms, in general, should be organized in a decentralized fashion, especially where the product lines or marketing approaches of the two firms are substantially different.

Concerning the acquired firm's flexibility in making its own decisions, Berg (1973) indicated that firms following an acquisitive growth strategy tended to grant their subsidiaries a greater degree of autonomy because they would normally maintain smaller corporate staffs.

Seetoo (1977), in identifying appropriate management practices at the postmerger stage, also developed recommendations for autonomy levels of six functional areas based on the type of merger strategy employed (see Table 2.1)

Compensation Scales / Employee Benefits / Personnel Policies

These are all often different between the two organizations at the time that the merger is first consummated. In this light, a key decision that the parent company managers have to make is whether or not to modify the existing compensation structure, employee benefit package and personnel policies of the acquired firm. Once again, there seems to be a consensus in the literature arguing for consistency between the two organizations (Kilmer, 1967; Drayton, 1963; Hennessy, 1966; and Lord, 1964).

Time Frame for Phasing Out Unwanted Executives

This refers to how long it takes the parent company managers to handle the task of dismissing executives from the acquired firm who do not fit into the new organization. Basically, executives from the parent company can handle this in one of two ways. Either they can immediately fire or freeze out unwanted executives, or they can take a more gradual approach by phasing them out over an extended period of time. Since the attitude of the acquired firm is one of the more significant causes of merger failure, this becomes a very delicate decision for the parent company managers. Indeed, Harvey (1969) suggested that the policy of immediately firing an unwanted executive can cause a loss-of-morale problem.

Time Frame for Completing Integration Activities

This represents the amount of time taken by the parent company to complete the process of integrating the acquired firm into the company's overall operations. Ansoff, et al. (1971) revealed that the time frame usually ranged from less than six months to greater than two years.

Summary

This chapter started out by identifying various factors that have led to the development of a study of postmerger integration practices of firms acquiring foodservice organizations. These included: (1) a high degree of merger failures which could be attributed to poor management practices after the firm has been acquired; (2) the increasing significance of the service sector within the United States economy; and (3) a high level of merger and acquisition activity involving foodservice organizations. Next, a series of conceptual and empirical articles which specifically addressed postmerger integration practices was reviewed.

This ultimately led to the development of a conceptual model of the determinants of postmerger performance of the acquired firm. The model postulated that the factors affecting the performance of the acquired firm include premerger selection, planning and negotiating activities, postmerger managerial decisions, and X (other unexplained factors in the environment that could seriously affect overall business operations). In addition, the model postulated that a firm's corporate and business level strategies would affect the way the parent company would make such decisions.

This study is concerned with testing that part of the conceptual model which focuses on the linkage between the parent company's corporate and business level strategies on one hand, and the types of postmerger managerial decisions it implements on the other. The chapter concluded by discussing various dimensions of each of these three constructs.

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Chapter III

SOURCES AND METHODS

This chapter presents the definitions, research questions and hypotheses, methodology, data analysis, and description of the pilot study utilized in the investigation.

Definitions

The following secondary definitions were used in this study.

Merger / Acquisition

Although technically these two terms referred to different types of transactions, they were used interchangeably to indicate the takeover of one firm by another through the purchase of a controlling interest in its common stock.

The Postmerger Integration Process

This concept referred to the time frame beginning immediately after the merger contract was signed and extended until such a time when all the steps considered necessary by the parent, in bringing the acquisition into the overall organization, were completed. This usually ranged from less than six months to two years or more.

Parent / Acquiring Firm

These terms were used interchangeably to refer to the firm which assumed a controlling interest over the stock of the other firm involved in the transaction.

Subsidiary / Acquired Firm

These terms were used interchangeably to refer to the firm whose controlling interest had been assumed by the parent firm involved in the transaction.

Postmerger Managerial Decisions

This term was used to refer to the types of decisions confronting the top managers of the parent company in attempting to integrate the acquired firm into the overall organization. Table 2.3 (in Chapter II) outlines the key managerial decisions investigated in this project. The terms "implementation considerations" and "integration practices" were used synonomously with postmerger managerial decisions.

Acquisition Type

This phrase represented a set of terms identifying the nature of the transaction. Specifically, a _horizontal merger_ referred to the case where the parent company purchased a competitor. A _forward vertical integration merger_ referred to the case where the parent company acquired a firm that was formerly one of its customers. A _backward vertical integration merger_ referred to the case where the parent company acquired a firm that was formerly one of its suppliers. A _concentric merger_ referred to the case where the parent company purchased a firm in a related line of business. A _conglomerate merger_ referred to the case where the parent company and subsidiary operated in completely unrelated lines of business.

The Acquiring Firm's Strategy Type

This represented a set of terms identifying the parent company's overall objectives for the acquisition. Hofer and Schendel's set of generic strategies (1978) were used as a basis for differentiating between the various types. A _share increasing strategy_ was intended to increase the market share of either (or both) the acquiring and acquired firm significantly and permanently. A growth strategy was intended to maintain either (or both) the acquiring and acquired firm's existing competitive position in very rapidly expanding markets. A profit strategy was intended to maximize the return on either (or both) the acquiring and acquired firm's existing resources and skills. A turnaround strategy was intended to arrest and reverse the declining fortunes of either (or both) the acquiring and acquired firm as quickly as possible.

Restaurant and Foodservice Operator

This referred to any firm that was in the business of preparing food items for immediate consumption by its customers on the premises. It encompassed both single and multisite operations.

Fast Food Franchisors

This referred to any firm that was in the business of operating one or more units of a restaurant business under a licensing agreement to use a concept owned by another firm.

Research Questions and Hypotheses

This section first elaborates on the eight research questions presented in Chapter I. Next, the four sets of conceptual and operational hypotheses, derived from these questions, are presented.

Research Questions

Eight research questions were used to aid in identifying common characteristics of postmerger integration practices of acquiring firms. The intent was to find out if there were any signigicant associations between an acquiring firm's corporate and business level strategies on one hand, and its resulting postmerger managerial decisions, on the other.

The first four questions represented descriptions of state of the art practices of firms investing in the foodservice industry. They attempted to identify the most common strategies employed by firms which have already acquired a restaurant operation. The next four questions focused on determining whether there are significant relationships between the the parent company's five strategy dimensions and its resulting postmerger managerial decisions.

1. <u>What types of acquisition strategies are most frequently employed by firms which invested in the food-</u>

service industry? The range of possible answers to this question included horizontal, forward vertical,[1] concentric or conglomerate mergers. The purpose of the question was to identify which class or classes of acquisition types have predominated over the relevant five year period in the foodservice industry. Once this has been accomplished, statistical tests could be performed to determine if the different acquisition types do indeed correlate with different sets of postmerger managerial decisions over the relevant time period.

2. How related to the foodservice industry were firms which acquired restaurant operations? The purpose of this question was to ascertain how much restaurant experience (having other operations in the foodservice industry) a typical foodservice acquisitor had. The greater the percentage of the parent company's overall sales that came from restaurant operations, the more closely related the parent firm was considered to be to the foodservice industry.

[1] Because of the nature of firms to be included in the final sample, there is no chance for a firm to engage in a backward vertical integration type. This should not introduce any biases into the study.

3. <u>What types of business strategies were most frequently employed by firms which invested in the foodservice industry?</u> The range of possible answers to this question included turnaround, growth, profit and share increasing strategies. The purpose was to identify which strategy type or types have predominanted over the relevant time period for acquisitions in the foodservice industry.

4. <u>How aggressive / defensive were firms which invested in the foodservice industry?</u> This question focused on the acquiring firm's initial intentions for its new subsidiary. Highly aggressive firms, as used in this context, were those which attempted to provide their own points of strengths to the new acquisition. Highly defensive firms, as used in this context, were those which attempted to draw upon the strengths of the newly acquired firm to enhance their own position. The purpose of this question was to assess how aggressive / defensive acquiring firms have been in making investments in the foodservice industry over the relevant time period.

5. <u>Was there any association between acquisition type and managerial decisions made during the postmerger integration process?</u> After classifying firms in the

sample by acquisition type and examining the way they integrated the acquired firm into the overall organization, it may be possible to determine whether certain postmerger integration practices occurred more frequently within one acquisition type as opposed to another.

6. <u>Was there any association between the parent company's past experience in the foodservice industry and the types of managerial decisions it made during the postmerger integration process?</u> By assessing the degree of relatedness to the foodservice industry of the parent organization, the researcher can then perform statistical tests to see if the level of the parent company's past foodservice experience affects the way it makes current postmerger managerial decisions over the relevant time period.

7. <u>Was there any association between the type of business strategy a firm employed in making a foodservice acquisition and managerial decisions implemented during the postmerger integration process?</u> After classifying firms in the sample by strategy type and examining the way they integrated the acquired firm into the overall organization, it may be possible to determine whether certain postmerger integration prac-

tices occurred more frequently within one strategy type as opposed to another.

8. Was there any association between a firm's degree of aggressiveness / defensiveness in making a foodservice acquistion and managerial decisions implemented during the postmerger integration process? After assessing both the degree of aggressiveness and the degree of defensiveness of the parent company, statistical tests can then be performed to determine if these two indicators do indeed have an impact upon the types of postmerger managerial decisions implemented by the parent company over the relevant time period.

Conceptual and Operational Hypotheses

Based on these eight research questions, four sets of conceptual and operational hypotheses have been developed for further investigation. (Note: The aggressiveness and defensiveness dimensions of business level strategy have been consolidated into one set). Operational measures for each variable contained in the following sets of hypotheses are discussed in a subsequent section. The phrase "degree of" which was utilized in most of the following operational hypotheses referred to an ordinal classification of each variable. Since there is no absolute way of measuring exact distances between these classifications, "degree of" was used to indicate "high" "medium" and "low" levels of attaining or implementing each variable (the phrases "time frame" and "time allotted" are also used in a similar fashion).

H1 : <u>There are differences in the postmerger integration practices among firms which engage in different types of acquisitions.</u>

This hypothesis stemmed directly from that portion of the conceptual model dealing with the relationship between acquisition type and the set of postmerger managerial decision constructs. It predicts that a firm will exercise different postmerger managerial decisions in conjunction with the type of acquisition it has just engaged in. Depending upon that acquisition type, one may be able to assess how a parent company would most likely integrate and run its new subsidiary (in terms of the specific postmerger managerial decisions enumerated in Table 2.3). The nature of these differences (for this and all subsequent conceptual hypotheses) were revealed through the empirical testing of the operational hypotheses.

To test this conceptual hypothesis, the following set of operational hypotheses (which were based upon the managerial decisions outlined in Table 2.3) were employed. All operational hypotheses used in this study were stated in the null form. The intent was to gain some insight as to what types of relationships, if any, actually do exist (measurement techniques for this and all subsequent hypotheses are discussed in a later section):

H1A: There is no relationship between acquisition type and the degree of executive involvement of managers in the parent company during the postmerger integration process.

H1B: There is no relationship between acquisition type and the degree of reporting and controlling between the two companies.

H1C: There is no relationship between acquisition type and the degree of consolidation of the acquired firm's functional areas.

H1D: There is no relationship between acquisition type and the degree of responsibility of the acquired firm in handling integration activities.

H1E: There is no relationship between acquisition type and the degree of centralization / autonomy afforded the acquired firm in making functional decisions.

H1F: There is no relationship between acquisition type and the degree of similarity of compensation scales between the two firms.

H1G: <u>There is no relationship between acquisition type and the degree of similarity of employee benefits between the two firms.</u>

H1H: <u>There is no relationship between acquisition type and the degree of similarity of personnel policies between the two firms.</u>

H1I: <u>There is no relationship between acquisition type and the time allotted for phasing out unwanted executives.</u>

H1J: <u>There is no relationship between acquisition type and the time frame utilized in completing all integration activities.</u>

H2 : <u>There are differences in postmerger integration practices among firms depending upon how closely related the parent is to the acquired firm's line of business.</u>

This hypothesis stemmed directly from that portion of the conceptual model dealing with the relationship between the relatedness and the set of postmerger managerial decision constructs. It predicts that a firm's postmerger managerial practices will differ in conjunction with how closely related the two firms are. Depending upon the closeness of that relationship, one may be able to assess what types of managerial choices would most likely be exercised by the parent company during the postmerger integration phase. To test this conceptual hypothesis, the following set of operational hypotheses (which were based upon the managerial decisions outlined in Table 2.3) were employed:

H2A: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of executive involvement of managers in the parent company during the postmerger integration process.</u>

H2B: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of reporting and controlling between the two companies.</u>

H2C: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of consolidation of the acquired firm's functional areas.</u>

H2D: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of responsibility of the acquired firm in handling integration activities.</u>

H2E: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of centralization / autonomy afforded the acquired firm in making functional decisions.</u>

H2F: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of similarity of compensation scales between the two firms.</u>

H2G: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of similarity of employee benefits between the two firms.</u>

H2H: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of similarity of personnel policies between the two firms.</u>

H2I: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the time allotted for phasing out unwanted executives.</u>

H2J: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the time frame utilized in completing all integration activities.</u>

H3 : <u>There are differences in the postmerger integration practices among firms which attempt to utilize different strategy types in connection with the acquisition.</u>

This hypothesis stemmed directly from that portion of the conceptual model dealing with the relationship between the strategy type and the set of postmerger managerial decision constructs. It predicts that a firm's postmerger managerial practices will differ as a result of the strategy type employed by the parent company in connection with the new acquisition. Depending upon which strategy type the parent company utilizes, one may be able to assess what types of managerial choices would most likely be exercised by the parent company during the postmerger integration phase.

To test this conceptual hypothesis empirically, the following set of operational hypotheses (which are based upon the managerial decisions outlined in Table 2.3) were employed:

H3A: <u>There is no relationship between the strategy type employed by the acquiring firm and the degree of executive involvement of managers in the parent company during the postmerger integration process.</u>

H3B: <u>There is no relationship between the strategy type employed by the acquiring firm and the degree of reporting and controlling between the two companies.</u>

H3C: <u>There is no relationship between the strategy type employed by the acquiring firm and the degree of consolidation of the acquired firm's functional areas.</u>

H3D: <u>There is no relationship between the strategy type employed by the acquiring firm and the degree of responsibility of the acquired firm in handling integration activities.</u>

H3E: <u>There is no relationship between the strategy type employed by the acquiring firm and the degree of centralization / autonomy afforded the acquired firm.</u>

H3F: <u>There is no relationship between the strategy type employed by the acquiring firm and the degree of similarity of compensation scales between the two firms.</u>

H3G: <u>There is no relationship between the strategy type employed by the acquiring firm and the degree of similarity of employee benefits between the two firms.</u>

H3H: <u>There is no relationship between the strategy type employed by the acquiring firm and personnel policies between the two firms.</u>

H3I: <u>There is no relationship between the strategy type employed by the acquiring firm and the time allotted for phasing out unwanted executives.</u>

H3J: <u>There is no relationship between the strategy type employed by the acquiring firm and the time frame utilized in completing all integration activities.</u>

H4 : <u>There are differences in the postmerger integration practices among firms which exhibit different degrees of aggressiveness / defensiveness.</u>

This hypothesis stemmed directly from that portion of the conceptual model dealing with the relationship between the aggressiveness and defensiveness constructs on one hand, and the set of postmerger managerial decision constructs on the other. It predicts that a firm's postmerger managerial practices differ as a result of how aggressive / defensive the acquiring firm is in connection with its new acquisition. Depending upon the level of aggressiveness / defensiveness, one may be able to assess what types of managerial choices would most likely be exercised by the parent company during the postmerger interation phase. To test this conceptual hypothesis empirically, the following set of operational hypotheses (which are based upon the managerial decisions outlined in Table 2.3) were employed:

H4A: <u>There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the degree of executive involvement of managers in the parent company during the postmerger integration process.</u>

H4B: <u>There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the degree of reporting and controlling between the two companies.</u>

H4C: <u>There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the degree of consolidation of the acquired firm's functional areas.</u>

H4D: <u>There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the degree of responsibility of the acquired firm in handling integration activities.</u>

H4E: <u>There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the degree of centralization / autonomy afforded the acquired firm.</u>

H4F: There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the degree of similarity of compensation scales between the two firms.

H4G: There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the degree of similarity of employee benefits between the two firms.

H4H: There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the degree of similarity of personnel policies between the two firms.

H4I: There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the time allotted for phasing out unwanted executives.

H4J: There is no relationship between the degree of aggressiveness / defensiveness of the parent company and the time frame utilized in completing all integration activities.

Summary

This section presented eight research questions and four sets of hypotheses to help guide the study. For each empirical indicator (acquisition type, relatedness, strategy type and aggressiveness / defensiveness) a pair of research questions was developed to: (1) identify the strategic orientation of firms generally investing in the foodservice industry and (2) investigate whether these strategies were associated with postmerger integration practices.

Each set of hypotheses consisted of one conceptual hypothesis and ten operational hypotheses. The conceptual hypothesis postulated that there is a relationship between a given strategy dimension and postmerger integration practices. The operational hypotheses compared the strategy dimension to each of the ten postmerger managerial decisions (from Table 2.3).

Methodology

This section discusses the sample population, data source, measurement of variables, validity and reliability checks and a test for a constant environment.

Sample

In testing these hypotheses, this study was limited in scope to one industry characterized by a high occurrence of merger activity (i.e., firms within the industry being acquired by other firms within the same industry or by others outside of the industry).

With this in mind, all mergers included in the final sample specifically involved firms that have acquired <u>restaurant operations</u>. During the period from 1976 to 1981, at least 96 such transactions were consummated. Given this time frame, the foodservice industry has been selected because it both closely parallels merger and acquisition activity going on in the overall economy at the time (see Chapter II), and represents a significant portion of the service sector of the economy.

By restricting the sample to firms in only one segment of the service sector, the researcher was able to control for environmental and technological variables (with respect <u>only</u> to the acquired organizations in the sample) to a certain degree. Thus, attention was specifically placed on the impact of acquiring firms' corporate and business level strategies upon their postmerger managerial decisions. In addition, since past empirical studies utilized data from firms in a wide variety of manufacturing oriented industries, this study took an alternative approach by testing these findings within one industry that is service oriented. The intent was to see if there was any basis for distinguishing between manufacturing and service oriented firms in conducting future research on mergers and acquisitions.

Source of Data

For the past eleven years (1970-1981), the American Institute of Food Distribution, Inc. has published an annual survey of mergers and acquisitions related to the food industry. These studies consisted of merger and acquisition activity as they related to 35 categories of firms classified as operating within the food industry.

This study focused specifically on two categories: fast-food franchisors and restaurant and foodservice operators, over a six year period (1976 - 1981). This time frame was selected for three reasons:

1. In order to allow the parent company enough time to complete integration activities, at least two years of operating results must be analyzed (Kitching, 1967). Therefore, by selecting 1981 as the latest year to be included in the sample, there are data for at least the minimum two-year time period.

2. Specific data relating to the details of the merger and acquisition activity of a company are increasingly difficult to obtain as more time elapses between the date of the merger and the current period. This can be attributed to such factors as personnel turnover, especially among individuals who were directly involved in the organization at the time, and memory loss among key individuals who may have made these decisions quite some time ago. Therefore, 1976 was selected as the earliest year to be included in the study in an attempt to minimize the effects of this problem.
3. A multiple year time frame (six years) has been selected over a single year in order to increase the potential sample size of fastfood franchisors and restaurant and foodservice operators who have been involved in merger and acquisition activity. The final sample included only those merger and acquisition transactions that involved a fastfood franchisor or a restaurant and foodservice operator in the capacity of the <u>acquired</u> organization.

For those firms included in the final sample, relevant data were collected via a structured questionnaire instrument which was sent to an executive in the parent company who was directly involved in the concerned acquisition program.

Table 3.1 is a sample page from the 1979 study of mergers and acquisitions prepared by the American Institute of Food Distribution, Inc. As stated in the preface to this report:

> The first column is the acquiring firm. The second column is the firm, division, or subsidiary purchased. The third column identifies the type of business of the acquired operation. Where subsidiaries are the acquiring agent, they appear in parenthesis. If a firm, division or plant has been purchased from a surviving company, the term "ex" is used. The term "new firm" means that individuals often part of the management of the "to be" purchased subsidiary, have formed a new company to take over a specific firm or division.

The heading in the middle of each section identifies the nature of the acquiring firm (see X marks (X) in Table 3.1).

Those firms included in the final sample are identified in Column 3 as either a restaurant operator or franchisor of restaurants (see asterisks (*) in Table 3.1).

Measurement of Variables

In order to test each of the hypotheses, the following empirical measures were incorporated into an overall questionnaire instrument.

Acquisition Type

TABLE 3.1

SAMPLE PAGE FROM DATA SOURCE

Foodservice Vendors (X)		
(Moccomat Beverage Systems, Inc.) Douwe Egberts B.V.	Superior Tea & Coffee Co.	Distributor of tea, coffee, and related products
*(Trans World Corp.) Trans World Airlines, Inc.	Spartan Food Systems, Inc.	Operator of limited menu restaurants, largest Hardee's franchisor*
Custom Food Management Systems, Inc.	Key Management Services, Inc. (25% interest)	Foodservice firm*
*The Macke Co.	Macaluso Vending, Inc.	Full-line vending operator
*ARA Services, Inc.	Smith's Transfer Corp.	General commodity carrier
Meat Packers (X)		
*Monfort of Colorado, Inc.	Meat processing plant ex: (Swift & Co.) Esmark, Inc.	Grand Island, Neb. beef plant
Swift & Co.	Rival dog food ex: Nabisco, Inc.	Wet canned dog food trademark
*Tobin Packing Co.	Halco Products Corp.	Food processing and distribution firm
*Bluebird, Inc.	DAK Foods, Inc. and Country Fresh Foods, Inc. ex: DAK Meat Packers, Ltd.	Importers and producers of Danish hams and ham products
Butcher Bay Food Products, Inc.	Mar Kes Foods and Cisco Foods ex: (Riviana Foods, Inc.) Colgate Palmolive Co.	Two Mexican type food companies
*Oscar Mayer & Co.	Oscar Mayer S.S. (Remaining interest)	Spain meat processing affiliate
*Wm. Underwood Co.	Harry Peck & Co., Pty Ltd.	Australian meat and meat paste manufacturer
Friona Industries, Inc.	Village Packing Co.	Meat wholesaler, supplying fast food units
Dinner Bell Foods, Inc.	Dreher Packing Co., Inc.	Meat processor

SOURCE: The American Institute of Food Distribution, Inc., List of Acquisitions: 1979 (Fairlawn, New Jersey: 1979), p. 8.

This construct was measured by obtaining questionnaire respondents' subjective perceptions of the relationship between the parent and acquired organization. After reviewing descriptions of each acquisition type, the sample participants were asked to choose the <u>one</u> that most closely described the relationship between the parent and acquired firm. Based on this response, each set of firms (parent and acquired) was classified into one of the four possible acquisition types investigated in this study (see Question 1 in Appendix A).

<u>Relatedness</u>

To measure this construct, respondents were asked to identify the percentage of the parent company's overall revenues coming from foodservice operations (see Question 2 in Appendix A). This measure was derived from Rumelt's scale (1974) where the percentage of revenues comming from a firm's dominant business was used to develop different diversification classes.

The problem with directly using Rumelt's scale (which has been shown to be a valid indicator of a firm's diversification strategy (Montgomery, 1982)) in this project is that it does not provide an indication of the parent company's <u>specific</u> corporate strategy with respect to a <u>specific</u> acquisition. Rumelt classified a firm's degree of diversification by focusing on the percentage of sales comming from its dominant line of business (the lower this percentage, the more diversified the firm was considered to be). His exact methodology would be inappropriate for this project since it provides no indication of how much experience the parent company has had in the foodservice industry prior to the time of the merger (unless, of course, the parent company's dominant line of business happened to be in restaurant operations).

Therefore, relatedness, in this sense, was operationalized by modifying Rumelt's methodology, so that only the percentage of parent company sales comming specifically from foodservice was considered. Responses were classified along the following 5-point scale.

Unrelated				Closely related
1	2	3	4	5
Less Than 20%	20%-40%	40%-60%	60%-80%	80%-100%

Strategy Type

This construct was measured by obtaining questionnaire respondents' subjective perceptions of the parent company's overall objectives for the acquisition. After reviewing descriptions of each strategy type, the sample participants were asked to choose the one that most closely described the parent company's intentions for the acquisition. Based on this response, each firm (parent company) was classified into one of four possible strategy types (see Question 3 in Appendix A).

This "self typing" technique, used to measure both acquisition type and strategy type, is an adaptation of a technique developed earlier by other researchers (Snow and Hambrick, 1980; Snow and Hrebiniak, 1980; Coleman, 1978). Specifically, it considers top managers' perceptions and opinions of their organization's strategies. Originally used to operationalize Miles and Snow's (1978) four strategic types, this method is particularly suited for the collection of data from large samples. The disadvantages of its use include: (1) the possibility that managers, in considering their firms to be unique, may not attempt to even respond to this question; (2) the possibility that a manager's perceptions may not reflect the organization's strategy; (3) the possibility that executives may "create" a strategy for the researcher; and (4) the fact that no method of external confirmation exists (Nisbett and Wilson, 1977; Bougeois, 1978; Hambrick, 1979; Snow and Hambrick, 1980; Snow and Hrebiniak, 1980; Miles and Snow, 1980).

Hofer and Schendel's (1978) strategy classification scheme (defined earlier) was selected over Miles and Snow's classification scheme for reasons similar to those presented with respect to the relatedness construct.

Miles and Snow operationalized the business level strategy construct by classifying firms into one of four strategic categories (defender, reactor, annalyzer and prospector). Though viewed by some researchers as one of the more effective ways of operationalizing the business level strategy construct (Hambrick, 1980), this scheme seemed inappropriate here because it provided no indication of what the parent company had planned for a <u>specific</u> acquisition. Defenders, reactors, annalyzers and prospectors represent a <u>profile</u> of how the firm generally acts within a given industry. These profiles were derived by assessing how a firm enacts strategic decisions over the long run, and does not provide specific enough information as to how the parent firm plans on handling any one new acquisition.

Another drawback of Miles and Snow's classification system is that it was operationalized by asking questionnaire respondents to select a profile that best characterized their firm <u>with respect to other competiors in their industry.</u> This may present problems for firms to answer effectively in a merger / acquisition study, especially since the possibility exists that the parent firm may be a first time entrant into the foodservice industry. These firms would thus be lacking in past restaurant experience to be able to answer the question.

For these reasons, Hofer and Schendel's four strategy types (turnaround, profit, growth and share increasing) were used to operationalize the construct in this study. The primary advantage is that strategic descriptions of these classifications can more easily be related to a *specific* acquisition than can Miles and Snow's categories.

Aggressiveness / Defensiveness

Measures of these two constructs combined questionnaire respondents' various subjective ratings with an objective computational procedure to arrive at *degree of aggressiveness* and *degree of defensiveness* scores. These two measures were derived from a similar methodology utilized by Seetoo (1977). The main differences between these and Seetoo's measures were: (1) he used an eleven point Likert type scale while this study used a five point Likert type scale; and (2) strengths and weaknesses of the acquiring firm were identified on a direct versus a relative basis. To compute a firm's degree of aggressiveness and degree of defensiveness, information from three types of questionnaire items

(Questions 4 - 6, in Appendix A) were obtained. The first question (see Question 4 in Appendix A) identifies the strengths and weaknesses of the acquiring firm at the time of the merger. For eleven aspects of the parent company, respondents were asked to evaluate their strengths and weaknesses (in comparison with major potential competitors) on a scale from 1 to 5. The second question (see Question 5 in Appendix A) identifies benefits taken from the acquired firm. For each of these same eleven aspects, respondents were asked to evaluate the importance of potential benefits to be gained from the acquired firm. The third question (see Question 6 in Appendix A) identifies benefits given to the acquired firm. Again, for each of these same eleven aspects, respondents were asked to evaluate the importance of potential benefits to be given to the acquired firm.

Utilizing the information provided from these three questions, the parent company's degree of aggressiveness and degree of defensiveness were computed as follows:

I. Identify the strengths and weaknesses of the acquiring firm.

(a) Those items evaluated as either a 4 or a 5 in Question 4 of Appendix A were considered strengths of the acquiring firm.

(b) Those items evaluated as either a 1 or a 2 in Question 4 of Appendix A were considered weaknesses of the acquiring firm.

II. Calculate an aggressiveness score.

(a) Identify areas which were strengths in the self evaluation from Question 4 in Appendix A.

(b) For areas which are <u>not</u> strengths, the degree of aggressiveness of that area is non existent, and a zero is assigned to the "degree of aggressiveness" of that area.

(c) For areas which are strengths, the degree of aggressiveness of the particular area is the product of the "benefit given to the acquired" (obtained from Question 5 in Appendix A) multiplied by the strength of that area.

(d) The sum of the "degree of aggressiveness" in all areas in a merger is the aggressiveness score of that merger.

III. Calculate a defensiveness score.

(a) Identify areas which were weaknesses in the self evaluation from Question 4 in Appendix A.

(b) For areas which are not weaknesses the degree of defensiveness of that area is non existent, and a zero is assigned to "the degree of defensiveness" of that area.

(c) For areas which are weaknesses, the degree of defensiveness of the particular area is the product of the "benefit taken from the acquired" (obtained from Question 6 in Appendix A) multiplied by the weakness of that area.

(d) The sum of the "degree of defensiveness" in all areas in a merger is the defensiveness score of that merger.

Executive Involvement of Managers in the Parent Company

Information to measure this variable was obtained via a questionnaire item adapted from Seetoo's (1977) instrument (see Question 7 in Appendix A). For each of 10 functional areas, respondents were asked to rate the item in accordance with a 4-point scale representing various degrees of parent company executive involvement. The degree of executive involvement of managers in the parent company was computed by obtaining an average score for the ratings of all functions.

Reporting and Controlling

Empirical indicators of two dimensions of this construct were originally considered for investigation. The first was the level of the parent company executive to whom the acquired firm reports. The second was related to the number of changes in executive levels in charge of the acquisition over time. With regard to the level of the parent company executive, information to measure this variable was obtained via a questionnaire item adapted from Ansoff, et al.'s (1971) instrument (see Question 8 in Appendix A). Responses were classified along the following 5-point scale.

Low Level Parent Company Executive				High Level Parent Company Executive
1	2	3	4	5
Middle Manager	Special Staff Position	Vice President	President	Member of Board of Directors

With regard to changes in executive levels over time, measurement was based on an objective questionnaire item (see Question 9 in Appendix A). Here, respondents were asked simply to state the number of changes in executive levels in charge of the acquisition that had taken place over a two year period following the merger.

Consolidation of the Acquired Firm's Functional Areas

This variable was measured by a questionnaire item adapted from Seetoo's (1977) instrument (see Question 10 in Appendix A). For each of 10 functional areas, respondents were asked to rate the item in accordance with a 4-point scale representing various degrees of consolidation. The parent company's overall degree of consolidation of the acquired firm's activities was computed by obtaining an average score for the ratings of all functions.

Responsibility of the Acquired Firm in Handling Integration Matters

In measuring this variable, a questionnaire item adapted from Ansoff et al.'s (1971) instrument (see Question 11 in Appendix A) was used. Responses were classified along the following 4-point scale:

Little Or No Responsiblity	Proportional To The Relative Sizes of The Firms	Equal Responsibility	More Responsibility Than Parent
1	2	3	4

Centralization / Autonomy Afforded the Acquired Firm

A questionnaire item adapted from Seetoo's (1977) instrument (see question 12 in Appendix A) was used to measure this variable. For each of six functional areas, respondents were asked to rate the item in accordance with a 5-point scale representing various degrees of autonomy. The overall degree of autonomy afforded the acquired firm in making functional decisions was computed by obtaining an average score for the ratings of all functions.

Similarity of Compensation Scales / Employee Benefits / Personnel Policies Between the Two Firms

The researcher developed a set of questionnaire items to measure these variables (see Questions 13-15 in Appendix A). For each of nine functional areas, respondents were asked to indicate, along a 3-point scale, how similar the compensation scales, employee benefits and personnel policies were between the two firms. The degree of similarity of these items between the two firms was computed by obtaining an average score for the responses of all functional areas.

Time Allotted for Phasing Out Unwanted Executives

The researcher also developed a questionnaire item to measure this variable (see Question 16 in Appendix A). For each of 5 executive levels, respondents were asked to indicate, along a 4-point scale, how long it took to phase the unwanted executive out of the organization. The time allotted for phasing out unwanted executives was computed by obtaining an average score for the responses of all levels.

<u>Time Frame Utilized in Completing all Integration Activities.</u> Information to measure this variable was obtained via a questionnaire item adapted from Ansoff et al.'s (1971) instrument (see Question 17 in Appendix A). Responses were classified along the following 4-point scale:

Short Integration Time			Long Integration Time
1	2	3	4
Less Than 6 months	Between 6 Months and 1 Year	Between 1 and 2 Years	More Than 2 Years

Validity Checks

Two procedures for testing convergent validity were developed for the empirical indicators of the corporate and business level strategy constructs, respectively. The first procedure is appropriate for comparing nominal and ordered variables. The second procedure is used for testing continuous variables.

The two empirical indicators of a firm's corporate level strategy were <u>acquisition type</u> (a four point nominal variable: see Question 1 in Appendix A) and <u>relatedness</u> (a five point ordered variable: see Question 2 in Appendix A). If these two indicators were tapping the same construct, there should be a large and negative relationship between them.

Thus, for acquisition transactions that were classified as conglomerate mergers (indicating that there is little relationship between the two firms at the time of acquisition) the parent company respondent should also have indicated that the firm's total percentage of sales coming from foodservice operations at the time of the merger was low (less than 20 percent). Similarly, for acquisition transactions that were classified as horizontal mergers (indicating that the two firms were highly related at the time of the acquisition) the parent company respondent should also have indicated that the firm's total percentage of sales coming from foodservice operations at the time of the merger was high (usually greater than 80 percent).

The procedure for testing the statistical relationship betweeen these two variables consists of: (1) setting up respective contingency tables; (2) computing a Chi-square statistic; and (3) calculating the Contingency Coefficient.

Chi-square analysis was used to test the null hypothesis that the mean percentages of sales in each acquisition type category were not significantly different from one another. If the null hypothesis was rejected (inferring a significant relationship between the two indicators) then the Contingency Coefficient was computed to assess the relative strength of the relationship. This statistic is a measure of association that particularly is well suited for the analysis of categorical data (Siegel, 1956). A large value of the Contingency Coefficient implies a strong relationship. Thus, if the data analysis also yielded a high contingency coefficient (ie. approaching the maximum value of the Contingency Coefficient) the researcher has evidence to believe that convergent validity may exist between the two indicators of the corporate level strategy construct. If either the Chi-square statistic was insignificant or the Contingency Coefficient was low, the researcher must conclude that convergent validity does not exist between the two indicators of the corporate level strategy construct.

Two of the empirical indicators of a firm's business level strategy were objectively derived aggressiveness and defensiveness scores (see Questions 4 - 6 in Appendix A). Both are continuous variables. If these two indicators were tapping the same construct, then there should be a large and negative relationship between them. Thus, if a firm measured high on its aggressiveness score, it should correspondingly measure low on its defensiveness score, and vica versa.

The procedure for testing the relationship between these two variables simply consists of conducting a Pearson "r" correlation analysis to test the null hypothesis that there is no relationship between these two variables. If the null hypothesis was rejected (inferring a significant relationship between the two indicators), then the researcher has evidence to believe that convergent validity may exist between these two indicators of the business level strategy construct. If the null hypothesis was not rejected, then the researcher must conclude that convergent validity does not exist between these two indicators of the business level strategy construct.

Since the strategy type empirical indicator, and all of the postmerger managerial decision variables involved the use of only one measure, no other validity checks were performed in this study. To the extent possible, the researcher has developed the instrument for use in this study from measures utilized in other studies. Unfortunately, none of these other studies addressed reliability and validity issues. Therefore, it is not possible to provide additional evidence of the validity of the measures being used here.

Reliability Checks

Internal consistency checks were performed on those empirical indicators that involved the use of multi-item scales. These include executive involvement, consolidation of functional areas, centralization / autonomy, compensation scales, employee benefits, personnel policies, and the time frame for phasing out unwanted executives. Checks for internal consistency are used to estimate reliability when it is not possible to obtain repeated measures of an empirical indicator at two different points in time (Carmines and Zeller, 1979).

For each of these indicators, a reliability estimate was obtained by utilizing Cronbach's Alpha. The only additional reliability check was subjective in nature, and stemmed from the pilot study (discussed later).

As was the case for assessing the validity of the measures used in this project, there has been little to no attention paid in the literature to assessing the reliability of these measures.

A delimitation of the study from both a reliability and validity perspective is that these assessments were made by utilizing the same data that were used in testing the hypotheses. Accordingly, there is no way to know a priori, whether the measures proved to be valid and reliable. However, if the assessments of validity and reliability of these measures turned out to be favorable in this study, then the researcher would be able to justify their use in future studies. If not, each of the individual items would have been treated as a separate indicator of the construct.

Test for a Constant Environment

In order to provide some assurance that the environment is held constant throughout this study, a comparison was made between each postmerger managerial decision variable and the year in which each acquisition was consumated. The rationale here was that the environment (operationalized by the year of acquisition) does not significantly effect the way in which a parent company implements its postmerger managerial decisions. Data for the year of acquisition was obtained from the annual merger and acquisition list compiled by the American Institute of Food Distribution, Inc. Each acquisition transaction was classified by year depending upon which annual list it was originally included on. For purposes of this analysis, the year of acquisition was treated as a nominal variable, since ordering the data would have served no useful purpose.

To test statistically the relationship between year of acquisition and each postmerger managerial decision, contingency tables were set up and Chi-square analyses were performed. These operations tested the null hypotheses that there is no relationship between how the parent company exercises its postmerger managerial decisions and the year in which the acquisition was consumated. If the test failed to reject the null hypothesis, then a certain degree of support is provided for the assumption of a constant environment. If the null hypothesis is rejected, then the researcher would have some indication that there are other factors in the overall environment which may be significantly impacting how a parent company implements its postmerger managerial decisions.

Summary

The population of the study consisted of those firms acquiring foodservice organizations from 1976 to 1981. The data source was the set of annual merger and acquisition lists compiled by the American Institute of Food Distribution, Inc. Between 1976 and 1981.

Operational measures were next developed for each of the five strategy dimensions and each of the ten postmerger managerial decisions. To the extent possible, the operational measures, used in this study, were drawn from those used in past research.

Finally, this section reviewed the methodology used for testing the validity and reliability of selected measures, and the assumption of a constant environment.

Data Analysis

Since this project only deals with one phase of the overall merger process, it was not possible to establish a causal relationship between any of these variables. At best, statistical techniques could be used to test for correlational types of relationships. Accordingly, the following paragraphs present a brief discussion of the appropriate statistical techniques used in this project in order to accomplish this end.

In designing the procedures for analyzing the data obtained from the questionnaire survey, the original intent was to utilize three levels of variables (nominal, ordered and continuous scales). However, because of the small sample size, and high number of ties in the actual data (see Chapter V), all variables were ultimately treated as either nominal or ordered. Also, because of the small sample size, all of the variables had to be collapsed into fewer response categories (see Chapter V). These conditions severely limited the choice of statistical techniques that appropriately could be used in this study. Had the actual sample been larger, a wider range of statistical options could have been applied to the data. Appendix B presents a discussion of the data analysis that would have been employed if the sample was larger, and if the three levels of variable measurement had been attained. The purpose of including this original methodology in Appendix B is to provide a guide for future research efforts in this area involving larger sample sizes. The remainder of this section describes the actual data analysis used in the study.

Tests of Operational Hypotheses

To assess the ten operational hypotheses associated with each conceptual hypothesis, pairwise contingency tables were set up to identify the frequency of responses of each ordered (postmerger managerial decision) variable for each nominal (corporate and business level strategy) group. Then a Chi-square analysis was performed to test the null hypothesis of no significant differences among the groups.

If significant Chi-squares were found between a given strategy and postmerger managerial decision variable, then the Contingency Coefficient was computed to assess the strength of the relationship. In those cases where the Chi-square statistic was significant, and the Contingency Coefficient indicated a strong relationship, the researcher was able to conclude that there was a significant association between the strategy variable, and the specific postmerger managerial decision variable. If the Chi-square statistic was significant and the Contingency Coefficient indicated a weak association, then the conclusion was to reject the null hypothesis and qualify it with a statement about the weak relationship. If the Chi-square statistic was insignificant, then the conclusion arrived at was no relationship between the variables.

Assessment of the Conceptual Hypotheses

To make a determination as to whether the conceptual hypotheses are accepted or rejected, each of the ten computed Chi-squares (from the respective operational hypotheses) was compared to Bonferroni's critical value. This technique is used for controlling the experimentwise error rate in Chi-square analysis when more than one operational hypothesis is used to test a given conceptual hypothesis (Kramer, 1972). Essentially, it raises the critical value of the Chi-square statistic to compensate for multiple tests of a conceptual hypothesis. Thus, if at least one of the computed Chi-squares (from the ten operational hypotheses) exceeds Bonferroni's critical value, then the conceptual hypothesis is accepted, implying that there is a relationship between strategy and postmerger managerial decisions. If none of the ten computed Chi-squares exceed Bonferroni's critical value, then the conceptual hypothesis must be rejected (even if significant relationships are found on an individual basis). This result would imply no relationship between strategy and postmerger managerial decisions.

Significance Level

Because of the exploratory nature and small sample size of the study, a 0.1 level of significance was used for all operational hypotheses. The purpose of utilizing this level was to increase the power of the test to detect significant differences. Increased power is desired for two reasons. First, since this study is exploratory, the results are not intended to be a rigorous test of existing theory. Therefore the increased probability of making a Type I error (rejecting a true null hypothesis), which may increase with high power, was not a critical issue when testing the individual operational hypotheses. Second, a small sample size implies that a larger effect size would be needed to detect significant differences. Thus, increased power is needed to compensate for this problem.

In applying Bonferroni's critical values in the assessment of the conceptual hypotheses, the 0.05 and 0.01 levels of significance were used. Since a Type I error is more critical in assessing the conceptual versus operational hypotheses, a more stringent significance level was desired. Conclusions have thus been made about each conceptual hypothesis at both levels of significmance.

The Pilot Study

Before mailing a copy of the questionnaire instrument to the firms included in the final sample, a preliminary version was sent to ten selected firms. The intent was to pretest the instrument for ambigious questions, average length of time for completion, and reliability of various measures.

The researcher contacted ten firms which had been involved in merger and acquisition activity over the past few years. Three copies of the instrument were sent to each firm along with instructions for the executive to have at least three people in the organization, who had been involved in a particular merger transaction, complete it independently. Each participant was then asked to inform the researcher of any ambiguous questions (including any suggested alternatives if possible) and the overall time it took for him / her to complete the instrument.

Information from this pilot study was then used to modify the project in an attempt to increase the response rate and check each of the measures for reliability (see Chapter IV). Since, in each firm, respondents would be answering questions based on the same acquisition, there should be a high degree of similarity in their responses. Even though three questionnaires per firm was not enough to do a statistical test of significance, a subjective evaluation of the responses may provide some indication of how reliable the operational measures are. After completing the pilot study, and making any adjustments to the questionnaire instrument, as suggested by the results, the researcher then proceeded to gather data from all other firms included in the sample.

Summary

This chapter provided secondary definitions for key terms used throughout the study. Next, it discussed the eight research questions and four sets of conceptual and operational hypotheses that were developed to guide the investigation.

The methodology section included a discussion of the sample population, the data source, and the measurement of variables. In addition, this section reviewed the methodologies used to test the validity and reliability of certain variables and the assumption of a constant environment.

The data analysis section reviewed the appropriate statistical techniques for testing the operational and conceptual hypotheses. Essentially, Chi-square analysis was used to test for significant differences at the 0.1 level, in each operational hypothesis. Then, these computed Chi-squares were compared to Bonferroni's critical values at the 0.05 and 0.01 levels of significance in order to assess each conceptual hypothesis.

The chapter concluded with a discussion of the pilot study that was conducted before mailing out the questionnaire instrument to each of the firms in the main population.

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Chapter IV

THE PILOT STUDY

The pilot study was conducted during the three-and-one-half month period extending from January 14, 1983 to April 30, 1983. This chapter describes the activities undertaken to conduct the pretest, discusses the results of this pretest and presents a set of methodological modifications for carrying out the remainder of the project.

Pretest Activities

The activities undertaken to carry out the pilot study included: (1) developing the pretest questionnaire; (2) presenting the methodology to peer groups; (3) revising the questionnaire; and (4) mailing the instrument to the pretest firms. This section presents a discussion of each of these steps.

Develop the Pretest Questionnaire

A working copy of the instrument was developed by combining the seventeen questions in Appendix A. This version was then distributed to two organizations (three copies per firm) that had recently been involved in an acquisition transaction. One organization was a family dairy operation in the Midwest that had recently purchased a chain of convenience stores. The other was a major bank in New Jersey that had recently purchased a smaller bank. For purposes of the pilot study, it was not considered necessary to confine the sample solely to firms acquiring foodservice organizations. In this phase of the project, the researcher was primarily interested in determining whether the questionnaire items made sense to practitioners.

In addition, copies were also distributed to the five members of the researcher's dissertation committee, one questionnaire consultant located on Virginia Tech's campus, and one retired vice president of a major corporation which was heavily involved in merger activity. These individuals served as a panel of experts for purposes of questionnaire design.

Present Methodology to Peer Groups

On February 18, 1983 and March 15, 1983 respectively, the researcher presented the methodology to two sets of management faculty at two accredited universities. These individuals also aided in questionnaire design.

Develop Revised Questionnaire

Based upon the responses from individuals in these groups, changes were made in the initial questionnaire to prepare a revised version (see Appendix C). The main differences between the initial and revised versions of the instrument center around the inclusion of time frame and size variables (see Questions 1 - 4 of Appendix C) and a set of working definitions in the updated copy.

Question 1 of Appendix C attempted to verify the year in which the acquisition was consummated. Questions 2, 3, and 4 of Appendix C attempted to obtain information on different size parameters (total sales, number of employees and total assets for both organizations at the time of the merger). Several individuals reviewing the initial version of the instrument felt that the study would be significantly enhanced if size were controlled for in investigating impacts upon postmerger managerial decisions. The definitions included in Appendix D were developed to clarify certain terms which respondents may find to be particularly confusing or ambiguous. Other changes were editorial in nature and did not result in any significant differences between the two versions of the instrument.

In addition, the researcher prepared a one page executive summary outlining the details of the project (see Appendix

E) and a one page supplemental list of questions (see Appendix F), requesting that pretest respondents react to the instrument.

Mail Pretest Instrument

The next step was to mail a packet of information to five companies originally designated for the pilot study. The packet included: (1) a cover letter (see Appendix G); (2) three copies of the revised questionnaire; (3) an executive summary; and (4) three copies of the supplemental questions. The intent was to have three representatives from each company _independently_ complete the instrument (concerning the same acquisition), and send it back to the researcher. The five packets were mailed on March 12, 1983.

After giving the packets at least one week to arrive at their final destination, the researcher then proceeded to call each firm to see: (1) if they had received the packet; (2) if they were willing to participate in the study; and (3) if they had any further technical questions about what to do.

This proved to be a longer, more arduous experience than anticipated. The researcher called each firm on _numerous_ occasions in an attempt to contact the appropriate individual (see Appendix H for the telephone log related to this phase of the project. In order to protect the identity of participating firms, this telephone log provides only the date that each call was placed, and the city in which the company is located).

The results of this effort proved to be very disappointing. All five of these firms refused to participate in the study. One cited a lack of interest in this research area. A second indicated that it had not purchased a foodservice company for a number of years. The third cited corporate policy as a reason for not responding to the instrument, and the last two firms, although expressing an interest in the study, simply never returned anything to the researcher. No explanation was ever offered for this lack of action.

The researcher then identified three additional firms for the pretest phase. This time, phone calls were placed to the companies before each mailing (see telephone log in Appendix H).

At this point, since all three firms indicated that they had an interest in reviewing the information, additional packets were mailed on April 8, 1983. However, a week later, two of these three firms decided not to participate. The first cited the length of the instrument and lack of executive time as reasons for not participating and the second explained that the company's acquisition transaction was unique and did not fit into any of the questionnaire categories.

In total, only three firms ultimately participated in the pretest (the two firms receiving the initial instrument, and one of the final three firms contacted). Two of these three participating firms returned three copies of the instrument, while the third returned only two copies. Table 4.1 presents a summary of company responses to the pretest.

Results of the Pilot Study

This pilot study can be analyzed from two different, but equally important perspectives. First, the actual responses from the three participating firms are reviewed in an attempt to check subjectively the reliability of the instrument. Second, an assessment of those factors which may have adversely impacted the response rate in this pretest are reviewed. Both of these perspectives were considered to be important in guiding the future direction of this project.

Responses From Participating Firms

Tables 4.2 and 4.2A[2] present the results of individuals

[2] Two separate tables were used to reflect the fact that individuals from Companies A and B responded to the initial version of the questionnaire (see Appendix A), and individuals from Company C responded to the revised version of the questionnaire (see Appendix C).

TABLE 4.1

SUMMARY OF COMPANY PARTICIPATION IN THE PILOT STUDY
OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM FEBRUARY 2, 1983 - APRIL 18, 1983

Company	Version of Questionnaire	Date of Questionnaire Mailing	Decision to Participate	Number of Questionnaires Returned
1	Initial	February 2	Yes	3
2	Initial	February 2	Yes	3
3	Revised	March 12	No	0
4	Revised	March 12	No	0
5	Revised	March 12	No	0
6	Revised	March 12	No	0
7	Revised	March 12	No	0
8	Revised	April 8	Yes	2
9	Revised	April 8	No	0
10	Revised	April 8	No	0

responding to the pilot study survey. In total, eight individuals from three firms participated in the study. Because of the extremely small sample size, a statistical analysis of these results was not appropriate. Therefore, in reviewing these responses, the researcher was limited to making subjective observations about the results.

Since the intent of the pilot study was to check for consistency in responses among individuals within each organization, Tables 4.2 and 4.2A were constructed to show how each individual responded on each variable in the survey. Therefore, no relationships between variables were addressed in this section. The following discussion was limited to assessing the consistency of responses on each variable independent of all others. Unless stated otherwise, the following variables were measured exactly the same way for both the initial and revised versions of the questionnaire.

Acquisition Type

This variable was a self-typing question which calls for the respondent to classify the acquisition transaction into one of four categories. In Company A, two of the respondents viewed the transaction as concentric, while one viewed it as conglomerate. In Company B, all respondents viewed it as a horizontal transaction. In Company C, the first res-

TABLE 4.2

SUMMARY OF RESULTS FROM THE TWO COMPANIES COMPLETING THE INITIAL VERSION OF THE QUESTIONNAIRE IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

	Company A			Company B		
Variable	1	2	3	1	2	3
Acquisition Type	Conglomerate	Concentric	Concentric	Horizontal	Horizontal	Horizontal
Strategy Type	Turnaround	Turnaround	Turnaround	Share Increasing	Share Increasing	Share Increasing
Aggressiveness	16	57	32	220	97	60
Defensiveness	8	2.7	18	-0-	1	1
Relatedness	3%	10%	5%	N/A	N/A	N/A
Executive Involvement	3.3	3.1	3.1	3.1	3.4	3.3
Level of Parent Company Executive Overseeing Acquisition	Vice President	Vice President	Vice President	Board of Directors	Vice President	Vice President
Changes in Executive Levels	No	Yes	Yes	No	Yes	Yes

TABLE 4.2 - Continued

SUMMARY OF RESULTS FROM THE TWO COMPANIES COMPLETING THE INITIAL VERSION OF THE QUESTIONNAIRE IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

	COMPANY A			COMPANY B		
Variable	1	2	3	1	2	3
Number of Changes	-0-	2	1	-0-	4	5 or
Consolidation	2.44	2.55	2.75	2.33	2.78	3.0
Responsibility for Integration Practices	Little	Little	Little	Portion	Portion	Little
Autonomy	2.5	3.0	2.75	2.0	2.83	2.8
Compensation Scales	2.0	2.78	2.85	3.11	3.11	3.0
Benefit Packages	2.33	2.78	3.0	3.0	3.0	3.0
Personnel Policies	2.67	2.78	3.0	3.0	3.0	3.0
Unwanted Executives	No	Yes	Yes	No	No	No
Length of Time for Unwanted Executives	N/A	0 wks	0 wks	N/A	N/A	N/A

TABLE 4.2 - Continued

SUMMARY OF RESULTS FROM THE TWO COMPANIES COMPLETING THE INITIAL VERSION OF THE QUESTIONNAIRE IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

	COMPANY A			COMPANY B		
Variable	1	2	3	1	2	3
Integration Time	6 mos- 1 yr.	More than 2 yrs.	1-2 yrs.	More than 2 yrs.	1-2 yrs.	1-2 yrs.
Year of Acquisition						
Sales- Parent Company						
Sales- Acquired						
Employees- Parent						
Acquired						
Assets- Parent						
Acquired						

TABLE 4.2A

SUMMARY OF RESULTS FROM THE ONE COMPANY COMPLETING THE REVISED VERSION OF THE QUESTIONNAIRE IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

	Company C	
Variable	1	2
Acquisition Type	Horizontal	Horizontal/ Concentric
Strategy Type	Share Increasing	Share Increasing/ Profit
Aggressiveness	0	105
Defensiveness	15	-0-
Relatedness	Less than 20%	Less than 20%
Executive Involvement	2.4	3.4
Level of Parent Company Executive Overseeing Acquisition	President	President
Changes in Executive Levels	No	No

TABLE 4.2A - Continued

SUMMARY OF RESULTS FROM THE ONE COMPANY COMPLETING THE REVISED VERSION OF THE QUESTIONNAIRE IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

	COMPANY C	
Variable	1	2
Number of Changes	-0-	-0-
Consolidation	2.11	3.11
Responsibility for Integration Practices	Equal	Portion
Autonomy	2.83	2.16
Compensation Scales	3.0	5.0
Benefit Packages	3.0	3.0
Personnel Policies	3.0	3.0
Unwanted Executives	No	No
Length of Time for Unwanted Executives	N/A	N/A

TABLE 4.2A - Continued

SUMMARY OF RESULTS FROM THE ONE COMPANY COMPLETING THE REVISED VERSION OF THE QUESTIONNAIRE IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

	COMPANY C	
Variable	1	2
Integration Time	6 mos-1 yr.	Less than 6 mos.
Year of Acquisition	1972	1972
Sales-Parent Company	$300 mil	$300 mil
Sales-Acquired	$6 mil	$6 mil
Employees-Parent	$20,000	$20,000
Acquired	$300	$300
Assets-Parent	$100 mil	$100 mil
Acquired	$5 mil	$5 mil

pondent indicated horizontal, while the second was undecided between horizontal and concentric (he marked both).

These responses indicated a high degree of consistency among individuals within each company for this variable.

Strategy Type

This variable was also a self-typing question, calling for the respondent to classify the parent company's strategy for acquiring the new subsidiary. There seemed to be a high degree of consistency among individuals within each company. The three respondents from Companies A and B were unanimous in their selection of turnaround and share increasing strategies respectively. For Company C, the first respondent selected share increasing, while the second respondent selected both share increasing and profit.

Relatedness

There was a slight difference in the way this variable was measured in the initial and revised versions of the questionnaire (see Question 6 in Appendix A and Question 10 in Appendix C). The initial version called for the respondent to provide a specific percentage of sales answer, while the revised version asked the respondent to categorize the answer. All three respondents from Company B viewed this question as not applicable to their situation and declined to answer. For Company A, the responses ranged from three to ten percent while in Company C, both people indicated that restaurant sales constituted less than twenty percent of total revenues. It appears that if the Company A respondents had been asked to categorize their answer to this question, they would have been unanimous in selecting the "less than 20%" category. This question seemed to be highly consistent among respondents within each organization.

Aggressiveness / Defensiveness

These variables were calculated exactly the same way in both versions of the questionnaire except that an "N/A" response category was added to Questions 8 and 9 of Appendix C. The results for these two dimensions of a firm's business level strategy appeared to be highly inconsistent among individuals in each of the three firms. In Company A, there was a forty-one and nineteen point range difference respectively on each dimension. In Company B, the range difference on the aggressiveness score was one-hundred-and-sixty points, while the defensiveness score was relatively consistent among the three respondents. In Company C, the ranges were one-hundred-and-five points and fifteen points respectively. The inconsistent results cast serious doubt on the reliability of these empirical indicators throughout the remainder of the study.

Executive Involvement

The wording of the questions and scaling of the responses were slightly different between the initial and revised versions of this variable (see Question 7 in Appendix A and Question 11 in Appendix C). The main difference was that the initial version was measured on a 4-point scale while the revised version utilized a 5-point scale. The results showed a relatively high degree of consistency in responses for Companies A and B, while there was a bit more variation in the two responses for Company C.

Level of Parent Company Executive Overseeing the Acquisition

The results appeared fairly consistent among respondents in each organization. The only deviation from total agreement was in Company B where one respondent indicated that a member of the parent firm's Board of Directors was responsible for overseeing the acquisition. The other two respondents for Company B indicated that a vice president was in charge.

Changes in Executive Levels / Number of Changes

There was apparently some confusion in the way respondents from Companies A and B handled these two questions. On a "yes / no" type of answer, neither of these two firms were unanimous in their responses. In addition, there was no agreement among any of the respondents on the number of changes in executive levels. Therefore, even though both respondents from Company C provided the same answer to each question, there seemed to be a consistency problem with this variable.

Consolidation

This variable was measured along a 4-point scale in the initial version and a 5-point scale in the revised version of the instrument (see Question 10 in Appendix A and Question 14 in Appendix C). The responses were somewhat consistent within each organization. The range of difference was 0.31 in Company A, 0.67 in Company B and 1.0 in Company C. Perhaps the wider range in Company C can be explained by the larger scale used to compute the consolidation variable in the revised version of the instrument.

Responsibility for Integration Practices

The responses on this variable also seemed to indicate a high degree of consistency. Since there were four possible answers to this question (ordered by degree of responsibility), all respondents within each company agreed on the degree of responsibility or were within one ordered point of each other.

Centralization / Autonomy

This variable was measured on a 3-point scale. Some consistency in responses was visible even though the ranges for Companies A, B and C were 0.50, 0.83 and 0.67 respectively. All respondents within each company agreed that the acquired firm maintained a degree of autonomy somewhere between the categories "proposed by the acquired, approved by corporate headquarters" and "the acquired makes the decision independently" (See Question 12 in Appendix A and Question 16 in Appendix C).

Compensation Scales / Benefit Packages / Personnel Policies

These three variables were all measured on the same type of 5-point scale in both versions of the instrument. The results indicated a high degree of consistency among the respondents within each firm for each variable. The largest difference among any of the respondents occurred in Company C under the compensation scales variable. One of the respondents indicated that the compensation scales between the parent and acquired firm were "similar" while the other indicated that they were "exactly the same". The result was a 2-point difference in their answers. Other than that, the largest range of differences for one of these variables among respondents in the same firm was a 0.85 in Company A for compensation scales. Companies B and C alternatively were unanimous in their responses for degree of similarity of employee benefits and personnel policies between the two firms. The respondents also appeared quite consistent in their answers to each of the three variables taken together. This indicates that these three variables can be combined into one question on the final version of the instrument.

Unwanted Executives / Length of Time for Unwanted Executives

The first part of this question attempted to find out if any of the acquired firm's executives left the organization within two years of the merger. The results seemed to be highly consistent in that the Company B and C respondents provided unanimous "No" answers to the question and in Company A, two of the respondents answered "Yes" while the third answered "No". This deviation may be explained by looking at the second part of this question, which calls for the respondent to indicate how long it took for the unwanted executive to leave. The two respondents answering "Yes" to this question indicated that the acquired firm's executives left at the inception of the merger. Thus, the one respondent from Company A answering "No" may not have even considered these executives when responding to the question.

Integration Time

This question called for the respondent to provide an answer on a 5-point ordered basis. Initially, there appeared to be some consistency problems with this variable (only two respondents in Company B agreed on one answer). However, in only one case (two of the respondents in Company A), did the responses differ by more than one ordered unit. Here, one person indicated that it would take between six months and one year to integrate the acquired firm into the overall organization, while the second indicated that it would take more than two years to accomplish this integration. This discrepancy may be explained by the fact that Company A had recently made its acquisition and the respondents were reacting to this question in terms of how long they thought it would take to integrate the two firms instead of how long the integration actually took. Therefore, based on the responses from both Companies B and C, it appeared that this question was eliciting somewhat consistent responses.

Year of Acquisition / Sales for Parent and Acquired / Employees for Parent and Acquired / Assets for Parent and Acquired

These four variables were only part of the revised questionnaire (see Questions 1 - 4 in Appendix C). Therefore, answers were only obtained from the two respondents from Company C (see Table 4.2A). In these cases, the respondents provided the same information. This high level of consistency was probably due to the objective nature of the questions.

Summary

This subjective analysis of the eight responses from three companies in the pretest revealed that most of the empirical indicators were eliciting consistent responses within each firm. Questionable variables, as far as consistency of responses was concerned, were the aggressiveness and defensiveness dimensions of business level strategy, and the changes in executive level empirical indicator of the reporting and controlling construct. In using these variables as empirical indicators, one would have to be especially cautious about the reliability of the results.

The next section of this chapter focuses on certain factors that may have influenced the high nonresponse rate in the pretest study.

An Analysis of the Nonresponses

The disappointing response rate on the pilot study could be attributed to a number of different factors. This section discusses two sets of general factors which may explain the poor response rate. The first was a set of environmental factors which were outside the researcher's control, and the second was a set of methodological factors which were considered to be under the researchers control. In the following two sections, both of these categories have been analyzed. The intent was to modify the methodological approach adopted for this project so that the probability of a more acceptable response rate on the main questionnaire would be increased. This analysis served as a guide to plot the remainder of this project and should be useful to future researchers who wish to conduct empirical investigations in the area of mergers and acquisitions.

Environmental Factors Influencing a Poor Response Rate

At least five external factors may potentially influence response rates to a merger / acquisition questionnaire. These include: (1) the sensitive legal nature of the topic; (2) the competitive environment involving merger activity; (3) the sensitive nature of integration oriented questions; (4) the influence of both the recession and information processing developments upon a corporation's management structure; and (5) the high number of questionnaires coming in to each organization.

From a legal perspective, corporations that consider growth via the merger / acquisition route must constantly be on guard against prosecution proceedings from the Federal Trade Commission(FTC) for anticompetitive actions. Thus, when a firm engages in a merger / acquisition transaction, top management may be reluctant to divulge this type of inside information to an outside source. Accordingly, even though the direction of the study is geared toward management, instead of the legal area, companies still have a tendency to avoid discussion of this topic.

By the same token, the competitive environment (i.e., the current fourth major merger wave) has probably contributed to the desire of top corporate executives to prevent information leaks from flowing to competitors. After the transaction has been consummated, managers are under great pressure to show an adequate return on the corporation's investment in the new acquisition (Salter and Weinhold, 1979; see Chapter I). Accordingly, successful managemers may be unwilling to share their "secrets of success," while unsuccessful managers may be unwilling to discuss their failures.

In addition, integration oriented questions usually mean that the respondent will have to address some very sensitive areas (i.e., compensation scales and personnel policies between the two organizations, changes in management personnel, and situations involving the identification of decision making authority within the organization). Corporate staff in charge of filling out the instrument may not know how to answer some of these questions or else may feel intimidated by them.

The current economic recession coupled with new developments in information processing technology may also adversely affect a firm's willingness to answer questionnaires. There has been a significant decline over the last few years in the number or middle managers and corporate staff people in typical American organizations (Business Week, 1983). The recession has caused many firms to cut back their management structures severely, in order to reduce operating costs and remain competitive in today's environment. The overall reduction in these two levels of management is also affected by new advances in information technology which can put top level executives directly in touch with operating personnel. The implication is that such reductions in management levels also means that a typical organization may ultimately refrain from engaging in activities not directly related to the firm's output. This definitely would encompass the use of management time to fill out research questionnaires. This is a luxury which most companies today probably feel they cannot afford.

This fourth factor directly relates to the fact that most organizations today are simply deluged with requests to answer questionnaires. Such high numbers make it impossible for firms to address each and every instrument that comes along. In some cases, to combat this, executives have issued corporate policies prohibiting staff people from answering questionnaires.

Unless the researcher understands how these environmental forces impact empirical investigations, he / she may be disappointed when it comes to gathering data to carry out a research project. In light of these factors, the next section of this chapter reviews this researcher's perceived shortcomings in the methodology utilized to gather the necessary pretest data.

Methodological Factors Influencing a Poor Response Rate

At least seven methodological factors have been identified as potentially influencing the poor response rate of the pilot study. These include: (1) the length of the revised instrument (see Appendix C); (2) the practice of sending three questionnaires to each firm; (3) the use of questions calling for the respondent to gather objective information; (4) the use of plain legal size paper with multiple pages; (5) the sending of unsolicited packets to corporate presidents; (6) the inclusion of the Executive Summary (see Appendix E) in each packet sent to organizations; and (7) the failure of the questionnaire instrument to pick up on the "uniqueness" of each acquisition transaction.

Probably the most important factor influencing the poor response rate to the pilot study was the length of the revised questionnaire (see Appendix C). The instrument that was sent to pretest organizations was spread out over seven pages and took close to thirty minutes to complete. Given that today's managers are under a significant amount of pressure to produce bottom line results, a long questionnaire that offers them no immediate tangible incentives is more than likely to be cast aside and forgotten.

Coupled with this, a packet containing <u>three</u> such questionnaires for each organization has even a less likely chance of being looked at. The original intent of having three individuals from the <u>same</u> firm answer questions about the <u>same</u> acquisition was to test for reliability of the items. Specifically, the researcher wanted to know if the questions were eliciting consistent responses across individuals in the same company. However, this approach probably would not work unless one had some very close connections with influential individuals within the organization. Apparently, the ties that the researcher had with most of the pretest organizations were not strong enough to overcome these problems.

Another methodological problem, coupled with the length of the questionnaire, dealt with the attempt at gathering objective data (see Questions 1 - 4 in Appendix C). To provide this type of information, the respondents would have had to dig through past company files. This may prove to be a very time consuming operation (i.e., more than thirty minutes) and may induce most managers to decline from participation.

The practice of utilizing plain legal size paper with multiple pages also may affect the response rate of a study. As brought out in the previous section, organizations are receiving high numbers of questionnaires to fill out. In all likelihood, the appearance of the instrument will determine whether or not the manager responds (i.e., simple, short instruments stand a greater chance of being returned than do complicated, long instruments). Both the initial version (see Appendix A) and the revised version (see Appendix C) were prepared on plain, white legal size (6 and 7 pages respectively) paper. Some of the pretest respondents indicated that this made the instrument appear to be complicated and very involved. In addition, this type of paper would not make the instrument stand out in a pile of questionnaires and other papers that may be placed upon an executive's desk. There simply was nothing about either pretest instrument which made it attractive to the eye of a potential respondent.

Another potential problem with the proposed data gathering methodology was the intention to send the instrument, unsolicited, to the parent company's president. In reviewing total number of responses in the pretest, not one was filled out by the president of the organization. It seems that any inquiries of this nature sent to a company president would be either delegated to other members of the corporate staff for completion, or completely disregarded. A better approach may be to contact each organization before sending out the questionnaire. This would enable the researcher to identify a specific individual in corporate staff who may be willing to participate.

The inclusion of the Executive Summary in the pretest packet may also have had an adverse impact upon the response rate. As pointed out by one of the pretest reviewers, the following paragraph (taken directly from the Executive Summary in Appendix E) may have caused others to disregard the instrument.

> Three factors influencing the development of the project include: (1) the current high level of merger and acquisition activity involving firms in the restaurant industry; (2) the high incidence of failure of these acquisitions to meet adequately the performance objectives of the parent company; and (3) past research studies which have identified poor management practices after the firm has been acquired as a major factor contributing to the high degree of merger failures.

The problem was that potential respondents may interpret this as an insinuation that they are poor managers. Accordingly, the Executive Summary, which was intended to provide the respondent with details of the overall project, may have actually served as a deterrent.

Finally, the failure of the questionnaire instrument to pick up on the "uniqueness" of each acquisition transaction may have also contributed to the high nonresponse rate. Hambrick (1980) identified this as a potential hazzard when he attempted to utilize the self-typing technique to categorize a company's strategies (see Chapter III). He cautioned researchers to be aware of the fact that company managers usually view their own types of business transactions as unique. Therefore, when they review the various descriptions of strategic categories on the questionnaire instrument, they may have a tendency to refrain from responding on the grounds that they do not particularly fit the sample. This was the type of argument utilized by one of the nonrespondents to the pretest.

Summary

In attempting to comprehend why there was such a high nonresponse rate on the pretest survey, the researcher identified twelve factors that may have caused this high nonresponse rate. These factors were subdivided into two broad categories: environmental (outside the researcher's control) and methodological (within the researcher's control).

From an environmental perspective, it was necessary that the researcher understand those barriers which may influence a company to refrain from participating in a mail survey. Only then can he / she design a data gathering methodology which would be effective in obtaining the necessary information.

The next section of this chapter discusses the modifications in the overall research methodology which were developed as a result of conducting this pilot study.

Modifications to the Research Methodology

The actual pilot study proved to be an integral part of the overall research project in spite of the poor response rate. As a result of analyzing the eight responses and the factors that may have contributed to this situation, several modifications in both the scope of the research and data gathering methodology (as outlined in Chapter III), were incorporated: (1) shortening the questionnaire; (2) improving the professional appearance of the instrument; (3) calling each company before mailing a survey; (4) mailing the letters in waves; (5) sending only one copy of the instrument to each company; (6) eliminating the Executive Summary; (7) explaining to respondents that the data will be used for completion of a Ph.D. degree; and (8) utilizing the professional letterhead and brochure offered by the Center for Research in the Hospitality Service Industries.

Shortening of the Questionnaire

One of the main criticisms of the research methodology offered by the various groups of individuals involved in the pretest was that the actual instrument itself was too long.

Therefore, in order to increase the probability of a high response rate for the survey, the revised questionnaire (from Appendix C) was significantly modified to create a final version of the instrument (see Appendix I). Essentially, the final version differed from the previous one in four different ways. These included: (1) the deletion of the objective questions (Items 1 - 4 in Appendix C); (2) the consolidation of the employee benefits, compensation scales and personnel policies questions into one item (see Questions 17, 18 and 19 in Appendix C); (3) the elimination of the second reporting and controlling variable (see Question 13 in Appendix C) and (4) the elimination of the aggressiveness and defensivevess dimensions of a firm's business level strategies (see questions 7, 8, and 9 in Appendix C). This section discusses each of these changes in more detail.

Elimination of Questions 1, 2, 3, and 4 from the Second Draft

These four questions were originally designed to gather information about the time frame of the acquisition and the size relationship between the parent and acquired firm (sales, number of employees, and total assets, respectively). The intention was to confirm the time frame of completion of the acquisition transaction and to create some means of controlling for size as a potential moderating variable impacting upon the types of postmerger managerial decisions exercised by the parent company.

The major problem in gathering this type of information was with the second draft of the questionnaire. These items called for the respondent to provide objective data which may not be readily available (especially in cases where the acquisition transaction may have occurred at least three years ago). In these cases, the respondent is likely to be unwilling to spend time reviewing past company records, and thus may be tempted to reject the whole instrument.

Accordingly, the lack of control over the size variable was an accepted delimitation of the study. Depending upon the makeup of the final sample of firms participating in the study (i.e., if a high number of firms are registered with the Securities Exchange Commission), the researcher, in a later study, may be able to obtain this information via secondary sources of information.

Combination of Questions 17, 18, and 19 of the Second Draft into One Item

These three questions treated compensation scales, employee benefits and personnel policies as separate types of postmerger managerial decisions that must be considered by the parent company. Yet, in reviewing the pretest instruments that had already been returned, it seemed that respondents answered these questions with a high degree of similarity. Therefore, the researcher may be able to obtain the same type of information from the respondents with just one question.

Elimination of Question 13 from the Second Draft

This question was originally intended to be used as a second empirical indicator of the reporting and controlling postmerger managerial decision construct. The purpose was to find out if the parent company was making changes in the reporting relationships between the two organizations. Kitching (1967) identified a large number of changes in reporting relationships as a major cause of merger failures. Specifically, the question attempted to find out if the parent company continually made changes in the level of home office executive who was in charge of overseeing the acquisition.

However, quite a bit of confusion arose among individuals who reviewed preliminary versions of the instrument. The main problem centered around the question of whether this item referred to changes in job titles, or changes in the actual number of individuals in charge of overseeing the acquisition. In addition, the pretest results indicated that there were some consistency problems among the individuals in each firm who attempted to answer this question.

Therefore, because of the confusion generated from this question and because the final instrument already contained one empirical indicator of the reporting and controlling construct, this item was no longer investigated in this study.

<u>Elimination of Questions 7, 8, and 9 from the Second Draft</u>

These three questions were originally to be used to develop aggressiveness and defensiveness scores. As stated earlier, both of these constructs represent different dimensions of a firm's business level strategy.

In the interest of reducing the overall size of the questionnaire (to increase the response rate), these two dimensions were no longer investigated. The aggressiveness and defensiveness dimensions were chosen for elimination over the strategy type dimension of business level strategy because (to this researcher's knowledge) these measures have only been utilized in one prior empirical study (Seetoo, 1977). They appear to be less known in the Business Policy field than Hofer and Schendel's (1978) strategy type dimensions. In addition, the pretest results indicated that there may be potential consistency problems with these two variables, whereas Hofer and Schendel's strategy type dimensions appeared to be eliciting more reliable responses.

Improving the Professional Appearance of the Instrument

The appearance of the instrument may also be a crucial factor in determining whether or not a potential respondent will answer the questions. This may be due to the respondent potentially perceiving it to be long, involved and complicated, and also being overwhelmed with requests to answer questionnaires. Thus, a plain multipage version of the instrument may seriously hurt the response rate.

To combat this situation, in addition to deleting several questions from the overall instrument, the final version (see Appendix I) was prepared by the University's printing department. The key features of this final version included: (1) the entire instrument was prepared on <u>one</u> sheet of paper to give the appearance that it is short and uncomplicated; (2) it has been set up on yellow buff color paper with black print to set it apart from other, more plain questionnaires; (3) it was designed to be a folded self-mailer to facilitate the respondent's handling of the instrument after completion; and (4) it used a mailing permit meaning that the researcher only pays for the questionnaires actually returned.

Calling Each Company Before Mailing a Survey

Another important factor used to increase the response rate centered around identification of the appropriate individual in each firm who would be able to answer questions regarding the management of a new acquisition. In light of the results of the pilot study, it seemed to be inappropriate to send these questionnaires unsolicited to the parent company's president. For this type of research project, a specific individual who was directly involved in managing the acquired firm may be more willing to review the questionnaire.

The best way to identify this person in each organization was to call each company before sending the questionnaire and to ask to speak with someone who could specifically help in this endeavor. The two key advantages of this approach included: (1) establishing a direct communication with the individual to put him / her at ease regarding the nature of the topic (i.e., the guarantee of confidentiality, the focus of the project on management instead of legal issues, and the generalized nature of the questions as opposed to requesting sensitive information); and (2) putting the respondent on notice that a questionnaire is coming (which would significantly aid in setting this instrument apart from others which the respondent may be receiving).

The main disadvantage is the cost involved in calling each company before sending the questionnaire. However, the researcher determined that the potential advantages far outweighed the cost.

Mailing the Letters in Waves

Coupled with the prior modification of calling each company before mailing a survey, this modification ensured that the respondent received the questionnaire within a few days of communicating with the researcher. Thus, instead of mailing all questionnaires at one time after all calls were made, it seemed to be more logical to perform these two operations simultaneously. The practice of mailing the questionnaires in waves, as companies were contacted, was followed throughout the data collection phase of this project. The main advantage of this modification was that the time between the initial phone contact and the respondent's receipt of the material was minimized. This may have influenced the respondents to return the questionnaire quickly.

Sending Only One Copy of the Instrument to each Company

The high nonresponse rate on the pretest may have also been significantly influenced by the fact that three copies of the instrument were mailed to each firm. This made the pretest packets quite bulky and required the respondent to coordinate two to three other people in the organization as well. The main survey contained one copy of the shortened professionalized instrument. This required little or no coordination on the part of the respondent.

Disregarding the Executive Summary

Unfortunately the Executive Summary, which was designed to provide the respondent with some relevant information about the study, may have proven offensive to respondents. Therefore, it was not included in the information sent out to firms in the overall survey. It is possible that the same objective intended for the Executive Summary was accomplished by telephoning each company. Another advantage of this deletion was that the respondent had less to read.

Explaining to each Respondent that the Data would be used for Completion of a Ph.D. Degree

The fact that this study was performed in partial fulfillment of the researcher's Ph.D. requirements was not emphasized while contacting firms in the pretest. Thus, potential respondents may have been reluctant to answer the questions for fear of releasing this information to competitors. Therefore, while contacting firms about participating in the overall sample, the researcher emphasized the educational nature of the survey.

Using the Professional Letterhead and Brochure from the Center for Research in the Hospitality Service Industries

The study was sponsored in part by this professional research center located on Virginia Tech's campus. Therefore, it seemed beneficial to let respondents know that the project had received the endorsement of an industry-related organization. The letterhead and brochure which identified the background and activities of the Center are included in Appendixes J and K respectively. The primary disadvantage of including the brochure in the overall survey was the additional reading material that a respondent handled. However, this brochure was professionally prepared in an attractive layout and represented casual reading if the respondent was inclined to review it. It was not necessary to read this prior to filling out the instrument. This disadvantage may have been outweighed by the primary objective of informing respondents of the industry affiliation of this project.

Impact of the Pilot Study on Conceptual and Operational Hypotheses

The main effect of these modifications was to reduce the scope of the study. Specifically, two dimensions of business level strategy (aggressiveness and defensiveness) were dropped from further investigation. Thus, Conceptual Hypothesis 4 and the ten related operational hypotheses (Hypotheses 4A - 4J); See Chapter III) have not been addressed in the results. In addition, the original list of postmerger managerial decisions (see Table 2.3) has been reduced by: (1) dropping one empirical indicator of the reporting and controlling construct (changes in executive levels in charge of the acquisition) from further investigation; and (2) combining compensation scales, employee benefits and personnel policies into one new construct, similarity of personnel policies.

The rest of this subsection presents the revised set of conceptual and operational hypotheses that were investigated in the study.

H1: There are differences in the postmerger integration practices among firms which engage in different types of acquisitions.

H1A: There is no relationship between acquisition type and the degree of executive involvement of managers in the parent company during the postmerger integration process.

H1B: <u>There is no relationship between acquisition type and the level of parent company executive in charge of the acquisition.</u>

H1C: <u>There is no relationship between acquisition type and the degree of consolidation of the acquired firm's functional areas.</u>

H1D: <u>There is no relationship between acquisition type and the degree of responsibility of the acquired firm in handling integration activities.</u>

H1E: <u>There is no relationship between acquisition type and the degree of centralization / autonomy afforded the acquired firm in making functional decisions.</u>

H1F: <u>There is no relationship between acquisition type and the degree of similarity of personnel policies between the two firms.</u>

H1G: <u>There is no relationship between acquisition type and the time frame for phasing out members of the acquired firm's board of directors.</u>

H1H: <u>There is no relationship between acquisition type and the time frame for phasing out the acquired firm's president.</u>

H1I: <u>There is no relationship between acquisition type and the time frame for phasing out the acquired firm's vice president(s).</u>

H1J: <u>There is no relationship between acquisition type and the time frame for completing integration activities.</u>

H2 : <u>There are differences in postmerger integration practices among firms depending upon how closely related the parent is to the acquired firm's line of business.</u>

H2A: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of executive involvement of managers in the parent company during the postmerger integration process.</u>

H2B: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the level of parent company executive in charge of the acquisition.</u>

H2C: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of consolidation of the acquired firm's functional areas.</u>

H2D: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of responsibility of the acquired firm in handling integration activities.</u>

H2E: There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of centralization / autonomy afforded the acquired firm in making functional decisions.

H2F: There is no relationship between the degree of relatedness of the acquiring and acquired firms and the degree of similarity of personnel policies between the two firms.

H2G: There is no relationship between the degree of relatedness of the acquiring and acquired firms and the time frame for phasing out members of the acquired firm's board of directors.

H2H: There is no relationship between the degree of relatedness of the acquiring and acquired firms and the time frame for phasing out the acquired firm's president.

H2I: There is no relationship between the degree of relatedness of the acquiring and acquired firms and the time frame for phasing out the acquired firm's vice president(s).

H2J: There is no relationship between the degree of relatedness of the acquiring and acquired firms and the time frame for completing integration activities.

H3 : There are differences in the postmerger integration practices among firms which attempt to utilize different strategy types in connection with the acquisition.

H3A: There is no relationship between strategy type and the degree of executive involvement of managers in the parent company during the postmerger integration process.

H3B: There is no relationship between strategy type and the level of parent company executive in charge of the acquisition.

H3C: There is no relationship between strategy type and the degree of consolidation of the acquired firm's functional areas.

H3D: There is no relationship between strategy type and the degree of responsibility of the acquired firm in handling integration activities.

H3E: There is no relationship between strategy type and the degree of centralization / autonomy afforded the acquired firm in making functional decisions.

H3F: There is no relationship between strategy type and the degree of similarity of personnel policies between the two firms.

H3G: <u>There is no relationship between strategy type and the time frame for phasing out members of the acquired firm's board of directors.</u>

H3H: <u>There is no relationship between strategy type and the time frame for phasing out the acquired firm's president.</u>

H3I: <u>There is no relationship between strategy type and the time frame for phasing out the acquired firm's vice president(s).</u>

H3J: <u>There is no relationship between strategy type and the time frame for completing integration activities.</u>

Summary

The pilot study was conducted during the three-and-one-half month period extending from January 14, 1983 to April 30, 1983. In carrying out this project, the following steps were employed: (1) developing an initial questionnaire; (2) showing the questionnaire to a panel of experts; (3) revising the questionnaire; (4) mailing the revised instrument to a set of pretest companies; (5) analyzing both the responses and factors influencing a high nonresponse rate; and (6) modifying the main project.

The response rate to this survey was much lower than expected. Of ten firms receiving pretest packets (which included (1) a cover letter; (2) three copies of the revised questionnaire; (3)the Executive Summary; (4) three copies of the list of definitions; and (5) three copies of the supplemental questions), only three returned useable responses. In total, eight questionnaires were received from these companies (three each from Companies A and B and two from Company C).

A subjective analysis of these responses indicated that most of the variables seemed to be illiciting consistent responses. There did seem to be some consistency problems with the aggressiveness and defensiveness dimensions of business level strategy and the changes in executive level dimension of the reporting and controlling construct (these variables were ultimately dropped from the study).

In attempting to assess why there was such a high nonresponse rate, the researcher focused on both environmental and methodological factors. From an environmental perspective, the following factors were perceived to have a negative impact upon response rates to mail questionnaires: (1) the sensitive legal nature of the topic; (2) the competitive environment involving merger activity; (3) the sensitive nature of integration oriented questions; (4) the influence of both the recession and information processing developments upon a corporation's management structure; and (5) the high number of questionnaires coming in to each organization. The methodological factors that may have influenced the poor response rate included: (1) the length of the instrument; (2) the practice of sending three questionnaires to each firm; (3) the use of questions calling for the respondent to gather objective information; (4) the use of plain legal size paper with multiple pages; (5) the sending of unsolicited packets to corporate presidents; (6) the inclusion of the Executive Summary; and (7) the failure of the questionnaire to pick up on the "uniqueness" of each acquisition transaction.

To deal with these problems, the following modifications were made to the research methodology: (1) reducing the size of the questionnaire; (2) improving the appearance of the instrument; (3) calling each company before mailing a survey; (4) mailing the letters in waves; (5) sending only one copy of the instrument to each company, (6) eliminating the Executive Summary; (7) explaining to respondents that the data would be used for completion of a Ph.D. degree; and (8) utilizing the professional letterhead and brochure offered by the Center For Research In The Hospitality Service Industries.

As a result of these efforts, the research project was shortened in scope (i.e., no further investigation was undertaken as far as the aggressiveness and defensiveness dimensions of business level strategy were concerned; and the list of postmerger managerial decisions was reduced by consolidating compensation scales, employee benefits and personnel policies into one question and eliminating the changes in executive level indicator of the reporting and controlling construct). In addition, the data gathering methodology was refined to zero in on the individual (via telephone) within each organization who would be knowledgeable about the company's acquisition transactions.

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Chapter V

THE STUDY RESULTS: I

The American Institute of Food Distributon, Inc. has identified one hundred-fourteen merger and acquisition transactions that were possible for inclusion in the sample of this study. However, after eliminating transactions that involved the purchase of a restaurant organization by a private investor or that turned out to be a company which was repurchasing its own franchises or that involved firms that are no longer in business, a total of ninety-six firms remained. This chapter reviews the procedures used in attempting to gather data from these organizations, presents an overview of the data, and discusses the results of the checks for validity, reliability and a constant environment.

Data Gathering Procedures

In accordance with the revised data gathering methodology outlined in Chapter IV, the following steps were employed: (1) contacting by telephone all firms that qualified for inclusion in the final sample; (2) mailing questionnaires to those firms agreeing to review a copy of the instrument; and (3) mailing second request letters to those firms which did not respond to the initial questionnaire within a reasonable period of time.

Initial Contact of Firms

During the period extending from May 2, 1983 to May 18, 1983, the researcher attempted to establish telephone contact with each of the ninety-six firms qualifying for inclusion in the final sample. Most of these calls tended to follow a typical pattern of reaching a company switchboard operator, requesting to speak with someone in the organization who would have been familiar with the specific acquisition transaction, and ultimately discussing this research study with an appropriate executive (this individual usually held a position of Executive Vice President, Vice President of Finance, Vice President of Corporate Planning, or Vice President of Acquisitions). Appendix L presents a sample of a typical dialog held between the researcher and each of the company executives. Appendix M is the telephone log maintained by the researcher during this period. In order to protect the identity of participating firms, this telephone log provides only the date that each call was placed, and the city in which the company is located.

Mailing of the Survey Instrument

All questionnaires were mailed to firms during the period from May 3, 1983 to May 19, 1983. This process followed the standard procedure of mailing a questionnaire packet to each firm the day after telephone contact was made with that firm. A questionnaire packet consisted of a cover letter (see Appendixes N and O), the final version of the questionnaire instrument (see Appendix I) and an information brochure from the Center for Research in the Hospitality Service Industries (see Appendix K). Two versions of the cover letter were used to deal with the two most common situations confronting the researcher while telephoning all ninety-six firms. The cover letter in Appendix N was used when the researcher was able to speak to a specific executive in the company. The cover letter in Appendix O was used when the researcher spoke to a specific executive's secretary.

Mailing of Second Requests

On June 4, 1983, second request letters were sent to those firms not responding to the first mailing. In total, thirty-eight firms received this additional mailing. The second request packet included a new cover letter (see Appendix P), and another copy of the final version of the questionnaire instrument (see Appendix I).

Responses to the Survey

As a result of these revised data gathering procedures, a total of fifty-three firms responded. Of these responses, forty-seven were useable for further data analysis. Of the six nonuseable responses, four were a result of the respondent claiming that the parent company's particular transaction was not appropriate for this study. One of the remaining two nonuseable responses was a case where the respondent felt that he could not provide the researcher with the necessary information. The final nonuseable response occurred when the respondent did not follow the instructions provided with the questionnaire. In checking off multiple responses for each question, he made it impossible for the researcher to decipher his intentions. No attempt was made to follow up on this respondent. In effect, only one questionnaire was considered to be nonuseable as a result of the respondent filling the instrument out incorrectly.

The total response rate based on a possible ninety-six firms in the sample was fifty-six per cent. The useable response rate based on these same firms was forty-nine per cent. When using the seventy-eight firms that had initially agreed to look at the questionnaire as a basis for determining response rate, the results were a bit higher. In this case, the overall response rate was sixty-nine per cent, while the useable response rate was sixty per cent.

Of the ninety-six firms contacted, the eighteen that refused to review a copy of the questionnaire cited a few common reasons for not participating. These centered around the firms being swamped with questionnaires and refusing to answer any more, and the fear of divulging merger and acquisition related information to an outside source. In addition, some of these firms refused to participate on the grounds that restaurant operations constituted a very small part of their overall operations. Therefore, they had no real interest in participating in a study involving restaurant organizations. Unfortunately, this line of reasoning may have cut down the total number of conglomerate type mergers that could have been included in the study.

The relatively high response rate was quite encouraging in light of the poor response rate on the pretest. The revised data gathering procedures significantly helped in improving the overall response rate to the main questionnaire. Perhaps the most important aspects of the revised methodology included: (1) contacting potential respondents before sending the questionnaire out; (2) simplifying the final version of the questionnaire; and (3) mailing the questionnaires <u>immediately</u> after establishing telephone contact with a company. Many respondents had indicated that because the researcher had taken the time to contact them first, they would fill out the survey. Under normal conditions, they would have completely disregarded this type of request. In addition, the questionnaire was designed to facilitate a rapid response. Coupled with getting a copy of the instrument in an executive's hands very shortly after a telephone conversation, this rapid response feature may have been instrumental in encouraging firms to participate.

Summary

All questionnaires were mailed in the period from May 3, 1983 to May 19, 1983. Second requests were sent out on June 4, 1983. Responses were received from May 10, 1983 to June 27, 1983 (see Appendix Q). In total, forty-seven of ninety-six firms returned useable questionnaires. This constituted a forty-nine per cent response rate to the survey. The remainder of this chapter is devoted to discussing some preliminary results from the data provided by these firms.

Overview of the Data

The purposes of this section are to provide an overview of the sample and to assess the suitability of the data for the statistical tools utilized in this study. Accordingly, this section discusses the frequency distribution of responses, and statistical problems arising from those distributions. It then concludes with a discussion of how these problems were handled in subsequent data analyses.

Frequency Distribution of Responses

Before conducting a statistical analysis of the data, frequency distributions associated with each variable were examined. This subsection reviews the characteristics of the sample as revealed through those distributions.

In specific, the first part of this discussion presents the breakdown of acquisition transactions by year of acquisition. Second, the breakdown of acquisition transactions by the corporate and business level strategies employed by each parent company (acquisition type, relatedness and strategy type respectively) is discussed. Third, this subsection details the frequency of responses to each postmerger managerial decision variable (executive involvement; executive level in charge of the acquisition; consolidation of functional areas; responsibility of the acquired firm for integration decisions; centralization / autonomy; similarity of personnel policies; time frame for phasing out unwanted executives; and time frame for completing integration activities respectively).

Concerning year of acquisition (see Table 5.1), the results indicated that responses came from those firms completing acquisitions in 1977 or later. Of the forty-seven firms responding to the survey, only seven (14.9%) completed acquisition transactions in either 1977 or 1978. The clear majority (85.1%) of responses came from firms completing acquisitions during the period extending from 1979 to 1981. It seems that firms were less willing to provide information on merger or acquisition transactions that had occurred more than a few years ago. This is probably due to either memory loss on the part of those executives involved in such transactions, or a changeover in executive personnel, where the current people may not have been involved in the specified acquisition.

In focusing on the acquisition type variable (see Table 5.2), twenty-eight of the forty-seven respondents (59.6%) perceived their particular acquisition transaction to be horizontal in nature while the remaining nineteen respondents (40.4%) were split in their perceptions between concentric and conglomerate mergers. No company perceived its

TABLE 5.1

FREQUENCY DISTRIBUTION OF THE YEAR OF ACQUISITION VARIABLE FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Range		Frequency	Percent
1976		-0-	-0-
1977		4	8.5
1978		3	6.4
1979		13	27.7
1980		11	23.4
1981		16	34.0
	Total	47	100.0

transaction to be of the forward vertical integration variety.

For relatedness (see Table 5.3), twenty-three respondents (50%) indicated that restaurant sales constituted over 80 per cent of their firm's gross revenue, while eighteen respondents (39.1%) indicated that restaurant sales constituted less than 20 per cent of their firm's gross revenue. These results seem fairly consistent with the earlier breakdown among the horizontal, concentric and conglomerate mergers within the acquisition type variable. This relationship is specifically tested in a subsequent section.

The strategy type variable (see Table 5.4) revealed that twenty-eight respondents (59.6%) perceived the parent company as following a share increasing strategy in connection with its new acquisition. The remaining nineteen respondents (40.4%) were split in their perceptions between the growth, profit, and turnaround strategy types.

For each of the six items (finance, human resources, marketing, operations, research and development, and overall integration of the acquired firm) constituting executive involvement (see Table 5.5), most of the respondents indicated that parent company executives were highly involved in matters related to the acquired firm. In all six variables, 32 per cent or more of the respondents marked the highest pos-

TABLE 5.2

FREQUENCY DISTRIBUTION OF THE ACQUISITION TYPE VARIABLE FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Range	Frequency	Percent
Horizontal	28	59.6
Vertical	-0-	-0-
Concentric	11	23.4
Conglomerate	8	17.0
Total	47	100.0

TABLE 5.3

FREQUENCY DISTRIBUTION OF THE RELATEDNESS VARIABLE FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Range	Frequency	Percent
Less than or equal to 20%	18	39.1
Greater than 20%, but less than or equal to 40%	3	6.5
Greater than 40%, but less than or equal to 60%	1	2.2
Greater than 60%, but less than or equal to 80%	1	2.2
Greater than 80%	23	50.0
Total	46*	100.0

*One respondent did not answer this question.

TABLE 5.4

FREQUENCY DISTRIBUTION OF THE STRATEGY TYPE VARIABLE FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Range	Frequency	Percent
Share Increasing	28	59.6
Growth	2	4.2
Profit	11	23.4
Turnaround	6	12.8
Total	47	100.0

sible response to this question. The functional area that appeared to receive the most attention from parent company executives was finance (65.9%).

The indicator of executive level in charge of the acquisition (see Table 5.6), showed that most (57.4%) of the parent firms designated a vice president to handle these responsibilities.

As far as a tendency toward consolidating functional areas is concerned (see Table 5.7), a majority of the parent firms indicated that they combined all activities into one system. For all six items comprising this variable, 42 per cent or more of the respondents conveyed that they engaged in the highest degree of consolidation. Similar to executive involvement, the finance function seemed to be the most consolidated of all (63.1% of the respondents marked the highest degree of consolidation for this function).

Based upon the responses to this survey, it appears that acquired firms have little to no responsibility for integration decisions (see Table 5.8). Only five firms (11.1%) stated that the acquired firm's responsibility for integration decisions was equal to or greater than that of the parent.

The frequency distribution of the centralization / autonomy variable (see Table 5.9) was very similar to that of ex-

TABLE 5.5

FREQUENCY DISTRIBUTION OF THE EXECUTIVE INVOLVEMENT VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Finance	1	-0-	-0-
	2	4	8.5
	3	2	4.3
	4	10	21.3
	5	31	65.9
Total		47	100.0
Human Resources	1	9	19.6
	2	8	17.4
	3	8	17.4
	4	6	13.0
	5	15	32.6
Total		46*	100.0

†The Range represents a five point Likert Scale from "Not Responsible" to "Highly Responsible".

*One respondent did not answer this question.

TABLE 5.5 - Continued

FREQUENCY DISTRIBUTION OF THE EXECUTIVE INVOLVEMENT VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Marketing	1	10	21.7
	2	5	10.9
	3	4	8.7
	4	5	10.9
	5	22	47.8
Total		46*	100.0
Operations	1	9	19.1
	2	4	8.5
	3	6	12.8
	4	7	14.9
	5	21	44.7
Total		47	100.0

†The Range represents a five point Likert Scale from "Not Responsible" to "Highly Responsible".

*One respondent did not answer this question.

TABLE 5.5 - Continued

FREQUENCY DISTRIBUTION OF THE EXECUTIVE INVOLVEMENT VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Research and Development	1	12	26.1
	2	4	8.7
	3	6	13.0
	4	5	10.9
	5	19	41.3
Total		46*	100.0
Overall Integration of the Acquired Firm	1	2	4.3
	2	5	10.9
	3	8	17.4
	4	5	10.9
	5	26	56.5
Total		46*	100.0

†The Range represents a five point Likert Scale from "Not Responsible" to "Highly Responsible".

*One respondent did not answer this question.

TABLE 5.6

FREQUENCY DISTRIBUTION OF THE EXECUTIVE LEVEL IN CHARGE OF THE ACQUISITION VARIABLE FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Range	Frequency	Percent
Member of Board of Directors	3	6.9
President	12	25.6
Vice President	27	57.4
Special Staff Position	4	8.5
Middle Manager	1	2.1
Total	47	100.0

TABLE 5.7

FREQUENCY DISTRIBUTION OF THE CONSOLIDATION OF FUNCTIONAL AREAS VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Finance	1	7	15.2
	2	3	6.5
	3	4	8.7
	4	3	6.5
	5	29	63.1
Total		46*	100.0
Human Resources	1	11	23.4
	2	4	8.5
	3	9	19.1
	4	3	6.4
	5	20	42.6
Total		47	100.0

†Range represents a five point Likert Scale from "Not Consolidated" to "Consolidated Into One System".

*One respondent did not answer this question.

TABLE 5.7 - Continued

FREQUENCY DISTRIBUTION OF THE CONSOLIDATION OF FUNCTIONAL AREAS VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Marketing	1	11	23.9
	2	3	6.5
	3	5	10.9
	4	4	8.7
	5	23	50.0
Total		46*	100.0
Operations	1	16	34.8
	2	1	2.2
	3	3	6.5
	4	3	6.5
	5	23	50.0
Total		46*	100.0

†Range represents a five point Likert Scale from "Not Consolidated" to "Consolidated Into One System".

*One respondent did not answer this question.

TABLE 5.7 - Continued

FREQUENCY DISTRIBUTION OF THE CONSOLIDATION OF FUNCTIONAL AREAS VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Research and Development	1	14	30.4
	2	2	4.4
	3	5	10.9
	4	3	6.5
	5	22	47.8
Total		46*	100.0

†Range represents a five point Likert Scale from "Not Consolidated" to "Consolidated Into One System".

*One respondent did not answer this question.

TABLE 5.8

FREQUENCY DISTRIBUTION OF THE RESPONSIBILITY OF THE ACQUIRED FIRM FOR INTEGRATION DECISIONS VARIABLE FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Range	Frequency	Percent
Little or no responsibility	27	60.0
Proportional to the relative sizes of the firms	13	28.9
Equal responsibility	3	6.7
More responsibility than parent	2	4.4
Total	45*	100.0

*Two respondents did not answer this question.

ecutive involvement and consolidation. That is, most firms appeared to practice a high degree of centralization while affording the acquired firm very little decision making authority. For all six items comprising this variable, 40 per cent or more of the respondents marked the lowest degree of autonomy (and highest degree of centralization) response category.

In the same vein, most parent firms appeared to exert a large effort to standardize personnel policies (see Table 5.10). For each of the three levels of employees, forty-seven per cent or more of the respondents indicated that they totally standardized policies between the two firms.

Concerning the time frame for phasing out unwanted executives (see Table 5.11), only about one half of the companies indicated that acquired executives left the organization after the merger. When executives did leave, it usually happened within the first two months. For all three levels of executives, 50 per cent or more of the respondents indicated this to be the case.

Finally, a clear majority of the respondents (63.8%) indicated that the parent firm completed all integration activities within one year (see Table 5.12). Indeed, 48.9 per cent revealed that it took the parent firm less than six months to integrate the acquired company.

TABLE 5.9

FREQUENCY DISTRIBUTION OF THE CENTRALIZATION/AUTONOMY VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Administration	1	25	53.2
	2	13	27.7
	3	9	19.1
Total		47	100.0
Finance	1	32	68.1
	2	12	25.5
	3	3	6.4
Total		47	100.0
Human Resources	1	19	40.4
	2	16	34.1
	3	12	25.5
Total		47	100.0

†Range represents a three point Likert Scale from "Corporate Headquarters" to "The Acquired Makes the Decision Independently".

TABLE 5.9 - Continued

FREQUENCY DISTRIBUTION OF THE CENTRALIZATION/AUTONOMY VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Marketing	1	26	55.3
	2	12	25.5
	3	9	19.2
Total		47	100.0
Research and Development	1	25	53.2
	2	13	27.7
	3	9	19.1
Total		47	100.0
Operations	1	20	42.6
	2	15	31.9
	3	12	25.5
Total		47	100.0

†Range represents a three point Likert Scale from "Corporate Headquarters" to "The Acquired Makes the Decision Independently".

TABLE 5.10

FREQUENCY DISTRIBUTION OF THE SIMILARITY OF PERSONNEL POLICIES VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Upper Level Managers	1	7	14.9
	2	4	8.5
	3	3	6.4
	4	4	8.5
	5	29	61.7
Total		47	100.0
Middle Managers	1	7	14.9
	2	8	17.0
	3	2	4.3
	4	6	12.8
	5	24	51.0
Total		47	100.0

†Range represents a five point Likert Scale from "Not At All" to "Totally".

TABLE 5.10 - Continued

FREQUENCY DISTRIBUTION OF THE SIMILARITY OF PERSONNEL POLICIES VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Operating Employees	1	13	28.3
	2	4	8.7
	3	0	-0-
	4	7	15.2
	5	22	47.8
Total		46*	100.0

†Range represents a five point Likert Scale from "Not At All" to "Totally".

*One respondent did not answer this question.

TABLE 5.11

FREQUENCY DISTRIBUTION OF THE TIME FRAME FOR PHASING OUT UNWANTED EXECUTIVES VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Board of Directors	-0-	11	50.0
	2	6	27.4
	6	1	4.5
	8	2	9.1
	18	1	4.5
	29	1	4.5
Total		22*	100.0
President	-0-	10	40.0
	2	6	24.0
	3	2	8.0
	5	1	4.0
	8	1	4.0
	13	1	4.0
	15	1	4.0
	18	2	8.0
	24	1	4.0
Total		25**	100.0

†The Range is stated in terms of the average number of months it took for executives to leave the acquired firm after the transaction was consumated.

*Twenty-five respondents did not answer this question.

**Twenty-two respondents did not answer this question.

TABLE 5.11 - Continued

FREQUENCY DISTRIBUTION OF THE TIME FRAME FOR PHASING OUT UNWANTED EXECUTIVES VARIABLES FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Variable	Range†	Frequency	Percent
Vice Presidents	0	7	29.1
	2	5	20.8
	3	1	4.2
	5	1	4.2
	6	3	12.5
	8	1	4.2
	9	1	4.2
	12	1	4.2
	16	2	8.2
	18	1	4.2
	24	1	4.2
Total		24***	100.0

†The Range is stated in terms of the average number of months it took for executives to leave the acquired firm after the transaction was consumated.

***Twenty-three respondents did not answer this question.

TABLE 5.12

FREQUENCY DISTRIBUTION OF THE TIME FRAME FOR COMPLETING INTEGRATION ACTIVITIES VARIABLE FOR FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

Range	Frequency	Percent
Less than six months	23	48.9
Between six months and one year	7	14.9
Between one and two years	11	23.4
More than two years	1	2.1
Still not accomplished	5	10.7
Total	47	100.0

Three problems from a statistical perspective also were revealed through reviewing the frequency distributions of these variables. The first focuses on the distribution of the data, the second involves the assumption of continuous data, and the third involves potential problems with expected cell frequencies. The first two situations, taken together, act to preclude the use of the analysis of variance technique and its nonparametric equivalent, the Kruskal-Wallis test. The third problem precludes the use of the Chi-square test without first collapsing the variables to create fewer cells in the contingency tables.

As stated in the methodology section, the one-way analysis of variance technique was to be used to test those hypotheses involving the relationship between either a nominal or an ordinal variable on one hand, and a continuous variable on the other. The use of one-way analysis of variance is predicated on the assumption that the data are drawn from a normally distributed population. Normal distributions must be symmetric about the mean, and their tails must go to zero. Based upon a visual inspection of the frequencies of each variable from Tables 5.1 - 5.12, the distributions appeared to be very asymmetric, meaning that most respondents tended to answer questions on either extreme rather than toward the middle of the response range.

When considering the use of the Kruskal-Wallis test as a potentially viable alternative to the analysis of variance technique, another problem emerged. In this case, even though the Kruskal-Wallis test does not assume that the data were drawn from normally distributed populations, it does assume that the data were continuous (Siegel, 1956). By reviewing the frequency distributions of the continuous variables, an excessive number of ties in the data are evident (numerous respondents providing the exact same answer to a given question). Since continuous data assume that the probability of ties is zero, a high number of ties coming from actual observations lends support for the treatment of these variables as ordinal rather than continuous. Therefore, instead of utilizing either the analysis of variance technique or its nonparametric alternative, this study treated all variables as either nominal or ordered and thus used the Chi-square technique to test all hypotheses.

The third problem occurred as a result of the sample size of the data. Since Chi-square analysis was used throughout this study, small sample sizes can have an effect on the results of these tests. Specifically, the Chi-square statistic provides a measure of discrepancy between observed and expected frequencies. However, according to Walker and Lev (1953), the Chi-square curve does not provide a good approximation to the exact Chi-square probabilities for small sample sizes. In small samples, the computed Chi-square tends to yield large values leading to a very high probability of rejecting the null hypothesis. Therefore, as a rule of thumb, they suggested that the expected cell frequencies computed for all cells in a given contingency table should be greater than or equal to five.

Accordingly, even though forty-seven firms constituted a relatively high response rate drawn from the population in question, this still was not enough to analyze adequately the data from this study given the way the variables were initially constructed. Most of these variables were divided into either four or five response categories, meaning that there could be as many as twenty to twenty-five cells in each contingency table. Since expected cell frequencies were computed on the basis of observed row and column totals, it was not likely that each expected cell frequency would meet this minimum standard. Thus, Walker and Lev (1953) suggested that the researcher combine certain categories (where it seems logical to do so) to increase the expectations in the remaining cells. Where this problem arose in the ensuing set of analyses, it was handled by collapsing the tables to a point where 80 per cent or more of the expected cell frequencies equalled or exceeded five.

The next subsection specifically addresses the development of ways of interpreting the collapsed versions of each variable.

Collapsing of Empirical Indicators

Table 5.13 presents information on how each empirical indicator derived from the final version of the questionnaire instrument (see Appendix I) was collapsed into fewer response categories. Because of the small sample size, all variables had to be reduced to either two or three categories. This section describes the rationale used in collapsing the data.

Acquisition Type

Of the three types of mergers found in this study (horizontal, concentric and conglomerate), only one involved the case where the parent company acquired a firm that was formerly a competitor (horizontal). The other two (concentric and conglomerate) involved cases where the parent company was not directly related to the restaurant industry before consummating the acquisition transaction. On this basis, the three merger types were collapsed into two categories. The first represented horizontal acquisitions, while the second category, nonhorizontal acquisitions, was a combination of concentric and conglomerate mergers.

TABLE 5.13

COLLAPSED VERSIONS OF CORPORATE STRATEGY, BUSINESS STRATEGY AND POSTMERGER MANAGERIAL DECISION VARIABLES USED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Variable	Collapsed Response Range		
	Category 1	Category 2	Category 3
Acquisition Type	Horizontal	Nonhorizontal (Concentric/ Conglomerate)	
Relatedness	Unrelated	Related	
Strategy Type	Share Increasing	Other	
Executive Involvement (All six items plus average of these six items)	Not Responsible	Moderately Responsible	Highly Responsible
Level of Parent Company Executive in charge of the Acquisition	President or Above	Vice President or Below	
Consolidation of Functional Areas (All five items plus average of these five items)	Not Consolidated	Partially Consolidated	Consolidated Into One System

TABLE 5.13 - Continued

COLLAPSED VERSIONS OF CORPORATE STRATEGY, BUSINESS STRATEGY AND POSTMERGER MANAGERIAL DECISION VARIABLES USED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Variable	Collapsed Response Range		
	Category 1	Category 2	Category 3
Responsibility of the Acquired Firm in Handling Integration Activities	Little or No Responsibility	Some Responsibility	
Similarity of Personnel Policies (All three factors plus average of these factors	No Attempt at Standardization	Some Attempt at Standardization	Large Attempt at Standardization
Time Frame for Phasing Out Unwanted Executives	Immediately	Within Two Years	
Time Frame for Completing Integration Activities	Within One Year	More Than One Year	

Relatedness

In a similar sense, this variable was dichotomized on the basis of how involved the parent company was in the restaurant industry at the time of the acquisition. If the parent company derived less than 60 per cent of its sales from restaurant operations, it was considered to be unrelated to its new acquisition. Alternatively, if 60 per cent or more of the parent company's sales came from restaurant operations, then the parent company was considered to be highly related to its new acquisition.

Strategy Type

Of all the variables included in this study, strategy type was the only one that appeared to have no logical basis for combining the separate categories. Each of the four types (share increasing, growth, profit and turnaround) represented four distinct alternatives that could be exercised by the parent company with regard to its new acquisition. However, since twenty-eight of the forty-seven respondents indicated that the parent company was exercising a share increasing strategy in connection with the acquired firm, it may be that this is characteristic of the industry (i.e., most firms which would consider purchasing a restaurant organization would do it by following a share increasing as opposed to another type of strategy). On this basis, the three types (growth, profit and turnaround) were consolidated into one category, "other", which was reserved for firms not following a share increasing strategy. A separate category was then developed for those firms which were implementing share increasing strategies.

Executive Involvement

This variable was reduced from five ordered categories to three ordered categories by combining the middle three responses into one, representing a moderate degree of responsibility. The basis for this combination revolved around the fact that each of the three responses already represented varying _intermediate_ degrees of executive involvement.

Level of Parent Company Executive in Charge of the Acquisition

Table 5.6 indicated that the two most frequent responses to this question were president and vice president. Very few respondents said that another type of executive (board member, special staff person or middle manager) was responsible for overseeing the acquisition. Therefore, this variable was dichotomized by combining the board member and president responses to create a president or above category, and by combining the vice president, special staff position and middle manager to create a vice president or below category.

Consolidation of Functional Areas and Similarity of Personnel Policies

Similar to executive involvement, these two variables were each reduced from five ordered categories to three ordered categories. In both cases, this was done by combining the middle three responses into one representing a moderate degree of consolidation and a moderate attempt at standardizing personnel policies respectively. Again, these combinations were based on the fact that each of the three middle response categories represented varying degrees of intermediate levels of consolidation and standardization.

Responsibility of the Acquired Firm in Handling Integration Activities

This variable was collapsed from four ordered categories to two. The first represented little or no responsibility, since a majority of the respondents indicated this to be the case. The second category was developed by combining the other three possible responses (proportional to the relative sizes of the firms, equal and greater responsibility) into one indicating that the acquired firm had some responsibility for integration decisions.

Centralization / Autonomy

There was no need to collapse this variable into fewer response categories. As originally constructed for the study (see Question 8 in Appendix I), centralization / autonomy only contained three response categories. Therefore, all expected cell frequencies associated with this variable exceeded the minimum level.

Time Frame for Phasing Out Unwanted Executives

For all three dimensions of this variable, board of directors, president and vice president(s), the responses were dichotomized into two categories. The first was for those executives leaving immediately after the acquisition was consummated, while the second included all executives who did not leave immediately, but instead left within two years after the acquisition.

Only about one-half of the firms responded to each of these dimensions. As a result, the only way to ensure that the expected cell frequencies had a good chance of exceeding the minimum limits was to set the dichotomy up so that there would be an approximate equal number of observations in each cell. Since in all three cases (board of directors, president and vice president) the highest response rate was at the zero-month category (see Table 5.11), it seemed logical to set the dichotomy at that level.

Time Frame for Completing Integration Activities

Similarly, this variable was dichotomized into two categories. The first was for those firms completing all integration activities within one year, while the second was reserved for those firms that had taken more than one year to complete such activities.

Table 5.12 shows the logic of setting up the dichotomy this way. It indicates that 63.8 per cent of the firms completed their integration activities within one year while the remaining firms (36.2%) took more than one year. The expected cell frequencies associated with this collapsed version of the variable all exceeded the minimum level.

Summary

The overview of the data revealed that all responding firms consummated their acquisition transactions in 1977 or later. In addition, a clear majority of responding firms engaged in horizontal mergers, and were highly related to the acquired firm. Most respondents also indicated that they followed share increasing strategies in connection with their new acquisition.

As for the postmerger managerial decisions, a high degree of executive involvement was evident among the responding firms; a parent company vice president was usually designated to oversee the activities of the acquired firm; a high degree of consolidation, centralization and similarity of personnel policies was also found among the firms in the sample; the acquired firm usually had little to no responsibility for integration decisions; most acquired executives who left the organization usually did so immediately upon consummation of the transaction; and the time taken to complete integration activities usually tended to be less than one year.

A review of the frequency distributions of each variable also pointed to the necessity of treating all variables as either nominal or ordered categories. Thus the Chi-square technique was considered the most appropriate statistical tool to use in all subsequent data analyses. However, before utilizing this technique, all of the variables were collapsed. The purpose was to create smaller contingency tables, thereby ensuring that all expected cell frequencies equalled or exceeded five. This section concluded by discussing the logic utilized in collapsing the variables. The next section of this chapter discusses preliminary checks on the data.

Preliminary Checks on the Variables

The purposes of this section were to assess the validity and reliability of certain variables utilized in this study, and to verify that the environment, in so far as it relates to the acquired firm, has been held constant throughout the study.

Validity Check

In accordance with the procedures outlined in Chapter III, convergent validity checks were to be performed on the two empirical indicators of the corporate strategy construct (acquisition type and relatedness) and two of the empirical indicators of the business level strategy construct (aggressiveness and defensiveness). However, because of the modifications to the methodology as a result of the pilot study (see Chapter IV), the aggressiveness and defensiveness dimensions were eliminated from the final version of the questionnaire. This section only addresses convergent validity as it specifically pertains to the two empirical indicators of the corporate level strategy construct. Convergent validity implies that two or more empirical indicators of the same construct should correlate highly with one another. To test this assumption for the corporate strategy construct, the following null hypothesis was developed:

> There is no relationship between the acquisition type and relatedness empirical indicators of the corporate strategy construct.

A contingency table was set up to compare specifically the relatedness and acquisition type empirical indicators. Table 5.14 presents the results of the statistical analysis performed on these variables.

The table shows that of the twenty-eight respondents who indicated that their acquisition was horizontal in nature, twenty-four also indicated that the parent company was highly related to the restaurant industry. Of the nineteen respondents who indicated that their acquisition was nonhorizontal (concentric or conglomerate) in nature, eighteen indicated that the parent company was unrelated to the restaurant industry. The Chi-square statistic was significant at the 0.0001 level, indicating that there is a relationship between these two variables. To assess the strength of that relationship, a contingency coieffficient was also computed.

The contingency coefficient measured 0.620 (with a maximum possible value of 0.707 (Siegel, 1956). This statistic provides evidence of a high degree of correlation between the acquisition type and relatedness variables.

Conclusion. Since the Chi-square statistic, and Contingency Coefficient both yielded highly significant results, there is strong evidence in favor of rejecting the null hy-

TABLE 5.14

CONTINGENCY TABLE AND RESULTING STATISTICAL ANALYSIS OF THE ACQUISITION TYPE AND RELATEDNESS EMPIRICAL INDICATORS OF THE CORPORATE STRATEGY CONSTRUCT USED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Acquisition Type	Relatedness		
Frequency Expected	Unrelated	Related	Total
Horizontal	4 (13.1)	24 (14.9)	28
Non-Horizontal (Concentric/Conglomerate)	18 (8.9)	1 (10.1)	19
Total	22	25	47

Chi-Square Statistic	29.425
Degrees of Freedom	1
P-Value	0.0001
Contingency Coefficient (Maximum value (0.707)	0.620
Phi Coefficient	- 0.791

pothesis of no relationship between the acquisition type and relatedness variables. These data provide evidence in support of convergent validity, implying that both empirical indicators seem to be tapping the same corporate strategy construct.

Reliability Check

The methodology in Chapter III also indicated that reliability checks were to be performed on those variables involving the use of multi-item scales. This list of variables originally included executive involvement, consolidation of functional areas, autonomy, compensation scales, employee benefits, personnel policies, and the time frame for phasing out unwanted executives. However, because of modifications made in the methodology as a result of the pilot study (see Chapter IV), compensation scales and employee benefits were eliminated from the final version of the questionnaire, and hence, from any further consideration in this study. In addition, the variable, time frame for phasing out unwanted executives, was also eliminated from consideration for reliability. In this case, very few respondents answered all three items comprising this scale (see Question 10 in Appendix I) simultaneously. This made it difficult to treat these items in a combined fashion. Thus, for the remainder of this study, the construct time frame for phasing out unwanted executives contains three separate dimensions as opposed to one combined variable. Accordingly, a reliability check was not considered appropriate on these variables.

Table 5.15 presents the results of the Cronbach's Alpha test on each of the four remaining variables. The executive involvement and autonomy variables each comprised a total of five separate items (see Questions 3 and 8 respectively in Appendix I); the consolidation of functional areas variable comprised a total of five separate items (see Question 6 in Appendix I); and the personnel policies variable comprised a total of three separate items (see Question 9 in Appendix I). For all four variables, the Cronbach's Alpha statistic exceeded 0.89. This is well above Nunally's (1978) recommendation of 0.80 as a criterion for assessing the reliability of a variable.

Conclusion. The Cronbach's Alpha statistic in each of the four cases indicated a very high degree of internal consistency among the items making up each measure. Therefore, the multiple items comprising each of the aforementioned empirical indicators have been combined for measurement purposes.

TABLE 5.15

RELIABILITY TESTS ON THOSE POSTMERGER MANAGERIAL DECISION VARIABLES UTILIZING MULTI-ITEM SCALES FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Postmerger Managerial Decision Variable	Cronbach's Alpha
Executive Involvement	0.89528
Consolidation of Functional Areas	0.94469
Centralization/Autonomy	0.95045
Personnel Policies	0.95078

<u>Test of a Constant Environment</u>

As outlined in Chapter III, contingency tables were set up and Chi-square analyses were utilized to test the null hypothesis that there is no relationship between how the parent company exercises its postmerger managerial decisions and the year in which the acquisition was consummated.

Table 5.16 provides the results of separate Chi-square analyses used to compare the year of acquisition to each postmerger managerial decision. It is constructed to reveal the Chi-square statistic, degrees of freedom, p-value and contingency coefficient computed from the respective contingency tables. The Chi-square test yielded insignificant results on all variables except consolidation of functional areas, and the time frame for phasing out unwanted vice presidents from the acquired firm. These variables were significant at the 0.0882 and 0.0884 levels respectively. However, a review of the contingency coefficients revealed a weak association between each of these variables and the year of acquisition. For consolidation of functional areas, the contingency coefficient was 0.321. For the time frame for phasing out unwanted vice presidents of the acquired firm, the coefficient was 0.269. Considering that the contingency coefficient in each of these cases had a maximum value of 0.707 (Siegel, 1956), the strength of each association appeared moderate.

TABLE 5.16

ANALYSIS OF CHI-SQUARE TESTS COMPARING YEAR TO POSTMERGER MANAGERIAL DECISIONS FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Postmerger Managerial Decision	Chi-Square Statistic	Degrees of Freedom	p-Value	Contingency Coefficient
Executive Involvement	3.938	2	0.1396	0.289
Level of Parent Company Executive in Charge of the Acquisition	0.766	1	0.3814	-0.128
Consolidation of Functional Areas	4.856	2	0.0882	0.321
Responsibility of the Acquired Firm in Handling Interaction Activities	0.375	1	0.5403	-0.091
Autonomy	3.843	2	0.1464	0.286
Standardization of Personnel Policies	1.750	2	0.4169	0.193
Timeframe for Phasing Out Unwanted Executives				
Board of Directors	1.692*	1	0.1933	-0.277
President	0.000†	1†	1.0000†	0.0000†
Vice Presidents	2.903	1	0.884	0.269
Timeframe for Completing Integration Activities	0.221	1	0.6381	-0.069

*Over 20 percent of the cells in the 2 x 2 contingency table had expected values less than 5. Yates correction was <u>not</u> applied here since the chi-square statistic was already insignificant.

†In all four cells, the observed cell frequencies equalled the expected cell frequencies.

Because of the two significant results, these findings were compared to Bonferroni's critical values before assessing whether or not there was a relationship between year of acquisition and postmerger integration practices. Table 5.17 presents the results of these tests. When controlling for the experimentwise error rate, this table shows that none of the postmerger managerial decisions were significantly related to the year of acquisition at either the 0.01 or 0.05 levels.

Conclusion. In comparing the year of acquisition to postmerger integration practices, there is insufficient evidence to reject the null hypothesis of no relationship. As a result, it appears as if the environment has been held constant throughout the study. This project proceeded under that assumption.

Summary

Utilizing the revised data gathering methodology (outlined in Chapter IV), telephone contacts were made with ninety-six firms to request their participation in the study. Seventy-eight of these firms agreed to review a copy of the questionnaire. Of these seventy-eight firms, forty-seven returned useable copies of the instrument. The useable response rate based on a possible ninety-six possible

TABLE 5.17

EXPERIMENTWISE CHI-SQUARE TEST OF THE CHECK FOR A CONSTANT ENVIRONMENT FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Postmerger Managerial Decision	Chi-Square Statistic	Degrees of Freedom	Bonferroni Critical Values	
			p-Value = 0.05	p-Value = 0.0
Executive Involvement	3.938	2	10.597	13.816
Level of Parent Company Executive in Charge of the Acquisition	0.766	1	7.879	10.828
Consolidation of Functional Areas	4.856	2	10.597	13.816
Responsibility of the Acquired Firm in Handling Integration Activities	0.375	1	7.879	10.828
Autonomy	3.843	2	10.597	13.816
Similarity of Personnel Policies	1.750	2	10.597	13.816
Timeframe for Phasing out Unwanted Executives				
Board of Directors	1.692	1	7.879	10.828
President	0.000	1	7.879	10.828
Vice Presidents	2.903	1	7.879	10.828
Timeframe for Completing Integration Activities	0.221	1	7.879	10.828

firms in the sample was 49 per cent. Considering just the seventy-eight firms that were actually mailed copies of the instrument, the useable response rate was 60 per cent.

Upon reviewing the frequency distributions from the responding firms, the Chi-square technique was determined to be the most appropriate statistical tool to use in all subsequent data analysis. This was based upon the non-normality of the data, and the excessive number of ties within each variable. Before implementing this technique, most variables were collapsed into smaller ordered categories. The preliminary checks of the data included validity and reliability assessments on certain variables, and a check for a constant environment for the variables representing postmerger integration practices.

The validity check revealed that there was a high degree of correlation between the two empirical indicators (acquisition type and relatedness) of the corporate strategy construct. The reliability check showed that there was a high degree of internal consistency among the multiple items comprising the executive involvement, consolidation of functional areas, autonomy and similarity of personnel policies variables. Finally, the test for a constant environment indicated that a parent company's postmerger integration practices were not significantly related to the year in which the acquisition was consummated.

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Chapter VI

THE STUDY RESULTS: II

The primary purpose of this dissertation was to investigate whether variations in corporate and business level strategies have any impact upon postmerger integration practices of firms acquiring foodservice organizations. To this end, three sets of conceptual and operational hypotheses were developed and tested. A fourth set relating the degree of aggressiveness / defensiveness of the parent company to postmerger managerial decisions was also developed. However, because of modifications made in the scope of the study (see Chapter IV), no statistical tests were performed on this set of hypotheses. This chapter first reports the statistical analyses of the three hypotheses comparing acquisition type, relatedness, and strategy type respectively to the parent company's postmerger managerial decisions. Next, a discussion of these results is presented.

Tests of The Main Hypotheses

This section is divided into three subsections. First, the conceptual and operational hypotheses relating acquisition type to postmerger managerial decisions are presented. Second, the relatedness conceptual and operational hypotheses are discussed. Finally, in the third subsection, a review of the conceptual and operational hypotheses relating strategy type to postmerger managerial decisions is presented.

The Acquisition Type Hypothesis

This conceptual hypothesis was designed to see if parent companies engaging in different types of acquisition strategies modified their postmerger managerial decisions accordingly. Formally stated, it reads:

H1 : <u>There are differences in the postmerger integration practices among firms which engage in different types of acquisitions.</u>

To investigate this conceptual hypothesis, a series of ten operational hypotheses were set up to compare the parent company's acquisition type strategy to each of ten postmerger managerial decisions. The original list, appearing in Table 2.3 of Chapter II, had been modified as a result of the pilot study. The revised set of postmerger managerial decisions and related operational hypotheses can be found in Chapter IV.

Chi-square analyses were performed on each of these ten operational hypotheses. To formulate a decision about the overall conceptual hypotheses, each of the ten observed

Chi-square statistics were compared to Bonferroni's critical values. This subsection discusses the results of the ten individual hypotheses. It then concludes by combining these results so as to control for the experimentwise error rate. This same type of procedure was also followed in testing Hypotheses 2 and 3.

Table 6.1 presents the results of the Chi-square tests comparing acquisition type to each postmerger managerial decision. Similar to Table 5.16, it is constructed to reveal the Chi-square statistic, degrees of freedom, p-value, and contingency coefficient computed from contingency tables set up to compare acquisition type to each postmerger managerial decision. Significant results (beyond the 0.053 level) were found in six of the ten tests. Specifically, the postmerger managerial decisions that seemed to vary with acquisition type included executive involvement, consolidation of functional areas, autonomy, similarity of personnel policies, the time frame for phasing out members of the acquired firm's board of directors, and the time frame for completing integration activities. Those postmerger managerial decisions not associated with acquisition type included the level of the parent company executive in charge of the acquisition, responsibility of the acquired firm in handling integration activities and the time frame for phasing out the acquired firm's president and vice president(s).

TABLE 6.1

ANALYSIS OF CHI-SQUARE TESTS COMPARING ACQUISITION TYPE TO POSTMERGER MANAGERIAL DECISIONS FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Postmerger Managerial Decision	Chi-Square Statistic	Degrees of Freedom	p-Value	Contingency Coefficient
Executive Involvement	15.906	2	0.0004	0.503
Level of Parent Company Executive in Charge of the Acquisition	0.356	1	0.5506	0.087
Consolidation of Functional Areas	22.544	2	0.0001	0.569
Responsibility of the Acquired Firm in Handling Integration Activities	0.567	1	0.4514	0.112
Autonomy	24.232	2	0.0001	0.583
Similarity of Personnel Policies	25.035	2	0.0001	0.590
Timeframe for Phasing Out Unwanted Executives				
Board of Directors	4.911†	1	0.0300	0.493
President	1.563†	1	0.2140	0.316
Vice President(s)	1.125	1	0.2888	0.165
Timeframe for Completing Integration Activities	3.743	1	0.0530	0.272

†Over 20 percent of the cells in the 2 x 2 contingency table had expected values less than 5. Since the original observed chi-square was significant, Yates correction was applied to moderate the effects of the small sample size.

The remainder of this section is devoted to interpreting these results in light of the ten operational hypotheses developed in connection with the acquisition type strategy construct.

Hypothesis 1A

H1A: <u>There is no relationship between acquisition type and the degree of executive involvement of managers in the parent company during the postmerger integration process.</u>

<u>Discussion.</u> Executive involvement was significantly related (beyond the 0.0004 level) to the parent company's acquisition type strategy (see Table 6.1). The contingency table indicated that the direction of the relationship <u>in each case</u> was such that most respondents who said that the parent company engaged in a horizontal acquisition strategy also said that parent company executive involvement with the acquired firm was moderate to high. For concentric / conglomerate (non horizontal) acquisitions, most respondents said that parent company executive involvement with the acquired firm was low to moderate.

As an additional measure of the strength of this relationship, a contingency coefficient was also computed. This coefficient yielded a value of 0.503 out of a maximum possible value of 0.707. This indicated a fairly strong relationship between the executive involvement and acquisition type variables.

Conclusion. Based upon the results of the Chi-square analysis, Hypothesis 1A was rejected at the 0.0004 level of significance. This analysis revealed that there seems to be a relationship between acquisition type and executive involvement.

Hypothesis 1B

H1B: There is no relationship between acquisition type and the level of parent company executive in charge of the acquisition.

Discussion. The level of parent company executive in charge of the acquisition was not significantly related (p-value = 0.5506) to acquisition type (see Table 6.1). For both sets of respondents (those indicating a horizontal merger and those indicating a concentric / conglomerate merger), the contingency tables showed that the level of parent company executive in charge of the acquisition tended to be a vice president or below.

Conclusion. There was insufficient evidence to reject the null hypothesis of no relationship between acquisition type and the level of parent company executive in charge of the acquisition.

Hypothesis 1C

H1C: <u>There is no relationship between acquisition type and the degree of consolidation of the acquired firm's functional areas.</u>

<u>Discussion.</u> The results of the Chi-square analysis were highly significant (p-value = 0.00001 level) with respect to consolidation of functional areas and acquisition type (see Table 6.1). The direction of this relationship was similar to that of executive involvement where horizontal acquisitors tended to consolidate the functional areas into one system while concentric and conglomerate acquisitors either did not consolidate the functional areas or only attempted to do so in a moderate sense. In assessing the strength of this relationship, the contingency coefficient was 0.569. This indicated a strong association between these two variables.

<u>Conclusion.</u> The results of the Chi-square analysis provided sufficient evidence to <u>reject</u> Hypothesis 1C at the 0.0001 level of significance. There seems to be a relationship between acquisition type and consolidation of functional areas.

Hypothesis 1D

H1D: <u>There is no relationship between acquisition type and the degree of responsibility of the acquired firm in handling integration activities.</u>

<u>Discussion.</u> The results of the Chi-square analysis indicated that the degree of responsibility of the acquired firm in handling integration activities was not significantly related (p-value = 0.4514) to acquisition type (see Table 6.1). For both acquisition types, respondents were split between "some responsibility" and "none" in their assessment of how much responsibility was given to the acquired firm in handling integration activities. In the uncollapsed version of this variable, forty of forty-seven respondents stated that the acquired firm's responsibility ranged from none to only a portion relative to the sizes of the two firms.

<u>Conclusion.</u> There was <u>insufficent evidence to reject</u> the null hypothesis of no relationship between acquisition type and the degree of responsibility of the acquired firm in handling integration activities.

Hypothesis 1E

H1E: <u>There is no relationship between acquisition type and the degree of centralization / autonomy afforded the acquired firm in making functional decisions.</u>

<u>Discussion.</u> The Chi-square test was highly significant (p-value = 0.0001) with respect to the acquisition type and autonomy variables (see Table 6.1). The direction of this relationship was consistent with executive involvement and consolidation of functional areas in that horizontal acquisitors afforded the acquired firm very little decision making authority, while concentric and conglomerate acquisitors allowed the acquired firm a great deal of latitude in making decisions. The contingency coefficient (0.583) also indicated that there was a strong relationship between these two variables.

<u>Conclusion.</u> The results of the Chi-square analysis provided sufficient evidence to <u>reject</u> Hypothesis 1E at the 0.0001 level of significance. Thus, there seems to be a relationship between autonomy and acquisition type.

<u>Hypothesis 1F</u>

H1F: <u>There is no relationship between acquisition type and the degree of similarity of personnel policies between the two firms.</u>

<u>Discussion.</u> The Chi-square test was highly significant (p-value = 0.001) with regard to the degree of similarity of personnel policies and acquisition type (see Table 6.1). Once again, the direction of this relationship was consis-

tent with the executive involvement, consolidation of functional areas, and autonomy variables. In horizontal acquisitions, the respondents indicated that the parent company exerted a large effort to standardize personnel policies between the two organizations. In concentric and conglomerate acquisitions, the majority of respondents indicated that the parent company exerted little to no effort in attempting to standardize personnel policies between the two organizations. The contingency coefficient for these variables was 0.59, indicating a very strong relationship between the degree of similarity of personnel policies in the two firms and acquisition type.

Conclusion. The results of the Chi-square analysis provided sufficient evidence to reject Hypothesis 1F at the 0.0001 level of significance. This led to the conclusion that there is a relationship between acquisition type and the degree of similarity of personnel policies between the two firms.

Hypotheses 1G - 1I

The next three hypotheses, (Hypotheses 1G - 1I) all relate to the time frame for phasing out unwanted executives. Because of the way that this question was set up in the final version of the questionnaire (see Question 10 in Appendix I), it was not possible to develop a composite variable for this construct. Thus, the construct, time frame for phasing out unwanted executives, was tested separately for board of directors, president and vice president(s). These hypotheses are all predicated on the assumption that the respondents did indicate that at least one of the classes of executives left within the first two years after the acquisition was consummated. This was true in thirty-four of forty-seven responses.

Hypothesis 1G

H1G: _There is no relationship between acquisition type and the time frame for phasing out unwanted members of the acquired firm's board of directors._

Discussion. The Chi-square test was significant at the 0.03 level (see Table 6.1). The contingency table for these two variables revealed that for horizontal mergers, in most instances, members of the acquired firm's board of directors left immediately, while in concentric and conglomerate mergers they tended not to leave immediately, but some time within the first two years after the acquisition had been consummated. The contingency coefficient was 0.493 indicating that this was a strong relationship.

<u>Conclusion.</u> The results of the Chi-square analysis provide sufficient evidence to <u>reject</u> Hypotheses 1G at the 0.03 level of significance. Thus there seems to be a relationship between acquisition type and time frame for phasing out unwanted members of the acquired firm's board of directors.

<u>Hypothesis 1H</u>

H1H: <u>There is no relationship between acquisition type and the time frame for phasing out the acquired firm's president.</u>

<u>Discussion.</u> The time frame for phasing out the acquired firm's president was not significantly related (p-value = 0.2140) to acquisition type (see Table 6.1). In horizontal mergers, the respondents were just about evenly split in their assessment of whether or not the acquired firm's president left immediately or within a two year period. The concentric and conglomerate acquisitors clearly indicated a tendency for the acquired firm's president to stay for a period of time after the merger was consummated.

<u>Conclusion.</u> There was <u>insufficient evidence to reject</u> the null hypothesis of no relationship between acquisition type and the time frame for phasing out the acquired firm's president.

Hypothesis 1I

H1I: <u>There is no relationship between acquisition type and the time frame for phasing out the acquired firm's vice president(s).</u>

<u>Discussion.</u> There was an insignificant relationship (p-value = 0.2888) between the time frame for phasing out the acquired firm's vice president(s) and acquisition type (see Table 6.1). In horizontal mergers, the respondents were equally split in their assessment of whether or not the acquired firm's vice president(s) left immediately or within a two year period. The concentric and conglomerate acquisitors showed some tendency for the acquired firm's vice president(s), unlike the presidents, to leave immediately after the acquisition instead of staying for a while.

<u>Conclusion.</u> There is <u>insufficient evidence to reject</u> the null hypothesis of no relationship between acquisition type and the time frame for phasing out the acquired firm's vice president(s).

Hypothesis 1J

H1J: <u>There is no relationship between acquisition type and the time frame for completing integration activities.</u>

Discussion. The results of the Chi-square analysis were significant (p-value = 0.053) with respect to the time frame for completing integration activities and acquisition type (see Table 6.1). The direction of this relationship is in favor of horizontal acquisitors completing integration activities within a year's time and concentric and conglomerate acquisitors taking more than one year to complete such activities. The contingency coefficient in this case showed a weak association (0.272). This could be because there were quite a few concentric and conglomerate acquisitors which indicated that they completed their integration activities within a one year time period.

Conclusion. The results of the Chi-square analysis provided sufficient evidence to reject Hypothesis 1J at the 0.053 level of significance. There seems to be a relationship (albeit a weaker one) between acquisition type and the time frame for completing integration activities.

Experimentwise Test of the Acquisition Type Conceptual Hypothesis

The final step in this analysis was to view these ten individual hypotheses as an integrated whole so that an assessment could be made of the overall conceptual hypothesis. Stated in the null form, Conceptual Hypothesis 1 reads:

> There is no relationship between any of the ten postmerger integration practices among firms which engage in different types of acquisitions.

Discussion. Table 6.2 compared each of the ten observed Chi-square statistics to Bonferroni's critical values at the 0.05 and 0.01 levels of significance. Four of the ten postmerger managerial decisions (executive involvement, consolidation of functional areas, autonomy, and similarity of personnel policies) exceeded the Bonferroni critical value at the 0.01 level of significance. Two of the postmerger managerial decisions (time frame for phasing out members of the acquired firm's board of directors, and time frame for completing integration activities), which were significant under the individual Chi-square tests, proved insignificant when subjected to the more stringent Bonferroni test. This was not a crucial factor in evaluating the conceptual hypothesis.

Conclusion. Since at least one of the ten observed Chi-square statistics exceeded Bonferroni's critical value (at the 0.01 level of significance), there was sufficient evidence to reject the null hypothesis of no relationship between acquisition type and postmerger integration practices. This section clearly demonstrated that the type of acquisition a parent company engages in (whether it be horizontal or concentric / conglomerate) was significantly related to the type of postmerger integration practices it exercised.

TABLE 6.2

EXPERIMENTWISE CHI-SQUARE TEST OF THE ACQUISITION TYPE CONCEPTUAL HYPOTHESIS FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Postmerger Managerial Decision	Chi-Square Statistic	Degrees of Freedom	Bonferroni Critical Values p-Value = 0.05	Bonferroni Critical Values p-Value = 0.01
Executive Involvement	15.906**	2	10.597	13.816
Level of Parent Company Executive in Charge of the Acquisition	0.356	1	7.879	10.828
Consolidation of Functional Areas	22.544**	2	10.597	13.816
Responsibility of the Acquired Firm in Handling Integration Activities	0.567	1	7.879	10.828
Autonomy	24.232**	2	10.597	13.816
Similarity of Personnel Policies	25.035**	2	10.597	13.816
Timeframe for Phasing out Unwanted Executives				
Board of Directors	4.911	1	7.879	10.828
President	1.563	1	7.879	10.828
Vice President(s)	1.125	1	7.879	10.828
Timeframe for Completing Integration Activities	3.743	1	7.879	10.828

**Significant at the 0.01 level.

The Relatedness Hypothesis

This hypothesis was designed to see if the level of the parent company's past experience in the acquired firm's line of business (foodservice) was associated with the types of managerial decisions it made during the postmerger integration process. The relatedness variable was conceived to be a second empirical indicator of the corporate strategy construct (with acquisition type being the first). During the convergent validity check, these two variables were shown to be highly and significantly related to one another in that most respondents who envisioned the parent company's acquisition type to be horizontal also indicated that the parent company was highly related to the acquired firm's line of business (foodservice). Conversely, most respondents who envisioned the parent company's acquisition type to be concentric or conglomerate also indicated that the parent company was unrelated to the acquired firm's line of business (foodservice). Therefore, it appeared that acquisition type and relatedness were in effect measuring the same construct, corporate strategy.

This section is primarily concerned with investigating whether variations in the relatedness empirical indicator yielded similar types of variations in the parent company's postmerger managerial decisions as found in the prior section considering acquisition type and postmerger managerial decisions. Formally stated, this hypothesis reads:

H2 : <u>There are differences in postmerger integration practices among firms depending upon how closely related the parent is to the acquired firm's line of business.</u>

To test the conceptual hypothesis, a series of operational hypotheses were set up to compare the parent company's degree of relatedness to the foodservice industry to each of the ten postmerger managerial decisions exercised by the parent firm.

Table 6.3 presents the results of the Chi-square tests. These findings were similar to those obtained earlier in comparing acquisition type to each postmerger managerial decision. Specifically, the following postmerger managerial decisions appeared significantly associated with relatedness. These included executive involvement, consolidation of functional areas, autonomy, similarity of personnel policies, and the time frame for phasing out members of the acquired firm's board of directors. The postmerger managerial decisions that did not seem to correlate with relatedness included the level of the parent company executive in charge of the acquisition, responsibility of the acquired firm in handling integration activities, the time frame for phasing out the acquired firm's president and vice president(s), and the time frame for completing integration activities.

The major differences between these results and those obtained in the earlier section for acquisition type included: (1) the differing results between these two variables concerning the time frame for completing integration activities (this variable was significantly related to acquisition type but not to relatedness); and (2) the generally higher p-values and lower contingency coefficients obtained while utilizing the relatedness variable as opposed to acquisition type.

In the first instance, the time frame for completing integration activities, although significantly related to acquisition type, yielded a comparatively low contingency coefficient (0.178). As a result, this measure of association indicated a weak relationship between the two variables. Thus when comparing this postmerger managerial decision to relatedness, the significant finding disappeared.

This makes sense in light of the second instance concerning the generally higher p-values and lower contingency coefficients obtained while utilizing the relatedness as opposed to the acquisition type variable. Although yielding significant results on the same postmerger managerial decisions as acquisition type, the relatedness variable tended

TABLE 6.3

ANALYSIS OF CHI-SQUARE TESTS COMPARING RELATEDNESS TO EACH POSTMERGER MANAGERIAL DECISION FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Postmerger Managerial Decision	Chi-Square Statistic	Degrees of Freedom	p-Value	Contingency Coefficient
Executive Involvement	7.461	2	0.0240	0.370
Level of Parent Company Executive in Charge of the Acquisition	0.410	1	0.5219	0.093
Consolidation of Functional Areas	12.306	2	0.0021	0.456
Responsibility of the Acquired Firm in Handling Integration Activities	0.000	1	1.0000	0.000
Autonomy	13.062	2	0.0015	0.466
Similarity of Personnel Policies	15.655	2	0.0004	0.500
Timeframe for Phasing out Unwanted Executives				
Board of Directors	6.600	1	0.0102	0.480
President	1.9297[†]	1	0.173	0.338
Vice President(s)	0.102	1	0.7491	0.051
Timeframe for Completing Integration Activities	1.544	1	0.2140	0.178

[†]Over 20 percent of the cells in the 2 x 2 contingency table had expected values less than 5. Since the original observed chi-square was significant, Yates correction was applied to moderate the effects of the small sample size.

to provide a more conservative test. The strength of the associations was weaker than those obtained under acquisition type. A potential explanation is that a number of respondents may have indicated that the parent company engaged in a horizontal merger even when the parent company derived less than 60 per cent of its gross sales from restaurant operations (this was actually the case with four of the twenty-eight respondents answering horizontal to the acquisition type question). This did not seem to affect seriously the findings since both sets of results (those derived from the acquisition type variable, and those derived from the relatedness variable) were overall quite consistent.

A discussion of each of the ten hypotheses (Hypotheses 2A - 2J) on an individual basis was not considered necessary since all conclusions (except for the last one comparing the time frame for completing integration activities) were similar to those already presented in the acquisition type section.

Hypothesis 2J

Concerning the one differing variable, time frame for completing integration activities, the hypothesis reads:

H2J: <u>There is no relationship between the degree of relatedness of the acquiring and acquired firms, and the time frame for completing integration activities.</u>

<u>Discussion.</u> The results of the Chi-square analysis were insignificant (p-value = 0.2140) with respect to the time frame for completing integration activities, and the relatedness variable (see Table 6.3). For both sets of respondents (highly related and unrelated), a large number of firms indicated that it took less than one year to complete integration activities.

<u>Conclusion.</u> There is <u>insufficient evidence to reject</u> the null hypothesis of no relationship between the time frame for completing integration activities and the degree of relatedness between the acquiring and acquired firms.

<u>Experimentwise Test of the Relatedness Conceptual Hypothesis</u>

In treating these ten individual hypotheses in an integrated manner, an assessment was made of the overall conceptual hypothesis. In null form, Conceptual Hypothesis H2 reads:

> <u>There is no relationship between any of the ten postmerger integration practices and the degree of relatedness between the parent and acquired firm.</u>

Discussion. Table 6.4 compared each of the ten observed Chi-square statistics to Bonferroni's critical values at the 0.05 and 0.01 levels of significance. The table shows that three of the postmerger managerial decisions (consolidation of functional areas, autonomy, and similarity of personnel policies) exceeded the Bonferroni critical value at the 0.05 level of significance. In addition, one of those postmerger managerial decisions (similarity of personnel policies) exceeded the Bonferroni critical value at the 0.01 level of significnace, while another (autonomy) comes very close to the Bonferroni critical value at the 0.01 level of significance. Two of the postmerger managerial decisions (executive involvement and time frame for phasing out members of the acquired firm's board of directors) which were significant under the individual Chi-square tests, turned out to be insignificant when compared to the strict criteria laid out in the Bonferroni test.

Conclusion. Since at least one of the ten observed Chi-square statistics exceeded Bonferroni's critical value (at the 0.01 level of significance), there was sufficient evidence to reject the null hypothesis of no relationship between the degree of relatedness between the two firms and postmerger integration practices. The evidence was even more conclusive at the 0.05 level of significance in favor

TABLE 6.4

EXPERIMENTWISE CHI-SQUARE TEST OF THE RELATEDNESS CONCEPTUAL HYPOTHESES
FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM JANUARY, 1983 - SEPTEMBER, 1983

			Bonferroni Critical Values	
Postmerger Managerial Decision	Chi-Square Statistic	Degrees of Freedom	p-Value = 0.05	p-Value = 0.01
Executive Involvement	7.461	2	10.597	13.816
Level of Parent Company Executive in Charge of the Acquisition	0.410	1	7.879	10.828
Consolidation of Functional Areas	12.306*	2	10.597	13.816
Responsibility of the Acquired Firm in Handling Integration	0.000	1	7.879	10.828
Autonomy	13.062*	2	10.597	13.816
Similarity of Personnel Policies	15.655**	2	10.597	13.816
Timeframe for Phasing out Unwanted Executives				
Board of Directors	6.600	1	7.879	10.828
President	1.929	1	7.879	10.828
Vice President(s)	0.102	1	7.879	10.828
Timeframe for Completing Integration Activities	1.544	1	7.879	10.828

*Significant at the 0.05 Level.

**Significant at the 0.01 Level.

of rejecting the null hypothesis. As a result, this section has demonstrated that there were differences in postmerger integration practices among firms depending upon how closely related the parent firm was to the acquired organization's line of business.

The Strategy Type Hypothesis

This hypothesis was developed to see if parent companies, engaging in different strategy types (turn around, growth, profit, share increasing) in connection with their new acquisition, modified their postmerger managerial decisions accordingly. Formally, this hypothesis reads:

H3 : There are differences in postmerger integration practices among firms which attempt to utilize different strategy types in connection with their acquisition.

To investigate this conceptual hypothesis, a series of operational hypotheses were set up to compare the parent company's strategy type to each of ten postmerger managerial decisions.

Table 6.5 presented the results of the Chi-square tests comparing strategy type to each postmerger managerial decision. Significant results (beyond the 0.0164 level) were found in only two of the ten tests. Specifically, consolidation of functional areas and similarity of personnel policies were the only two postmerger managerial decisions that appeared to vary with strategy type. The other eight, included in Table 6.5, did not reveal themselves to be associated with strategy type.

The remainder of this subsection is devoted to interpreting these results in light of the ten operational hypothesee developed in connection with the strategy type construct.

Hypothesis 3A

H3A: <u>There is no relationship between strategy type and the degree of executive involvement of managers in the parent company during the postmerger integration process.</u>

<u>Discussion.</u> Executive involvement was not significantly related (p-value = 0.2221) to strategy type (see Table 6.5). Even though the contingency table showed a tendency toward high executive involvement in firms practicing a share increasing strategy (sixteen of twenty-eight respondents indicated a high degree of executive involvement) no such pattern was evident in firms practicing a business strategy other than share increasing (the nineteen respondents were just about evenly split between the three possible responses to this question).

TABLE 6.5

ANALYSIS OF CHI-SQUARE TESTS COMPARING STRATEGY TYPE TO POSTMERGER MANAGERIAL DECISIONS FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

Postmerger Managerial Decision	Chi-Square Statistic	Degrees of Freedom	p-Value	Contingency Coefficient
Executive Involvement	3.009	2	0.2221	0.245
Level of Parent Company Executive in Charge of the Acquisition	1.524	1	0.2170	0.177
Consolidation of Functional Areas	8.226	2	0.0164	0.386
Responsibility of the Acquired Firm in Handling Integration Activities	0.015	1	0.9011	0.019
Autonomy	1.602	2	0.4489	0.182
Similarity of Personnel Policies	9.299	2	0.0096	0.406
Timeframe for Phasing out Unwanted Executives				
Board of Directors	1.886°	1	0.1697	0.281
President	0.031°	1	0.8611	0.035
Vice Presidents	0.021	1	0.8843	0.023
Timeframe for Completing Integration Activities	0.487	1	0.4855	0.101

° Over 20 percent of the cells in the 2 x 2 contingency table had expected values less than 5. Yates correction was <u>not</u> applied here since the Chi-square statistic was already insignificant.

Conclusion. There was *insufficient evidence to reject* the null hypothesis of no relationship between strategy type and executive involvement.

Hypothesis 3B

H3B: *There is no relationship between strategy type and the level of parent company executive in charge of the acquisition.*

Discussion. Strategy type and the level of parent company executive were not significantly related (p-value = 0.2170; see Table 6.5). For both sets of respondents (those practicing a share increasing strategy and those practicing a business strategy other than share increasing), the contingency tables showed that the level of parent company executive in charge of the acquisition tended to be a vice president or below.

Conclusion. There was *insufficient evidence to reject* the null hypothesis of no relationship between strategy type and the level of parent company executive in charge of the acquisition.

Hypothesis 3C

H3C: *There is no relationship between the strategy type employed by the acquiring firm and the degree of consolidation of the acquired firm's functional areas.*

Discussion. The degree of consolidation of functional areas was significantly related (p-value = 0.0164) to strategy type (see Table 6.5). The direction of the relationship in each case was such that most respondents who indicated that the parent company engaged in a share increasing strategy also indicated that there was a high degree of consolidation of functional areas. Conversely, most of those respondents who indicated that the parent company was following a strategy other than share increasing also indicated that there was a lower degree of consolidation of functional areas. The contingency coefficient (0.386) indicated a moderate association between strategy type and consolidation of functional areas.

Conclusion. The results of the Chi-square analysis provided sufficient evidence to *reject* Hypthesis 3C at the 0.0164 level of significance. In this light, there seems to be a relationship between strategy type and consolidation of functional areas.

Hypothesis 3D

H3D: <u>There is no relationship between strategy type and the degree of responsibility of the acquired firm in handling integration activities.</u>

<u>Discussion.</u> No significant relationship was found through Chi-square analysis between the degree of responsibility of the acquired firm in handling integration activities and strategy type (p-value=0.9011; see Table 6.5). Respondents were split between some responsibility and none, for both strategy type categories, in their assessment of how much responsibility was given to the acquired firm in handling integration activities.

<u>Conclusion.</u> There was <u>insufficient evidence to reject</u> the null hypothesis of no relationship between strategy type and the degree of responsibility of the acquired firm in handling integration activities.

Hypothesis 3E

H3E: <u>There is no relationship between strategy type and the degree of centralization / autonomy afforded the acquired firm in making functional decisions.</u>

<u>Discussion.</u> Centralization / autonomy was not significantly related (p-value = 0.4489) to strategy type (see Ta-

ble 6.5). The contingency table showed that there seemed to be a tendency toward less autonomy and a higher degree of centralization in those firms practicing a share increasing strategy (fourteen of twenty-eight respondents indicated a low degree of autonomy). No such tendency was in evidence for firms practicing a business strategy other that share increasing (the nineteen respondents were just about evenly split between the three possible responses to this question).

Conclusion. There was insufficient evidence to reject the null hypothesis of no relationship between strategy type and centralization / autonomy.

Hypothesis 3F

H3F: There is no relationship between the strategy type employed by the acquiring firm and the degree of similarity of personnel policies between the two firms.

Discussion. The Chi-square test in Table 6.5 was highly significant (p-value = 0.0096) regarding the degree of similarity of personnel policies and strategy type. The direction of this relationship was consistent with that of consolidation of functional areas in that companies pursuing share increasing strategies exerted a large effort to standardize personnel policies between the two organizations. Companies following strategies other than share increasing, alternatively, exerted little to no effort in attempting to standardize personnel policies between the two organizations. The contingency coefficient (0.406) indicated a strong relationship between the degree of similarity of personnel policies in the two firms and strategy type.

Conclusion. The results of the Chi-square analysis provided sufficient evidence to reject Hypothesis 3F at the 0.0096 level of significance. This led to the conclusion that there was a relationship between strategy type and the degree of similarity of personnel policies between the two firms.

Hypothesis 3G

H3G: There is no relationship between strategy type and the time frame for phasing out members of the acquired firm's board of directors.

Discussion. The Chi-square test of this relationship was insignificant (p-value = 0.1697; see Table 6.5). The contingency table showed that there did seem to be a slight tendency for members of the acquired firm's board of directors to leave immediately in firms practicing share increasing strategies (nine of fifteen respondents indicated this to be the case) while in firms practicing business strategies other than share increasing, the tendency was to stay longer (i.e., leave within two years after the merger; five of seven respondents indicated this to be the case).

Conclusion. There was insufficient evidence to reject the null hypothesis of no relationship between strategy type and the time frame for phasing out members of the acquired firm's board of directors.

Hypothesis 3H

H3H: There is no relationship between strategy type and the time frame for phasing out the acquired firm's president.

Discussion. The time frame for phasing out the acquired firm's president was not significantly related (p-value = 0.2140) to strategy type (see Table 6.5). For both sets of respondents (firms practicing share increasing and other types of business level strategies) the tendency was for the acquired firm's president to stay with the organization for a while (i.e., leave sometime within a two year time period).

Conclusion. There was insufficient evidence to reject the null hypothesis of no relationship between acquisition type and the time frame for phasing out the acquired firm's president.

Hypothesis 3I

H3I: <u>There is no relationship between strategy type and the time frame for phasing out the acquired firm's vice president(s).</u>

<u>Discussion.</u> There was an insignificant relationship (p-value = 0.8843) between the time frame for phasing out the acquired firm's vice president(s) and strategy type (see Table 6.5). No clear pattern was observed from the contingency table concerning when a vice president would leave the organization.

<u>Conclusion.</u> There was <u>insufficient evidence to reject</u> the null hypothesis of no relationship between strategy type and the time frame for phasing out the acquired firm's vice president(s).

Hypothesis 3J

H3J: <u>There is no relationship between strategy type and the time frame for completing integration activities.</u>

<u>Discussion.</u> The results of the Chi-square analysis were insignificant (p-value = 0.4855) with respect to these two variables. For both strategy type categories there seemed to be a tendency for parent firms to complete integration activities within a one-year time frame.

Conclusion. There was insufficient evidence to reject the null hypothesis of no relationship between strategy type and the time frame for completing integration activities.

Experimentwise Test of the Strategy Type Conceptual Hypothesis

As a final test of the overall conceptual hypothesis, the ten individual hypotheses were treated in conjunction with one another. Converted to the null form, Conceptual Hypothesis 3 is presented as follows:

> There is no relationship between any of the ten postmerger integration practices among firms which engage in different strategy types.

Discussion. Each of the ten observed Chi-square statistics was compared to Bonferroni's critical values at the 0.05 and 0.01 levels of significance (see Table 6.6). As the results indicated, not one of the observed Chi-square values equalled or exceeded Bonferroni's critical values at the 0.05 and 0.01 levels of significance. Two of the postmerger managerial decisions (consolidation of functional areas, and similarity of personnel policies) which were significant under the individual Chi-square tests, were insignificant when subjected to Bonferroni's critical values. This turned out to be a crucial factor when evaluating the overall conceptual hypothesis.

TABLE 6.6

EXPERIMENTWISE CHI-SQUARE TEST OF THE STRATEGY TYPE
CONCEPTUAL HYPOTHESIS FROM THE STUDY OF THE
ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM JANUARY, 1983 - SEPTEMBER, 1983

Postmerger Managerial Decision	Chi-Square Statistic	Degrees of Freedom	Bonferroni Critical Values	
			p-Value = 0.05	p-Value = 0.0
Executive Involvement	3.009	2	10.597	13.816
Level of Parent Company Executive in Charge of the Acquisition	1.524	1	7.879	10.828
Consolidation of Functional Areas	8.226	2	10.597	13.816
Responsibility of the Acquired Firm in Handling Integration Activities	0.015	1	7.879	10.828
Autonomy	1.602	2	10.597	13.816
Similarity of Personnel Policies	9.299	2	10.597	13.816
Timeframe for Phasing out Unwanted Executives				
Board of Directors	1.886	1	7.879	10.828
President	0.031	1	7.879	10.828
Vice President(s)	0.021	1	7.879	10.828
Timeframe for Completing Integration Activities	0.487	1	7.879	10.828

Conclusion. Since none of the ten observed Chi-square statistics exceeded Bonferroni's critical value at either the 0.05 or 0.01 level of significance, there was insufficient evidence to reject the null hypothesis of no relationship between strategy type and postmerger integration practices. Even though two of the postmerger managerial decisions were significant at the individual level, this section was inconclusive with regard to supporting the conceptual hypothesis.

Summary of Results

Three conceptual hypotheses were developed to investigate the relationship between an organization's strategy for a specific acquisition and its ensuing postmerger integration practices. The first two hypotheses (acquisition type and relatedness) involved different dimensions of the parent company's corporate level strategy, while the third (strategy type) focused on its business level strategy.

In each case, ten operational hypotheses were set up to compare specific postmerger managerial decisions to the strategy dimension in question. Chi-square analysis was used in all instances to test for the existence of a significant relationship. In addition, to assess each conceptual hypothesis, all ten observed Chi-square statistics were compared to Bonferroni's critical values. The results of these analyses showed that there seemed to be a relationship between each of the two corporate level strategy dimensions (acquisition type and relatedness) and postmerger integration practices. At the business level, no relationship was found between strategy type and postmerger integration practices.

Table 6.7 presents a summary of the significant findings obtained by comparing the individual postmerger managerial decisions to the two dimensions of a parent firm's corporate level strategy. Two of the operational hypotheses, H3C and H3F, did yield significant results in connection with the strategy type variable. These findings did not prove strong enough to support the strategy type conceptual hypothesis, and were thus, not considered in the overall results.

Table 6.7 shows how the postmerger managerial decisions were associated with the acquisition type and relatedness dimensions of corporate level strategy. The main variables that emerged as strongly associated with both corporate strategy dimensions were: (1) consolidation of functional areas; (2) autonomy; and (3) similarity of personnel policies. All three of these postmerger managerial decisions exceeded the Bonferroni critical values (for both conceptual hypotheses) beyond the 0.05 level of significance. A fourth

TABLE 6.7

SUMMARY OF SIGNIFICANT FINDINGS FOR THE ACQUISITION TYPE AND RELATEDNESS CONCEPTUAL HYPOTHESES FROM THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY, 1983 - SEPTEMBER, 1983

	Acquisition Type		Relatedness	
	Horizontal	Concentric/ Conglomerate	Related	Unrelated
Executive Involvement	High	Low	High[¶]	Low[¶]
Level of Parent Company Executive in Charge of the Acquisition	--	--	--	--
Consolidation of Functional Areas	High	Low	High	Low
Degree of Responsibility of Acquired Firm in Handling Integration Activities	--	--	--	--
Autonomy	Low	High	Low	High
Similarity of Personnel Policies	High	Low	High	Low
Timeframe for Phasing Out Unwanted Executives				
Board of Directors	Immediately[¶]	Within Two Years[¶]	Immediately[¶]	Within Two Years[¶]
President	--	--	--	--
Vice President(s)	--	--	--	--
Timeframe for Completing Integration Activities	Within One Year[¶]	More Than One Year[¶]	--	--

[¶]These values were only significant when considering the operational hypotheses. Their computed chi-squares did not exceed the bonferroni critical values at either the 0.01 or 0.05 levels.

variable, executive involvement exceeded the Bonferroni critical value (at the 0.01 level of significance) for the acquisition type (but not the relatedness) conceptual hypothesis. All significant relationships resulting from the individual Chi-square tests were reported in Table 6.7 regardless of whether or not they exceeded the Bonferroni critical values.

The nature of these individual relationships was quite consistent in both cases (acquisition type and relatedness). Specifically, parent firms which either engaged in a horizontal acquisition strategy, or were highly related to their acquired firm, tended to choose: (1) a <u>high</u> degree of executive involvement in matters related to the acquired firm; (2) a <u>high</u> degree of consolidation of the acquired firm's functional areas; (3) a <u>low</u> degree of autonomy for the acquired firm in making functional decisions; and (4) a <u>high</u> degree of similarity between the two firms' personnel policies. In addition, members of the acquired firm's board of directors tended to leave immediately upon the inception of the merger in horizontal and related acquisitions, while in concentric / conglomerate mergers and unrelated acquisitions, they tended to stay on for some time (up to two years) before leaving. The time frame for completing integration activities was also significantly related to acquisition type. For horizontal mergers, complete integration tended to occur within one year, while for concentric / conglomerate mergers complete integration usually took more than one year.

Discussion of Results

At the corporate level, the results of this data analysis were very consistent with past merger and acquisition literature (Ansoff, 1970; Berg, 1973; Pitts, 1974, & 1977; Seetoo, 1977) and the strategy - structure literature (Chandler, 1962; Wrigley, 1970; Channon, 1971; Pooley-Dias, 1972; Pavan, 1972; Thanheiser, 1972; Stopford and Wells, 1972; Rumelt, 1974; Franko, 1974, & 1976; Montgomery, 1980). Overall, the study showed that parent firms which engaged in horizontal or highly related mergers were more apt to pursue _a high integration approach_ (i.e., high executive involvement; high consolidation of functional areas; little autonomy afforded the acquired firm; and a major attempt at standardizing personnel policies), while parent firms engaging in concentric / conglomerate or unrelated mergers seemed to follow _a low integration approach_ (i.e., low executive involvement; low consolidation of functional areas; much autonomy afforded the acquired firm; and little to no effort at standardizing personnel policies).

Since the results were so consistent with the literature, this study provided no evidence to suggest that parent companies do anything different when attempting to integrate a newly acquired service firm versus a manufacturing organization. In spite of the inherent differences in the way service and manufacturing firms are run (see Chapter II), parent companies reacted in a very consistent manner. If a firm was already in the foodservice business, it would have tended to play a more active role in the affairs of the acquired company than a firm which was a first-time entrant into the industry.

In light of the nature of the foodservice industry, this could potentially cause problems for a horizontally acquired foodservice chain. If Norm Brinker (Vice President and Board Member of the Pillsbury Company) was right in his assessment of why foodservice companies merge (i.e., they seek continuity of earnings, greater stock liquidity, increased dividend yield for their stockholders, a more reliable source of capital to finance continued growth, and access to a superior pool of management resources from a parent organization (Berlinski, 1980)), then it may seem plausible to suspect that a high degree of integration (even in horizontal mergers) is not appropriate. The motives listed above primarily focused on the financial benefits to be gained from a merger. Given these goals, foodservice firms apparently do not seek to have the parent company become actively involved in their day-to-day operations.

Thus, in horizontal or highly related situations, the parent company managers, thinking that they are already familiar with the foodservice industry, may have a tendency to simply overwhelm the acquired firm with a high degree of integration procedures. With respect to service organizations, a decentralized, low integrative type of approach may also be appropriate in horizontal or highly related mergers. This possibility, however, is in no way suggested by the results of the current data. Before any definitive statement can be made in this area, different types of postmerger integration practices should be compared to performance.

In connection with the strategy type variable, the evidence suggested no relationship between business level strategies and postmerger managerial decisions. However, there is a growing body of literature suggesting that strategy, which reflects a pattern of important decisions, has an impact upon the internal structure and processes of the organization (Hambrick, 1980, See also: Andrews, 1971; Hofer, 1975; Schendel and Hofer, 1979; Aldrich and Pfeffer, 1976; Child, 1972). Thus, the findings seemed to be inconsistent with the literature.

This inconsistency could potentially be explained by the way business level strategy was operationalized in the study. Specifically, descriptions of Hofer and Schendel's four generic strategy types (1978) were supplied to each respondent (see Question 2 in Appendix I) who, in turn, checked the one that seemed to be most appropriate to the parent company's situation. This classification system may have been insufficient to discriminate among different strategy types. Judging by the way these descriptions were worded in the questionnaire (see Question 2 in Appendix I), there seemed to be a great deal of overlap between the growth, profit and share increasing types. This may have caused most respondents to pick the one that "sounded the best" (in this case, it appeared to be share increasing). As a result, a parent company's true business level strategy, in connection with its new acquisition, may not have truly been revealed.

Hambrick (1980) has already pointed out that the main problem with utilizing the strategy concept in empirical investigations is the difficulty encountered in deriving operationalizations appropriate to the research questions under study. This may have been the problem with the present method of operationalizing the construct. Thus, before stating conclusively that there is no relationship between a firm's business level strategy and its postmerger integration practices, the relationship should be retested by utilizing other dimensions of the business level strategy construct (i.e., Miles and Snow's four srtategic profiles (1978), and Seetoo's aggressiveness and defensiveness dimensions (1977).

Summary

Analysis of the conceptual hypotheses showed that the two dimensions of corporate level strategy were significantly related to a firm's postmerger integration practices. In horizontal or highly related mergers, a parent firm tended to pursue a high integration approach, while in concentric / conglomerate or unrelated mergers the parent firm tended to follow a low integration approach. At the business level of strategy, no relationship was found between the strategy type measure and postmerger integration practices.

Two main points have been made as a result of this study. The first is that the findings from a corporate level perspective were quite consistent with both the past merger and acquisition literature and the strategy - structure literature. This study and the findings from past relevant literature agree that parent companies engaging in horizontal or highly related acquisitions play a more dominant integrative role with respect to their new acquisitions as opposed to parent companies engaging in concentric, conglomerate or otherwise unrelated mergers. However, this may pose some problems for the horizontally acquired foodservice chain. Given the inherent nature of the foodservice industry, parent firms (even in horizontal or highly related situations) may find that following a decentralized, or low integrative approach in connection with their new acquisition is appropriate. Investigation of this possibility would require review of a parent company's postmerger integration practices in light of the acquired firm's postacquisition performance.

The second point was that alhough this study found the relationship between strategy type and postmerger managerial practices to be insignificant, there was reason to believe that the opposite may still be true. The literature does suggest that strategy affects both structure and organizational processes. The insignificant results may have come about through the use of an empirical indicator which was unable to discriminate truly between different strategy types. As such, the relationship should be investigated further by utilizing different methods of operationalizing the business level strategy construct.

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Chapter VII

CONCLUSIONS

This chapter first reviews the study including purpose, background, research questions, conceptual and operational hypotheses, research methodology, pilot study, data analysis, and the results. Second, the implications and limitations of the study are presented, along with suggestions for future research.

Overview of the Study

Purpose

This study was designed to: (1) investigate whether variations in corporate and business level strategies have any impact upon postmerger integration practices of firms acquiring foodservice organizations; and (2) develop some preliminary explanations as to any relationships that may exist between the two.

The key objectives were to: (1) conduct an empirical study of business acquisitions which focused solely on acquired firms within the service sector of the economy; (2) ascertain which of the managerial choices available to the parent company in integrating its new acquisition would be most appropriate in testing for any association with the overall performance of the acquired firm; and (3) determine whether these managerial choices had any association with the acquiring firm's corporate and business level strategies.

Background

Corporate growth through acquisitions was a strategy that had often been utilized by firms throughout the century. Despite the fact that researchers have found the acquisition route quite risky, companies continued to employ it as a viable means of achieving growth objectives. The fourth major merger movement of the century was characterized by the large size and conglomerate nature of the individual transactions.

In addition to the volume of current merger activity, three factors which have significantly influenced the development of this study included: (1) the high degree of merger failures which could be attributed to poor management practices after a firm had been acquired; (2) the increased significance of the service sector within the United States economy; and (3) the high degree of merger and acquisition activity involving foodservice organizations.

Although the empirical and conceptual literature on mergers and acquisitions is quite voluminous, very few studies have specifically addressed postmerger integration practices. The most common postmerger integration studies covered multiple phases of a merger.

The relevant empirical literature, derived mainly from manufacturing, suggests that parent firms, engaging in horizontal or highly related mergers, tended to exert a great deal of control and influence over their new subsidiary, while parent firms engaging in concentric, conglomerate or unrelated mergers did not.

A conceptual model depicting the determinants of the postmerger performance of the acquired firm was developed (see Figure 2.1). This study focused specifically on the linkage between strategy and postmerger integration practices.

The Research Questions

Within the framework of the conceptual model, a series of eight research questions were used to help guide the investigation. The first four represented descriptions of state of the art practices of firms investing in the foodservice industry. They attempted to identify the most common strategies employed by firms which have already acquired a restaurant operation. The next four questions focused on determining whether there were significant relationships between the parent company's five strategy dimensions and its resulting postmerger managerial decisions.

The Conceptual and Operational Hypotheses

To address the research questions empirically, four conceptual hypotheses relating two dimensions of a parent firm's corporate level strategy, and three dimensions of its business level strategy (two of these dimensions were combined into one conceptual hypothesis) were developed. Next, ten operational hypotheses were derived for each conceptual hypothesis. These hypotheses compared individual postmerger managerial decisions to each strategy dimension in question.

Because of modifications made in the project as a result of the pilot study (see Chapter IV), the fourth conceptual hypothesis, dealing with the aggressiveness and defensiveness dimensions of business level strategy, was dropped.

The Research Methodology

The population for this study consisted of all firms acquiring a foodservice organization during the period from 1976 to 1981. The data were collected via questionnaires (see Appendix I) sent to executives in the parent organizations.

A preliminary analysis of the data included a convergent validity check on the two dimensions of a firm's corporate level strategy, reliability checks on those variables involving the use of multi-item scales, and a test for a constant environment.

The analysis of the conceptual hypotheses consisted of setting up contingency tables on each pair of variables (one strategy type dimension and one postmerger managerial decision), and using Chi-square to test for significant differences. To control for the experimentwise error rate in assessing a conceptual hypothesis, each Chi-square statistic was compared to Bonferroni's critical value.

The Pilot Study

A preliminary version of the instrument (see Appendix C) was sent to ten selected firms. The intent was to pretest the instrument for ambiguous questions, average length of time for completion, and reliability.

The response rate was poor. As a result of this step, modifications were made in the scope of the study and the data collection procedures. This resulted in a much higher response rate to the main questionnaire.

The Data Analysis

Of a possible ninety-six firms that could have been included in the population, seventy-eight agreed to review a copy of the instrument and forty-seven returned useable responses (60%).

Preliminary checks revealed: (1) convergent validity between the two corporate strategy constructs; (2) a high degree of inter-item correlation within the measures involving the use of multiple items; and (3) no evidence to suggest that year of acquisition had any impact upon a parent company's postmerger integration practices.

The analysis of the conceptual hypotheses showed that the two dimensions of corporate level strategy were significantly related to a firm's postmerger integration practices. At the business level, no relationship was found between strategy type and postmerger integration practices.

Discussion of the Results

For the two corporate strategy measures, the results of this study, utilizing service firms in the sample, were quite consistent with the past merger and acquisition literature and the strategy-structure literature. Each suggested that for parent firms engaging in a horizontal or highly related acquisition, a high degree of integration usually took place, while for parent firms engaging in concentric, conglomerate or unrelated acquisitions, a low degree of integration usually took place.

Given that there are inherent differences in the operations of service and manufacturing firms (see Chapter II), these results may indicate some potential problems in the way horizontally acquired foodservice firms are integrated. These center around the use of a high integrative approach in situations where the foodservice firm is merely looking for financial support from a parent company. Thus, for service organizations, a low integrative approach may be most appropriate even in horizontal mergers.

For the one business level strategy measure, the results appeared inconsistent with the literature. These results indicated no relationship between the type of business level strategy a firm implemented and its resulting postmerger integration practices. In light of the growing literature which suggests that strategy afects the structure and processes of organizations, the finding of no relationship is highly questionable. One possible explanation was that the empirical indicator utilized to operationalize the business level strategy construct may not have had the ability to discriminate effectively between strategy types. A reexamination of this relationship, utilizing different measures of the business level strategy construct, seems to be in order.

Implications

This dissertation has implications for the field of management as a whole, the subfield of strategic management, academics in terms of both research methodology and the teaching of students, practicing managers in general, and foodservice managers specifically.

For the field of management as a whole, the primary implication relates to this study's focus on the service sector of the economy. Given the transition in the United States from a manufacturing orientation to a service orientation (see Chapter I), there is a need to conduct more empirical research utilizing service organizations in the sample. Researchers are stressing the fact that there are inherent differences between how these two types of organizations are run. This leads to the question of whether or not past research findings in all areas of management are appropriate in a service setting. This study showed that in so far as the integration of an acquired firm is concerned, there appear to be no differences in current practices between parent firms integrating manufacturing companies versus those integrating service companies.

Strategic management as a discipline, is concerned with a broad array of activities such as analysis, formulation, implementation, interpretation, and evaluation (Hodgetts and

Wortman, 1980). The study focused on one aspect of this overall model: implementation. Specifically, the emphasis was on implementation matters related to the strategic decision to grow via the merger / acquisition route. The findings indicated that the type of corporate strategy a firm employs is related to how it integrates a newly acquired organization. These results enabled the researcher to discuss the types of postmerger managerial decisions a firm was likely to implement, as a function of its corporate strategy.

As far as research methodology is concerned, this study showed that the measures used to operationalize executive involvement, consolidation of functional areas, autonomy and standardization of personnel policies were reliable (the Cronbach alphas all exceeded 0.89). In addition, the acquisition type and relatedness measures both seemed to be tapping the same corporate level strategy construct. As a result, the use of these measures in subsequent studies is recommended.

Hofer and Schendel's (1978) four generic strategy type measures do not appear to be suitable empirical indicators for use in future studies. This assertion was based on the insignificant results obtained in connection with strategy type and postmerger managerial decision variables. The problem here is that these findings are inconsistent with a growing body of literature which suggests that business strategies have an impact upon the internal structure and processes of organizations.

When teaching strategic management principles, the subject material of this study can be used in discussions involving corporate growth through mergers and acquisitions. Specifically, lecture emphasis should be placed on the importance of postmerger integration considerations to the overall success of an acqusition.

For practicing managers in general, the results showed that horizontal acquisitors adopted a different type of postmerger integration profile than concentric or conglomerate acquisitors. Thus, depending upon the type of acquisition a firm engages in, a manager can refer to these profiles when developing a plan of action for the integration phase.

For foodservice executives, this study concluded with a caveat that existing practices may not always be the best practices. Even though horizontal acquisitors usually engaged in a high degree of integration, it may be appropriate for firms acquiring foodservice operations to consider playing less of a dominant role. At present, this idea cannot be viewed as conclusive since these postmerger integration practices have yet to be tied to performance.

Limitations

There were at least four limitations to this dissertation. These included (1) the attempt to investigate a complex process such as postmerger integration via the use of a simple questionnaire instrument; (2) the generalization of the results to the entire service sector of the economy; (3) the validity and reliability of the variables used; and (4) the lack of a performance measure.

First, the process of integrating a newly acquired subsidiary into the organization is a very complex matter. There are numerous types of decisions that the management of the parent company must address in connection with its new acquisition. In addition, there are many factors over and above corporate and business level strategies that can influence how postmerger managerial decisions are made. For this study, ten postmerger managerial decisions were selected for investigation. The choice of which ten to use was based on the frequency of mention in a review of conceptual, empirical and practitioner literature on the topic. There is no guarantee that these ten constitute the most important decisions confronting the management of the parent firm in all situations. The decision to use the corporate and business level strategy constructs was based on the idea that strategy affects the structure and processes of organizations. This also does not guarantee that corporate and business level strategies were the only factors influencing postmerger managerial decisions.

Second, this study involved only the foodservice industry, which was considered representative of the service sector of the economy. The purpose of involving only one industry was to control for environmental and technological variables (at least in so far as the acquired firm was concerned). As such, the generalizability of these results to the overall service sector are severely limited.

Third, convergent validity and reliability checks were performed only on selected variables (i.e., a convergent validity check was done on the two measures of the corporate level strategy construct, while reliability checks only involved four of the postmerger acquisition variables). As a result, the appropriateness of the rest of the measures used in this study are questionable. In particular, the empirical indicator of the business level strategy construct appeared incapable of discriminating between different strategy types.

The entire Business Policy field, at this point in time, seems to be plagued with problems of reliability and validity. This made it difficult to select appropriate measures that had been proven reliable and valid in past studies. To the extent possible, the measures used in this study were adapted from the work of other researchers.

Fourth, the lack of a performance measure prevented the researcher from enumerating any normative decision rules. At best, this study only provided information as to how firms were integrating their newly acquired foodservice firms. It did not attempt to distinguish between appropriate and inappropriate practices. However, existing practices may not always be the best practices. This study raised some questions about the appropriateness of utilizing a high integrative approach in horizontal mergers when attempting to integrate a foodservice acquisition into the overall organization. To address this issue adequately, a research study must be able to compare postmerger integration practices to performance.

Because of the exploratory nature of this study, these limitations were not considered critical enough to nullify the major findings. This conclusion is further supported by the fact that the significant findings were highly consistent with existing literature.

Suggestions for Future Research

There are at least five different ways to build on the research presented in this dissertation. First, the project should be extended by comparing postmerger integration practices to performance. Second, this study should be modified by utilizing a different means of operationalizing the business level strategy construct. Third, the same study could be conducted within the context of another industry (outside of foodservice) which represents the service sector of the economy. Fourth, the study could be extended by going across industries within the service sector of the economy. Fifth, a study could be set up to compare postmerger integration practices of parent firms acquiring service organizations to those of firms acquiring manufacturing organizations.

The first recommendation for future research addresses the performance issue. In order to develop normative decision rules for firms acquiring foodservice organizations, postmerger integration practices should be compared to performance. The best type of performance measure in this case would be financial indicators of the acquired firm's activities after the merger. However, since public financial statements are only presented on a consolidated basis, this would require the researcher to gather the information directly from the parent company. A potential problem is that most firms may be reluctant to provide such data to an independent investigator.

The second suggestion for future research entails the use of different empirical indicators of the business level strategy construct. A potential problem raised in this study was that the present business level strategy variable may have been unable to distinguish among different strategy types. Perhaps future studies may yield more fruitful results by utilizing some variation of Miles and Snow's strategic profiles (1978) or Seetoo's aggressiveness and defensiveness dimensions (1977).

The third recommendation is to replicate this study on a sample of firms acquiring companies in another service oriented industry. The findings of this study proved highly consistent with the relevant literature derived mainly from manufacturing organizations. However, in light of the growing literature emphasizing the managerial differences between service and manufacturing organizations, an important step is to carry this exploratory research work into other service sector industries such as banking, insurance, and retail trade. The objective would be to test whether or not consistent results are still found between service and manufacturing oriented firms.

If significant results are found in empirical studies involving firms in other service sector industries, a fourth recommendation would be to extend the sample across service sector industries. The sample should include any organization acquiring a service oriented company. This would act to enhance the generalizability of the findings.

Finally, a fifth recommendation would be to conduct a study comparing the postmerger integration practices of parent firms investing in service organizations to those firms continuing to invest in manufacturing organizations. If significant results were found in this regard, then there would be strong evidence to suggest that service organizations should be treated differently from manufacturing organizations with respect to postmerger integration practices.

This study has hopefully provided the initial impetus for a more comprehensive investigation of postmerger integration practices involving service organizations.

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APPENDIX A

FIRST DRAFT OF THE QUESTIONNAIRE CONSIDERED
FOR USE IN THE PILOT STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM FEBRUARY 2, 1983 - APRIL 18, 1983

FIRST DRAFT OF THE QUESTIONNAIRE CONSIDERED
FOR USE IN THE PILOT STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM FEBRUARY 2, 1983 - APRIL 18, 1983

1. Below, you will find four general statements that attempt to describe the relationship between your firm and the acquisition in question. Please check the one statement that best fits your specific situation:

____The acquired firm is in the same industry as the parent company, with approximately the same types of customers and suppliers.

____The acquired firm was a major customer of the parent company (before the merger) and was in the same industry.

____The acquired firm has the same customer types and / or technology as the parent company.

____The customers and technology of the acquired firm are different from those of the parent company.

2. At the time of the merger, what percentage of your company's overall sources of revenue were derived from restaurant operations?

_____ Less than 20%

_____ Between 20% and 40%

_____ Between 40% and 60%

_____ Between 60% and 80%

_____ Between 80% and 100%

3. Below, you will find four general statements that attempt to describe your firm's strategy for acquiring the new subsidiary. Please check the one statement that best fits your specific situation:

____ Our intent was to increase significantly and permanently the market share of either (or both) our firm and the acquired firm.

____ Our intent was to maintain either (or both) our firm's and the acquired firm's existing competitive position in very rapidly expanding markets.

____ Our intent was to maximize the return on either (or both) our firm and the acquired firm's existing resources and skills.

____ Our intent was to arrest and reverse the declining fortunes of either (or both) our firm and the acquired firm as quickly as possible.

4. What were the <u>relative strengths and weaknesses</u> of your company before the acquisition? Please evaluate each of the areas in comparison with your major and potential competitors within your industry by circling the appropriate number on the following sample.

	Very Weak		Average in Industry		Very Strong
Company Reputation Among Customers	1	2	3	4	5
Distribution Channels	1	2	3	4	5
Sales Force	1	2	3	4	5
Product Technology	1	2	3	4	5
Process Technology	1	2	3	4	5
R & D Capacity	1	2	3	4	5
Current Financial Resources[1]	1	2	3	4	5
Additional Borrowing Power	1	2	3	4	5
Manfuacturing Facilities[2]	1	2	3	4	5
Supplier Relations or Sources of Material	1	2	3	4	5
Management	1	2	3	4	5

[1]This means existing cash available

[2]This refers to the quality, quantity, and newness etc. of the manufacturing facilities.

5. What was the <u>relative importance of the benefits the acquired firm could have provided for your company</u> in each of the following areas as a result of the merger?

	Least Important				Most Important
Use of Brand Name	1	2	3	4	5
Use of Distribution Channels	1	2	3	4	5
Use of Sales Force	1	2	3	4	5
Transfer or Product Technology (Know How)	1	2	3	4	5
Transfer of Process Technology (Know How)	1	2	3	4	5
Providing R & D Staff	1	2	3	4	5
Providing Cash For Growth	1	2	3	4	5
Providing Borrowing Power[3]	1	2	3	4	5
Providing Manufacturing Facilities	1	2	3	4	5
Providing Access to Material or Suppliers	1	2	3	4	5
Management Help	1	2	3	4	5

[3]Providing borrowing power means that the acquired firm's credits, bank reltions or financial situation help the acquirer to get a better access to outside funding.

6. What was the <u>relative importance of the benefits your company could have provided the acquired firm,</u> in each of the following areas, as a result of the merger?

	Least Important				Most Important
Use of Brand Name	1	2	3	4	5
Use of Distribution Channels	1	2	3	4	5
Use of Sales Force	1	2	3	4	5
Transfer of Product Technology (Know How)	1	2	3	4	5
Transfer of Process Technology (Know How)	1	2	3	4	5
Providing R & D Staff	1	2	3	4	5
Providing Cash for Growth	1	2	3	4	5
Providing Borrowing Power[3]	1	2	3	4	5
Providing Manufacturing Facilities	1	2	3	4	5
Providing Access to Material or Suppliers	1	2	3	4	5
Management Help	1	2	3	4	5

[3]Providing borrowing power means that the acquired firm's credits, bank relations or financial situation help the acquirer to get a better access to outside funding.

7. With regard to each of the following areas, please estimate the degree to which the parent company's top corporate executives (vice president, president, board of directors) involve themselves in matters related to the acquired firm.

	No Involvement, No Information Exchanged	No Involvement, Information Exchanged But No Coordination	No Involvement, But Coordination Was Sought	Highly Involved, Much Information Exchanged
Finance	1	2	3	4
Accounting	1	2	3	4
Industrial Relations	1	2	3	4
Legal	1	2	3	4
Purchasing	1	2	3	4
Sales Promotion and Advertising	1	2	3	4
Other Marketing and Distribution	1	2	3	4
Production	1	2	3	4
R & D	1	2	3	4
Overall Integration of Acquired Firm	1	2	3	4

8. What was the position in the organization held by the person or group responsible for the majority of the integration activities?

____Member of Board of Directors

____President

____Vice-President

____Special Staff Position(below Vice President and above Middle Manager)

____Middle Manager

9. Within the first two years after the firm has been acquired, were there any changes in executive levels in charge of the acquisition?

Yes___ No___

If yes, how many changes in executive levels, in charge of the acquisition, have been made?

1 ____

2 ____

3 ____

4 ____

5 or more ____

10. What was the degree of consolidation after merger in each of the following functional areas?

Function	Not Consolidated, No Information Exchanged	Not Consolidated Information Exchanged, But No Coordination	Not Consolidated But Coordination Was Sought	Consolidated into One System
Finance	1	2	3	4
Accounting	1	2	3	4
Personnel	1	2	3	4
Industrial Relations	1	2	3	4
Legal	1	2	3	4
Purchasing	1	2	3	4
Sales Promotion & Advertising	1	2	3	4
Other Marketing & Distribution	1	2	3	4
Production	1	2	3	4
R & D	1	2	3	4

11. For the concerned acquisition, what responsibility for integration decisions was given to the acquired firm?

____Little or no responsibility

____A portion of the responsibility was about proportional to the relative sizes of the firms.

____About equal responsibility with acquiring firm

____More responsibility than parent

12. Who makes the following decisions for the acquired division/ subsidiary after the acquisition?

	Corporate Headquarters	Proposed by the Acquired, Approved By Corporate HQ	The Acquired Makes the Decision Indpendently
Pricing Decisions	1	2	3
Advertising Decisions	1	2	3
Decisions for R & D Projects	1	2	3
New Product Decisions	1	2	3
Decisions of Management Personnel Recruiting	1	2	3
Decisions of Management Personnel Promotion	1	2	3

Here the management personnel means those managers who report directly to the head of the acquired division/subsidiary.

13. For employees from the acquired organization, please indicate the degree of similarity of <u>compensation scales</u> (two years after the merger) with employees from the parent company in each of the following functional areas.

	Totally Different	Similar	Exactly the Same
Finance	1	2	3
Accounting	1	2	3
Personnel	1	2	3
Industrial Relations	1	2	3
Legal	1	2	3
Purchasing	1	2	3
Sales Promotion & Advertising	1	2	3
Other Marketing & Distribution	1	2	3
R & D	1	2	3

14. For employees from the acquired organization, please indicate the degree of similarity of <u>benefit packages</u> (two years after the merger) with employees from the Parent Company in each of the following functional areas.

	Totally Different	Similar	Exactly the Same
Finance	1	2	3
Accounting	1	2	3
Personnel	1	2	3
Industrial Relations	1	2	3
Legal	1	2	3
Purchasing	1	2	3
Sales Promotion & Advertising	1	2	3
Other Marketing & Distribution	1	2	3
R & D	1	2	3

15. For employees from the acquired organization, please indicate the degree of similarity of <u>personnel policies</u> (two years after the merger) with employees from the Parent Company in each of the following functional areas.

	Totally Different	Similar	Exactly the Same
Finance	1	2	3
Accounting	1	2	3
Personnel	1	2	3
Industrial Relations	1	2	3
Legal	1	2	3
Purchasing	1	2	3
Sales Promotion & Advertising	1	2	3
Other Marketing & Distribution	1	2	3
R & D	1	2	3

16. Did any executives from the acquired firm leave the organization within the first two years after it had been acquired?

Yes___ No___

If yes, for each of the following management levels, please check the average length of time it took for them to leave.

	0-6 Months	6-12 Months	12-18 Months	18-24 Months
Board of Directors	___	___	___	___
President	___	___	___	___
Vice President(s)	___	___	___	___
Special Staff Personnel	___	___	___	___
Middle Managers	___	___	___	___

17. About how long did it take to integrate the operations of the acquired firm?

Less than six months ___

Between six months and one year ___

Between one and two years ___

More than two years ___

Still not accomplished ___

APPENDIX B

ORIGINAL METHODOLOGICAL PROCEDURE CONSIDERED FOR USE IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

ORIGINAL METHODOLOGICAL PROCEDURE CONSIDERED FOR USE IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

In total, the set of hypotheses required that operational measures be developed for sixteen separate variables. Of these sixteen variables, two are measured by utilizing nominal scales, five are measured by utilizing ordered scales and nine are measured by utilizing continuous scales (see Table B.1 for the appropriate classification of each variable).

Essentially, this project attempts to establish correlational relationships among eleven variables representing different types of postmerger integration practices, and five dimensions of a firm's corporate and business level strategies. In identifying the most appropriate statistical technique to use for testing these potential relationships, it is first necessary to classify the relationships by the level of measure of the two variables in question.

Table B.2 presents all five types of measurement levels that should be encountered throughout the project, along with the appropriate statistical technique(s) that should be used with each. The first type of classification involves cases where one variable is scaled on a nominal basis, the other variable is scaled on an ordered basis, and no linear relationship is involved. For this situation, a contingency

TABLE B.1

STATISTICAL CLASSIFICATION OF OPERATIONAL VARIABLES

Nominal Variables	Ordered Variables	Continuous Variables
Acquisition Type	Relatedness	Aggressiveness
Strategy Type	Reporting and Controlling (classified by level of Parent Company Executives in charge of the Acquisition)	Defensiveness
	Reporting and Controlling (classified by the number of changes in Executive Levels in charge of the Acquisition)	Executive Involvement
		Consolidation of Functional Areas
	Responsibility of the acquired firm in Handling of Integration Matters	Centralization/ Autonomy Afforded the Acquired Firm
	Timeframe for completing Integration Activities	Similarity of Compensation Scales
		Similarity of Employee Benefits
		Similarity of Personnel Policies
		Timeframe for Phasing out Unwanted Executives

table should be set up identifying the frequency of responses of each ordered variable for each nominal group. Then a Chi-square analysis should be performed to test the null hypothesis of no significant differences among the groups.

The second type of classification involves cases where one variable is scaled on a nominal basis, the other variable is scaled on a continuous basis, and no linear relationship is involved. For this situation, ANOVA should be used to test the null hypothesis of no significant differences among the means of the groups.

The third type of classification involves cases where one variable is scaled on a continuous basis, the other is scaled on an ordered basis, and a possible linear relationship may exist. For this situation, ANOVA first should be used to test the null hypothesis of no significant differences among the means of the groups. In the event that the null is rejected in a specific situation, then a linear trend analysis should be employed.

The fourth type of classification involves cases where the two variables are scaled on a continuous basis and a possible linear relationship may exist. For this situation, the Pearson "r" correlation coefficient should be used to test the relationship. Finally, the fifth type of classification involves cases where the two variables are scaled on

TABLE B.2

IDENTIFICATION OF STATISTICAL OPTIONS
BY MEASUREMENT LEVEL

Levels of Measure of the 2 Variables	Statistical Options
1. One nominal and one ordered variable: No linear relationship	Contingency Tables Chi-Square Analysis
2. One nominal and one continuous variable: No linear relationship	One-way ANOVA
3. One continuous and one ordered variable: Positive/negative relationship	One-way ANOVA Linear Trend Analysis
4. Two continuous variables: Positive/negative relationship	Pearson "r"
5. Two ordered variables: Positive/negative relationship	Gamma

an ordered basis, and a possible linear relationship may exist. For this situation, a Gamma statistic should be used to test the relationship.

Tables B.3, B.4, B.5 show which statistical techniques should be used to test each specific hypothesis. Table B.3 shows which statistical options should be used to compare each postmerger managerial decision to both the acquisition type and strategy type indicators. Table B.4 shows which statistical options should be used to compare each postmerger managerial decision to the relatedness indicator. Table B.5 shows which statistical options should be used to compare each postmerger managerial decision to both the aggressiveness and defensiveness indicators.

TABLE B.3

APPLICATION OF STATISTICAL OPTIONS
UTILIZING THE ACQUISITION TYPE
AND STRATEGY TYPE INDICATORS

Postmerger Managerial Decision	Statistical Option
Executive Involvement	One-way Anova
Reporting and Controlling (Both empirical indicators)	Contingency Table Chi-Square Analysis
Consolidation of Functional Areas	One-way Anova
Responsibility of the Acquired Firm in Handling Integration Activities	Contingency Table Chi-Square Analysis
Centralization/Autonomy	One-way Anova
Compensation Scales	One-way Anova
Employee Benefits	One-way Anova
Personnel Policies	One-way Anova
Timeframe for Phasing Out Unwanted Executives	One-way Anova
Timeframe for Completing Integration Activities	Contingency Table Chi-Square Analysis

TABLE B.4

APPLICATION OF STATISTICAL OPTIONS
UTILIZING THE RELATEDNESS INDICATOR

Postmerger Managerial Decision	Statistical Option
Executive Involvement	One-way Anova
Reporting and Controlling (Both Empirical Indicators)	Gamma
Consolidation of Functional Areas	One-way Anova Linear Trend Analysis
Responsibility of the Acquired Firm in Handling Integration Activities	Gamma
Centralization/Autonomy	One-way Anova Linear Trend Analysis
Compensation Scales	One-way Anova Linear Trend Analysis
Employee Benefits	One-way Anova Linear Trend Analysis
Personnel Policies	One-way Anova Linear Trend Analysis
Timeframe for Phasing Out Unwanted Executives	One-way Anova Linear Trend Analysis
Timeframe for Completing Integration Activities	Gamma

TABLE B.5

APPLICATION OF STATISTICAL OPTIONS UTILIZING THE AGGRESSIVENESS AND DEFENSIVENESS INDICATORS

Postmerger Managerial Decision	Statistical Option
Executive Involvement	Pearson "r"
Reporting and Controlling (Both empirical indicators)	One-way Anova Linear Trend Analysis
Consolidation of Functional Areas	Pearson "r"
Responsibility of the Acquired Firm in Handling Integration Activities	One-way Anova Linear Trend Analysis
Centralization/Autonomy	Pearson "r"
Compensation Scales	Pearson "r"
Employee Benefits	Pearson "r"
Personnel Policies	Pearson "r"
Timeframe for Phasing Out Unwanted Executives	Pearson "r"
Timeframe for Completing Integration Activities	One-way Anova Linear Trend Analysis

APPENDIX C

SECOND DRAFT OF THE QUESTIONNAIRE INSTRUMENT USED
IN THE PILOT STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM FEBRUARY 2, 1983 - APRIL 18, 1983

SECOND DRAFT OF THE QUESTIONNAIRE INSTRUMENT USED IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

Parent Company ______________________________

Acquired Firm ______________________________

1. What was the year in which this acquisition was consumated? ____________

2. What were the total sales for each organization for the last fiscal year prior to the consumation of the merger?

   Parent Company ____________

   Acquired Firm ____________

3. What were the approximate number of employees working for each organization as of the date of the acquisition?

   Parent Company ____________

   Acquired Firm ____________

4. What was the approximate dollar value of the assets attributable to each organization as of the date of the acquisition?

   Parent Company ____________

   Acquired Firm ____________

5. Below, you will find four general statements that attempt to describe the relationship between your firm and the acquisition in question. Please check the one statement that best fits your specific situation at the inception of the acquisition.

   _____ The acquired firm is in the same industry as the parent company, with approximately the same types of customers and suppliers.

   _____ The acquired firm was a major customer of the parent company (before the merger) and was in the same industry.

   _____ The acquired firm is in an industry which is similar to that of the parent company, having similar customer types and/or technology, as the parent company.

   _____ The customers and technology of the acquired firm are totally different from those of the parent company.

6. Below, you will find four general statements that attempt to describe your firm's strategy for acquiring the new subsidiary. Please check the one statement that best fits your specific situation at the inception of the acquisition.

   _____ Our intent was to significantly and permanently increase the market share of either (or both) our firm and the acquired firm.

   _____ Our intent was to maintain either (or both) our firm's and the acquired firm's existing competitive position in very rapidly expanding markets.

   _____ Our intent was to maximize the return on either (or both) our firm and the acquired firm's existing resources and skills.

   _____ Our intent was to arrest and reverse the declining fortunes of either (or both) our firm and the acquired firm as quickly as possible.

7. What were the relative strengths and weaknesses of your company before the acquisition? Please evaluate each of the areas in comparison with your major and potential competitors within your primary industry by circling the appropriate number for each of the items in the following sample.

	Very Weak		Average in Industry		Very Strong
Reputation of the company's brand name	1	2	3	4	5
Distribution channels	1	2	3	4	5
Goods/service mix	1	2	3	4	5
Market share	1	2	3	4	5
R & D capacity	1	2	3	4	5
Current financial resources[1]	1	2	3	4	5
Additional borrowing power	1	2	3	4	5
Operating units[2]	1	2	3	4	5
Supplier relations or sources of material	1	2	3	4	5
Management structure[3]	1	2	3	4	5

8. What was the relative importance of the benefits the acquired firm could have provided for your company in each of the following areas as a result of the merger? Please respond by circling the appropriate number for each case.

	Least Important		Average Important		Most Important	N/A
Use of brand name	1	2	3	4	5	6
Distribution channels	1	2	3	4	5	6
Goods/service mix	1	2	3	4	5	6
Market share	1	2	3	4	5	6
Providing R & D capacity	1	2	3	4	5	6
Providing current financial resources	1	2	3	4	5	6
Providing additional borrowing power[4]	1	2	3	4	5	6
Providing operating units	1	2	3	4	5	6
Providing access to material or suppliers	1	2	3	4	5	6
Management structure	1	2	3	4	5	6

9. What was the relative importance of the benefits your company could have provided the acquired firm, in each of the following areas, as a result of the merger? Please respond by circling the appropriate number for each case.

	Least Important		Average Important		Most Important	N/A
Use of brand names	1	2	3	4	5	6
Distribution channels	1	2	3	4	5	6
Goods/service mix	1	2	3	4	5	6
Market share	1	2	3	4	5	6
Providing R & D capacity	1	2	3	4	5	6
Providing current financial resources	1	2	3	4	5	6
Providing additional borrowing power	1	2	3	4	5	6
Providing operating units	1	2	3	4	5	6
Providing access to material or suppliers	1	2	3	4	5	6
Management structure	1	2	3	4	5	6

10. At the time of the merger, what percentage of your company's overall sources of revenue were derived from restaurant operations? Please check the appropriate answer.

_____ Less than or equal to 20%.

_____ Greater than 20% but less than or equal to 40%.

_____ Greater than 40% but less than or equal to 60%.

_____ Greater than 60% but less than or equal to 80%.

_____ Greater than 80%.

11. With regard to each of the following areas, please estimate the degree to which the parent company's top corporate executives[5] are responsible[6] for matters related to the acquired firm. Please respond by circling the appropriate number for each case.

	Not Responsible		Moderately Responsible		Highly Responsible	N/A
Finance	1	2	3	4	5	6
Accounting	1	2	3	4	4	6
Human resources	1	2	3	4	5	6
Legal aspects	1	2	3	4	5	6
Purchasing	1	2	3	4	5	6
Sales promotion and advertising	1	2	3	4	5	6
Other marketing and distribution	1	2	3	4	5	6
Operations	1	2	3	4	5	6
Research and development	1	2	3	4	5	6
Overall integration of acquired firm	1	2	3	4	5	6

12. What was the position in the parent organization held by the person or group responsible for the majority of the integration activities? Please check the <u>one</u> most appropriate answer.

_____ Member of Board of Directors

_____ President

_____ Vice-President

_____ Special Staff Position (below vice-president and above middle manager)

_____ Middle Manager

13. Within the first two years after the firm has been acquired, were there any <u>changes in the executive levels</u>[5] in charge of the acquisition?

_____ Yes _____ No

If yes, how many changes in executive levels, in charge of the acquisition, have been made?

_____ 1
_____ 2
_____ 3
_____ 4
_____ 5 or more

14. What was the degree of consolidation[8] two years after merger in each of the following functional areas? Please respond by circling the appropriate number for each case.

	Not Consolidated		Partially Consolidated		Consolidated into one System	N/A
Finance	1	2	3	4	5	6
Accounting	1	2	3	4	5	6
Human Resources	1	2	3	4	5	6
Legal Aspects	1	2	3	4	5	6
Purchasing	1	2	3	4	5	6
Sales Promotion and Advertising	1	2	3	4	5	6
Other Marketing and Distribution	1	2	3	4	5	6
Operations	1	2	3	4	5	6
Research and Development	1	2	3	4	5	6

15. For the concerned acquisition, what responsibility for integration decisions was given to the acquired firm? Please check the <u>one</u> statement that best fits your specific situation.

_____ Little or no responsibility.

_____ A portion of the responsibility was about proportional to the relative sizes of the firms.

_____ About equal responsibility with acquiring firm.

_____ More responsibility than parent.

16. Who makes the following decisions for the acquired division/subsidiary after the acquisition? Please respond by circling the appropriate number for each case.

	Corporate Headquarters	Proposed by the Acquired, Approved by Corporate HQ	The Acquired Makes the Decision Independently
Finance	1	2	3
Marketing	1	2	3
Operations	1	2	3
Administration	1	2	3
Human resources	1	2	3
Research development	1	2	3

17. For employees from the acquired organization, please indicate the degree of similarity of <u>compensation scales</u> (two years after the merger) with employees from the parent company in each of the following functional areas. Please respond by circling the appropriate number for each case.

	Totally Different		Similar		Exactly the Same
Finance	1	2	3	4	5
Accounting	1	2	3	4	5
Human resources	1	2	3	4	5
Legal	1	2	3	4	5
Purchasing	1	2	3	4	5
Sales promotion and advertising	1	2	3	4	5
Other marketing and distribution	1	2	3	4	5
Research and development	1	2	3	4	5
Operations	1	2	3	4	4

18. For employees from the acquired organization, please indicate the degree of similarity of benefit packages (two years after the merger) with employees from the Parent Company in each of the following functional areas. Please respond by circling the appropriate number for each case.

	Totally Different		Similar		Exactly the Same
Finance	1	2	3	4	5
Accounting	1	2	3	4	5
Human resources	1	2	3	4	5
Legal	1	2	3	4	5
Purchasing	1	2	3	4	5
Sales promotion and advertising	1	2	3	4	5
Other marketing and distribution	1	2	3	4	5
Research and development	1	2	3	4	5
Operations	1	2	3	4	5

19. For employees from the acquired organization, please indicate the degree of similarity of personnel policies (two years after the merger) with employees from the Parent Company in each of the following functional areas. Please respond by circling the appropriate number for each case.

	Totally Different		Similar		Exactly the Same
Finance	1	2	3	4	5
Accounting	1	2	3	4	5
Human resources	1	2	3	4	5
Legal	1	2	3	4	5
Purchasing	1	2	3	4	5
Sales promotion and advertising	1	2	3	4	5
Other marketing and distribution	1	2	3	4	5
Research and development	1	2	3	4	5
Operations	1	2	3	4	5

20. Did any executives from the acquired firm leave the organization within the first two years after it had been acquired?

_____ Yes _____ No

If yes, for each of the following management levels, please circle the average length of time it took for them to leave.

	0 Months	3	6 Months	9	12 Months	15	18 Months	21	24 Months
Board of Directors									
President									
Vice President(s)									
Special Staff Personnel									
Middle Managers									

21. About how long did it take to integrate[9] the operations of the acquired firm?

_____ Less than six months.

_____ Between six months and one year.

_____ Between one and two years.

_____ More than two years.

_____ Still not accomplished.

APPENDIX D

LIST OF DEFINITIONS SENT TO FIRMS INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

LIST OF DEFINITIONS SENT TO FIRMS INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

Definitions

(To be used in conjunction with completing the enclosed Questionnaire.)

[1]Current Financial Resources - This encompasses all liquid assets.

[2]Operating Units - This refers to the quality, quantity and newness of existing facilities.

[3]Management Structure - This includes such factors as span of control, hierarchy of authority, degree of specialization and degree of formalized communication.

[4]Providing Additional Borrowing Power - Means that one firm's credits, bank relations or financial situation helps the other to gain better access to outside funding.

[5]Top Corporate Executives - These include the Chairman of the Board, other members of the Board of Directors, the Chief Executive Officer, or Vice Presidents.

[6]Executive Responsibility - Refers to the degree to which top corporate executives are concerned with or involve themselves in coordinating activities and information exchanges between the parent and new subsidiary.

[7]Executive Levels - Refers to the job position of the individual designated as responsible for the activities of the acquired firm.

[8]Consolidation of Functional Areas - Relates to the degree to which activities of the acquired firm are coordinated and controlled by the parent organization.

[9]Integrate Operations of the Acquired Firm - This refers to the time frame beginning immediately after the merger contract is signed and extending until such a time when all the steps considered necessary by the parent, in bringing the acquisition into the overall organization, are completed.

APPENDIX E

EXECUTIVE SUMMARY SENT TO FIRMS
INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM FEBRUARY 2, 1983 - APRIL 18, 1983

EXECUTIVE SUMMARY SENT TO FIRMS
INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM FEBRUARY 2, 1983 - APRIL 18, 1983

Executive Summary

This study focuses on the postmerger integration practices of firms who acquire foodservice organizations. Specifically, it is concerned with how a parent company attempts to integrate a newly acquired restaurant firm into their overall organization under different strategic conditions.

Three factors influencing the development of the project include, 1) the current high level of merger and acquisition activity involving firms in the restaurant industry, 2) the high incidence of failure of these acquisitions to adequately meet the performance objectives of the parent company and 3) past research studies which have identified poor management practices after the firm has been acquired, as a major factor contributing to the high degree of merger failures.

Essentially, through a series of questionnaire items, this study will first attempt to classify firms, who have recently made foodservice acquisitions, into a number of broad strategic categories. Then, by looking at the way they exercise certain postmerger managerial decisions, the researcher will attempt to draw profiles of postmerger managerial practices that correspond to the different strategy types. In a future study, the reseacher will relate these different variables to a subjective measure of the acquired firm's performance in an attempt to differentiate between successful and unsuccessful postmerger management practices.

If this study yields significant results, (i.e., certain managerial decisions are found to significantly correspond with different types of corporate strategies), it would serve to lay the ground work for more detailed research efforts to be conducted on mergers and acquisitions within the foodservice industry. This may eventually lead toward a body of literature that can be used as a managerial guide by firms who are considering investments in the foodservice organizations.

APPENDIX F

SUPPLEMENTAL LIST OF QUESTIONS SENT TO FIRMS
INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM FEBRUARY 2, 1983 - APRIL 18, 1983

SUPPLEMENTAL LIST OF QUESTIONS SENT TO THE FIRMS INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

Additional Questions for Respondent

Please answer the following questions after you have completed the entire Questionnaire. Feel free to use separate sheets of paper if necessary.

1. Approximately how long did it take you to fill out the Questionnaire?

2. Did you find any questions to be particularly ambiguous or confusing? If so, which ones in specific? Do you have any suggestions on how we can clarify these questions?

3. Did you find any questions to be particularly sensitive? If so, which ones in specific? Should we delete these questions from the Instrument?

4. Do you have any other comments in connection with this study?

APPENDIX G

COVER LETTER SENT TO FIRMS INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

COVER LETTER SENT TO FIRMS INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 2, 1983 - APRIL 18, 1983

center for research in the hospitality service industries

March 21, 1983

(Executive's Name)
(Company's Name)
(Mailing Address)
(City, State Zip)

(Dear Executive's Name):

In cooperation with the Center for Research in the Hospitality Service Industries, we would like to request your support in a study investigating merger and acquisition activity in the restaurant sector of the industry. For your information, we have enclosed an Executive Summary outlining the details of the overall project. Your participation in this study will significantly aid us in investigating postmerger integration activities.

We are forwarding to you three copies of the Questionnaire Instrument we are intending to use. At this stage, we are pretesting the questions in an attempt to 1) identify and clarify potentially ambiguous questions, 2) find out if any of the questions are sensitive in nature to the point where they may influence potential respondents to not return the instrument, 3) check the reliability of our items and 4) find out how long it takes, on average, to complete the instrument.

Therefore, we would appreciate it if your company could identify one specific foodservice related acquisition which (company) has made between 1976 and 1981, and have three individuals who are familiar with this acquisition, fill out the questionnaire independently. These individuals should then forward the completed questionnaire to me, with any comments they may have, in the enclosed, self-addressed stamped envelope, at their earliest convenience. I have an April 1 deadline for this stage of the research. I am also enclosing with each Instrument, a list of definitions to be used when responding to the questions.

(Executive's Name)
(Date)
(Page 2)

I will personally contact you by telephone sometime next week to find out if you have any further questions regarding this study.

Thank you so much for your cooperation in this endeavor. If you are interested, I will be more than happy to share the results with you upon completion of the project.

Sincerely,

Alex F. De Noble
Research Associate

AFD/js

Enclosures

P. S. Please note that any information you supply to us in connection with this study will be held in strict confidence. All published material resulting from this study will be of an aggregate nature so that no individual firm will be identified.

APPENDIX H

TELEPHONE LOG OF CONTACTS WITH FIRMS INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 25, 1983 - APRIL 18, 1983

TELEPHONE LOG OF CONTACTS WITH FIRMS INCLUDED IN THE PILOT STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM FEBRUARY 25, 1983 - APRIL 18, 1983

Date Called	City Called
February 25	Irvine, California
	Minneapolis, Minnesota
	Irvine, California
March 3	Philadelphia, Pennsylvania
	Pilot, Virginia
March 4	Minneapolis, Minnesota
	New York, New York
	Irvine, California
	Irvine, California
March 9	Irvine, California
March 18	Irvine, California
	Philadelphia, Pennsylvania
	Minneapolis, Minnesota
	Trenton, New Jersey
	Irvine, California
March 29	Orlando, Florida
	Philadelphia, Pennsylvania
	Orlando, Florida
	Fairlawn, New Jersey
	Orlando, Florida
April 4	Orlando, Florida
	Minneapolis, Minnesota
	Mountlake Terrace, Washington
April 8	Kansas City, Missouri
	Cleveland, Ohio
April 18	Fairlawn, New Jersey
	Kansas City, Missouri
	Orlando, Florida
	Kansas City, Missouri
	Fairlawn, New Jersey

APPENDIX I

FINAL VERSION OF THE QUESTIONNAIRE INSTRUMENT
USED IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM JANUARY 1983 - SEPTEMBER 1983

FINAL VERSION OF THE QUESTIONNAIRE INSTRUMENT USED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM JANUARY 1983 - SEPTEMBER 1983

INSTRUCTIONS

This questionnaire is intended to gather certain information relative to how a parent company integrates an acquisition into its organization. We have designed the questions so they do not call for you to provide sensitive information about your operations. Our interest is in general practices and strategies. Therefore, please answer all questions by choosing the response that you perceive to be closest to your actual situation.

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Center for Research in the Hospitality
Service Industries
c/o Alex F. De Noble
Department of Management
207 Pamplin Hall
Virginia Tech

SURVEY OF POSTMERGER INTEGRATION PRACTICES
OF FIRMS ACQUIRING FOODSERVICE ORGANIZATIONS

1. Below, you will find four general statements that attempt to describe the relationship between the parent firm and the acquired firm prior to the acquisition. Please check the one statement that best fits your specific situation when the acquisition transaction was initially completed.

_____ The acquired firm is in the same industry as the parent company, with approximately the same types of customers and suppliers.

_____ The acquired firm was a major customer of the parent company (before the merger) and was in the same industry.

_____ The acquired firm is in an industry which is similar to that of the parent company, having similar customer types and/or technology, as the parent company.

_____ The customers and technology of the acquired firm are totally different from those of the parent company.

2. Below, you will find four general statements that attempt to describe the parent firm's strategy for acquiring the new subsidiary. Please check the one statement that best fits your specific situation when the acquisition transaction was initially completed.

_____ Our intent was to significantly and permanently increase the market share of either (or both) our firm and the acquired firm.

_____ Our intent was to maintain either (or both) our firm's and the acquired firm's existing competitive position in very rapidly expanding markets.

_____ Our intent was to maximize the return on either (or both) our firm and the acquired firm's existing resources and skills.

_____ Our intent was to stop and reverse the declining fortunes of either (or both) our firm and the acquired firm as quickly as possible.

3. With regard to each of the following areas, please estimate the degree to which the parent company's top corporate executives are responsible for matters related to the acquired firm. Please respond by circling the appropriate number for each case.

	Not Responsible		Moderately Responsible		Highly Responsible
Finance	1	2	3	4	5
Human Resources	1	2	3	4	5
Marketing	1	2	3	4	5
Operations	1	2	3	4	5
Research and Development	1	2	3	4	5
Overall integration of acquired firm	1	2	3	4	5

4. At the time of the merger, what percentage of your company's overall sources of revenue were derived from restaurant operations? Please check the appropriate answer.

_____ Less than or equal to 20%.
_____ Greater than 20% but less than or equal to 40%.
_____ Greater than 40% but less than or equal to 60%.
_____ Greater than 60% but less than or equal to 80%.
_____ Greater than 80%.

integration activities? Please check the one most appropriate answer.

_____ Member of Board of Directors

_____ President

_____ Vice-President

_____ Special Staff Position (below vice-president and above middle manager)

_____ Middle Manager

6. What was the degree of consolidation two years after merger in each of the following functional areas? Please respond by circling the appropriate number for each case.

	Not Consolidated	Partially Consolidated			Consolidated Into One System
Finance	1	2	3	4	5
Human Resources	1	2	3	4	5
Marketing	1	2	3	4	5
Operations	1	2	3	4	5
Research and Development	1	2	3	4	5

7. For the concerned acquisition, what responsibility for integration decisions was given to the acquired firm? Please check the one statement that best fits your specific situation.

_____ Little or no responsibility.

_____ A portion of the responsibility was about proportional to the relative sizes of the firms.

_____ About equal responsibility with acquiring firm.

_____ More responsibility than parent.

8. Who makes the following decisions for the acquired division/subsidiary after the acquisition? Please respond by circling the appropriate number for each case.

	Corporate Headquarters	Proposed by the Acquired, Approved by Corporate Headquarters	The Acquired Makes the Decision Independently
Administration	1	2	3
Finance	1	2	3
Human Resources	1	2	3
Marketing	1	2	3
Research Development	1	2	3
Operations	1	2	3

9. For each of the following employee levels, to what extent have attempts been made to standardize personnel policies and programs between the parent and acquired organizations? Please respond by circling the appropriate number for each case.

	Not At All	Slightly	Somewhat	Largely	Totally
Upper Level Managers (vice presidents and above)	1	2	3	4	5
Middle Managers	1	2	3	4	5
Operating Employees	1	2	3	4	5

PLEASE GO TO BACK PAGE

_____ Yes

_____ No

If yes, for each of the following management levels, please circle the estimated average length of time it took for them to leave.

	0 Months	3	6 Months	9	12 Months	15	18 Months	21	24 Months
Board of Directors									
President									
Vice President(s)									

11. About how long did it take to integrate the operations of the acquired firm?

_____ Less than six months.

_____ Between six months and one year.

_____ Between one and two years.

_____ More than two years.

_____ Still not accomplished.

12. Would you like a copy of the results? If yes, please provide:

Your Name _______________________________

Mailing Address _______________________________

____

____

The code number in the above box will be used in order to contact non-respondents. Please be assured that the information provided will be confidential and will be used for no other purposes than this research study. If you wish to remain anonymous, feel free to mark out this number.

APPENDIX J

LETTERHEAD FROM THE CENTER FOR RESEARCH IN THE HOSPITALITY SERVICES INDUSTRIES

LETTERHEAD FROM THE CENTER FOR RESEARCH
IN THE HOSPITALITY SERVICES INDUSTRIES

center for research
in the hospitality
service industries

ADMINISTRATION

MICHAEL D. OLSEN, Ph.D.
Executive Director
Virginia Polytechnic Institute
and State University

Associate Director
Virginia Polytechnic Institute
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Administrator
Virginia Polytechnic Institute
and State University

ADVISORY COMMITTEE

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Purdue University

Assistant Professor
Cornell University School of Hotel
Administration

Director of Operational Services & Research
American Hotel & Motel Association

Director of Dining Service
Sam Houston State University

Senior Research Engineer
American Gas Assoc.

Director
Research, Development & Education
Laventhol & Horwath

Professor & Associate Head
Dept. of Hotel, Restaurant and Travel Administration
Univ. of Massachusetts

Director
Research & Information Services
National Restaurant Association

Vice President/Purchasing
Jerrico, Inc.

Associate Dean
Hilton School of Hotel and Rest. Mgt.
Univ. of Houston

Manager of Marketing Services
Oneida Silversmith

President
Enersyst, Inc.

Vice President
Editor-in-Chief
Rest. & Inst. Magazine

MAX S. WORTMAN, JR.
The William B. Stokley Professor of Management
Univ. of Tennessee

A JOINT EFFORT BY THE SOCIETY FOR THE ADVANCEMENT OF FOOD SERVICE RESEARCH AND VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

blacksburg va. 24060

APPENDIX K

BROCHURE FROM THE CENTER FOR RESEARCH IN THE HOSPITALITY SERVICE INDUSTRIES

BROCHURE FROM THE CENTER FOR RESEARCH
IN THE HOSPITALITY SERVICE INDUSTRIES

REQUEST

To initiate a serach, a "request for computer literature search" must be completed. Enclosed, for your convenience, is one such form. For additional forms or more information about the Center for Research or SAFSR, contact:

Michael D. Olsen, Ph.D.
Executive Director

blacksburg, va 24060

CENTER FOR RESEARCH
IN THE HOSPITALITY
SERVICE INDUSTRIES

TO:

LITERATURE
REVIEW
SERVICE

center for research
in the hospitality
service industries

OVERVIEW

The members of the Society for the Advancement of Food Service Research (SAFSR) have, since 1958, been engaged in the pursuit of new knowledge through research. Today the need exists for an industry based national research center and today SAFSR has established one: *The Center for Research in the Hospitality Service Industries.*

CENTER FOR RESEARCH

The Center for Research, located in Blacksburg, Virginia is funded in part by professional associations, trade groups, private/public grants and Virginia Polytechnic Institute & State University. The services currently offered to individuals and private/public organizations include:

- Bibliography reference retrieval on selected abstracts and topics requested by the subscriber.
- Annual bibliography and selected abstracts of current research pertinent to the development and advances in the food service industry.
- Act as a clearing house between those who are professionally competent and interested in conducting research with those parties and organizations who want research done.
- Provide a forum to present research results to industry leaders.
- Research newsletter

LITERATURE - REVIEW SERVICE

In order to assist professionals in management, research and education, the Center for Research offers computer assisted information and reference search services. These services are designed to focus in upon a specific topic or problem area and uncover the latest most relevant information that has been written on the subject. The end product of a search is usually a list of citations with full bibliographic information. The search requester may specify that abstracts be printed when available.

EXPERIENCE

The professional staff of the Center for Research has experience in literature reviews and a high degree of familiarity with the sources of published information pertaining to all aspects of the industry. This experience will be extremely helpful in providing a thorough and comprehensive search in the shortest time possible.

TOPICS

As an example of the type of topics which individuals are frequently seeking more information about, the following partial listing is provided.

1. Productivity
2. Computer Application to the Industry
3. Motivation/Leadership
4. Cash Flow Management
5. Strategies Management
6. Financial Management
7. Restaurant Concept Development
8. Sales & Cost Forecasting Techniques
9. Analyzing the Market
10. Legal Issues

FEES

For current members of the SAFSR, an initial one time subscription fee for this service is $100. Each individual literature search will be billed at cost plus 10%. The cost will vary with the extent of the search but will include only those charges for computer time to do the search and the time of the individual conducting the search. For non-members of SAFSR, there will be a $170 annual fee for this service and a cost plus arrangement for each search.

A search may take ten to thirty minutes or more, depending on the complexity of the question. The connect cost of the data bases including telecommunications ranges from $15/hour to over $100/hour. Each printed citation costs .10¢ to .50¢, thus, a medium-priced search would cost $50 to $75.

SECURITY

The Center for Research, as a neutral clearing house, can assure your firm confidentiality. Moreover, with the support of several competitive universities, research groups and industry personnel, we can also provide you with the best possible services from impartial and diverse resource personnel.

APPENDIX L

SAMPLE OF A TYPICAL DIALOGUE HELD BETWEEN THE RESEARCHER AND EACH COMPANY EXECUTIVE PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 2, 1983 - MAY 18, 1983

SAMPLE OF A TYPICAL DIALOGUE HELD BETWEEN THE RESEARCHER AND EACH COMPANY EXECUTIVE PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 2, 1983 - MAY 18, 1983

Researcher (to switch board operator): Hello. I would like to speak with someone in your organization who would be familiar with the (parent company) acquisition of (acquired firm) in (year).

Switch Board Operator (to researcher): I'll connect you with Mr./Ms. (name), our (usually vice president of finance or corporate planning).

Researcher to Executive's Secretary: Hello, my name is Alex De Noble. I am with Virginia Tech, and I would like to speak with Mr./Ms. (name) in connection with (parent company) acquisition of (acquired firm).

If the executive is available.

Researcher to Executive: Hello Mr./Ms. (name). My name is Alex De Noble and I'm currently working on my Ph.D. in management at Virginia Tech. I would like to take a few minutes to talk with you about the (parent company). Acquisiton of (acquired firm).

Executive to Researcher: What specifically do you have in mind, Mr. De Noble.

Researcher to Executive: My dissertation topic is a merger and acquisiton study. In specific, I am interested in how the parent company, from a management point of view goes about integrating the acquired firm into the organization after the transaction has been consumated. So, from that perspective, I have developed a short questionnarie that attempts to identify how your company has handled the (acquired firm) acquisition. This instrument would take no longer than five to ten minutes of your time to complete. In addition, it does not ask you to provide any specific information concerning your company's operations. I have pretested this questionnaire and have eliminated all potentially sensitive items.

I therefore am calling you now to see if you would be willing to at least look at my questionnaire and hopefully complete and return it to me.

<u>Executive to Researcher.</u> Yes, Mr. De Noble, I would be happy to review your questionnaire. Please forward it directly to me.

<u>Researcher to Executive:</u> Thank you Mr. (name). The questionnaire will be in tomorrow morning's mail.

If the executive was not available, a similar dialogue was conducted with his/her secretary. However, in these cases, the researcher requested that the secretary watch for the instrument and pass it on to the executive.

APPENDIX M

TELEPHONE LOG OF THE CONTACTS WITH FIRMS INCLUDED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 2, 1983 - MAY 18, 1983

TELEPHONE LOG OF THE CONTACTS WITH FIRMS
INCLUDED IN STUDY OF THE ASSOCIATION BETWEEN
STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 2, 1983 - MAY 18, 1983

Date Called	City Called
May 2, 1983	Orlando, Florida
	Washington, D. C.
	New York, New York
	New York, New York
	Nashville, Tennessee
	White Plains, New York
	White Plains, New York
	Hershey, Pennsylvania
	San Francisco, California
	Fort Launderdale, Florida
	Phoenix, Arizona
	Austin, Texas
	New York, New York
	Nashville, Tennessee
	Schaumburg, Illinois
May 3, 1983	Houston, Texas
	Houston, Texas
	Columbia Heights, Minnesota
	Columbia Heights, Minnesota
	St. Louis, Missouri
	New York, New York
May 4, 1983	Minneapolis, Minnesota
	Minneapolis, Minnesota
	Dallas, Texas
	Minneapolis, Minnesota
	Minneapolis, Minnesota
	Los Angeles, California
	Solon, Ohio
	Rocky Mount, North Carolina
	San Francisco, California
	Atlanta, Georgia
	Atlanta, Georgia
	New York, New York
	San Francisco, California

TELEPHONE LOG OF THE CONTACTS WITH FIRMS
INCLUDED IN STUDY OF THE ASSOCIATION BETWEEN
STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 2, 1983 - MAY 18, 1983

Date Called	City Called
May 4, 1983, continued	Minneapolis, Minnesota
	Philadelphia, Pennsylvania
	Santa Monica, California
	Memphis, Tennessee
	Minneapolis, Minnesota
	Stamford, Connecticut
	Washington, D. C.
	New York, New York
	Tucker, Georgia
	Toledo, Ohio
	Kansas City, Missouri
	Ann Arbor, Michigan
	San Mateo, California
May 5, 1983	Tucker, Georgia
	Memphis, Tennessee
	New York, New York
	Nashville, Tennessee
	Ann Arbor, Michigan
May 6, 1983	Braintree, Maine
	Nashville, Tennessee
	Miami, Florida
	Parsippany, New Jersey
	East Hanover, New Jersey
	Chicago, Illinois
	Braintree, Maine
	Chicago, Illinois
	Camden, New Jersey
	Chicago, Illinois
	Lafayette, Louisiana
	Houston, Texas
	Corpus Christy, Texas
	Troy, Minnesota
	Fostolia, Ohio
	Corpus Christy, Texas
	Tampa, Florida

TELEPHONE LOG OF THE CONTACTS WITH FIRMS
INCLUDED IN STUDY OF THE ASSOCIATION BETWEEN
STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 2, 1983 - MAY 18, 1983

Date Called	City Called
May 6, 1983, continued	Troy, Michigan
	Van Nuys, California
	San Francisco, California
	Clifton, New Jersey
	Farmington, Connecticut
	Chicago, Illinois
	Paterson, New Jersey
	Hutchinson, Kansas
	San Antonio, Texas
	Utica, Michigan
	Oklahoma City, Oklahoma
	Rutherford, New Jersey
	Kingston, Pennsylvania
	Corpus Christy, Texas
	Nashville, Tennessee
May 9, 1983	East Hanover,, New Jersey
	Chicago, Illinois
	Ontario, Canada
	Phoenix, Arizona
	Utica, Michigan
	Dallas, Texas
	Los Angeles, California
	Croy, Michigan
	Croy, Michigan
	Utica, Michigan
May 11, 1983	Purchase, New York
	Cleveland, Ohio
	New York, New York
	New York, New York
	Los Angeles, California
	Washington, D. C.
	Dallas, Texas
	Cleveland, Ohio
	Cleveland, Ohio
	Chicago, Illinois

TELEPHONE LOG OF THE CONTACTS WITH FIRMS
INCLUDED IN STUDY OF THE ASSOCIATION BETWEEN
STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 2, 1983 - MAY 18, 1983

Date Called	City Called
May 11, 1983, continued	Larkspur, California
	Phoenix, Arizona
	Nashville, Tennessee
	Cleveland, Ohio
	San Francisco, California
	Memphis, Tennesse
	Santa Monica, California
	Santa Monica, California
	Oklahoma City, Oklahoma
	Oklahoma City, Oklahoma
	Santa Monica, California
	New York, New York
	Spartanburg, South Carolina
	Oakland, California
May 12, 1983	Seattle, Washington
	Seattle, Washington
	San Francisco, California
	New York, New York
May 16, 1983	New York, New York
	New York, New York
	Pheonix, Arizona
	Dynwoody, Georgia
	Charlotte, North Carolina
	Memphis, Tennessee
	Winston-Salem, North Carolina
	Brentwood, Tennessee
	Deer Park, New York

APPENDIX N

COVER LETTER SENT TO FIRMS INCLUDED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

(WHEN TELEPHONE CONTACT WAS MADE DIRECTLY WITH AN EXECUTIVE)

COVER LETTER SENT TO FIRMS INCLUDED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

(WHEN TELEPHONE CONTACT WAS MADE DIRECTLY WITH AN EXECUTIVE)

center for research in the hospitality service industries

May 19, 1983

(Executive's Name)
(Company's Name)
(Mailing Address)
(City, State Zip)

(Dear Executive's Name):

As per our telephone conversation on (date), please find an enclosed packet of information that we talked about. This study is in partial fulfillment of my Ph.D. dissertation requirements and is in cooperation with the Society for the Advancement of Foodservice Research and the staff of its newly formed Center for Research in the Hospitality Service Industries. For your information, we have enclosed a brochure describing the activities of the center.

We do hope that one of your corporate executives, would take a few moments to review and fill out the enclosed questionnaire with regard to the (parent company) acquisition of (acquired firm). Others, who have already filled out the instrument, indicated that it usually takes between 10 to 15 minutes to complete. Each question is designed to provide a relatively quick response. In addition, these questions are also designed to reveal, only in a very general sense, your methods of integrating an acquired firm. Therefore, you will <u>not</u> be asked to reveal any sensitive material to us. All information we obtain from you will be held in the strictest of confidence. No individual respondent will be identified in any publication resulting from this research effort.

To respond, just complete and return the enclosed questionnaire by (date). To facilitate a rapid return, this instrument serves as a stamped, self-addressed mailer. Just fold, staple and drop it in your outgoing mail.

A JOINT EFFORT BY THE SOCIETY FOR THE ADVANCEMENT OF FOOD SERVICE RESEARCH AND VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

blacksburg va 24060

(Executive's Name)
(Date)
(Page 2)

If you have any questions, please feel free to contact me at . If no one answers, you may leave a message with my secretary at .

Upon completion of the study, we will be more than happy to provide you with a copy of the results, if you so desire.

Thank you for your time, effort and assistance in this matter.

Sincerely,

Alex F. De Noble
Research Associate

AFD/js

Enclosures

P. S. If the Center for Research in the Hospitality Service Industries can be of any assistance to you, please do not hesitate to contact us.

APPENDIX O

COVER LETTER SENT TO FIRMS INCLUDED
IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 3, 1983 - MAY 19, 1983

(WHEN TELEPHONE CONTACT WAS MADE
WITH AN EXECUTIVE'S SECRETARY)

COVER LETTER SENT TO FIRMS INCLUDED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3, 1983 - MAY 19, 1983

(WHEN TELEPHONE CONTACT WAS MADE WITH AN EXECUTIVE'S SECRETARY)

center for research in the hospitality service industries

May 19, 1983

(Executive's Name)
(Company's Name)
(Mailing Address)
(City, State Zip)

(Dear Executive's Name):

As per the telephone conversation I had with your secretary on (date), please find the enclosed packet of information that we talked about. This study is in partial fulfillment of my Ph.D. dissertation requirements and is in cooperation with the Society for the Advancement of Foodservice Research and the staff of its newly formed Center for Research in the Hospitality Service Industries. For your information, we have enclosed a brochure describing the activities of the center.

We do hope that you, or one of your staff people, would take a few moments to review and fill out the enclosed questionnaire with regard to the (parent company) acquisition of (acquired firm). Others, who have already filled out the instrument, indicated that it usually takes between 10 to 15 minutes to complete. Each question is designed to provide a relatively quick response. In addition, these questions are also designed to reveal, only in a very general sense, your methods of integrating an acquired firm. Therefore, you will not be asked to reveal any sensitive material to us. All information we obtain from you will be held in the strictest of confidence. No individual respondent will be identified in any publication resulting from this research effort.

To respond, just complete and return the enclosed questionnaire by (date). To facilitate a rapid return, this instrument serves as a stamped, self-addressed mailer. Just fold, staple and drop it in your outgoing mail.

(Executive's Name)
(Date)
(Page 2)

If you have any questions, please feel free to contact me at . If no one answers, you may leave a message with my secretary at .

Upon completion of the study, we will be more than happy to provide you with a copy of the results, if you so desire.

Thank you for your time, effort and assistance in this matter.

Sincerely,

Alex F. De Noble
Research Associate

AFD/js

Enclosures

P. S. If the Center for Research in the Hospitality Service Industries can be of any assistance to you, please do not hesitate to contact us.

APPENDIX P

SECOND REQUEST LETTER SENT TO FIRMS INCLUDED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS ON JUNE 4, 1983

SECOND REQUEST LETTER SENT TO FIRMS INCLUDED IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS ON JUNE 4, 1983

center for research in the hospitality service industries

June 4, 1983

(Executive's Name)
(Company's Name)
(Mailing Address)
(City, State Zip)

(Dear Executive's Name):

Recently, you should have received a survey questionnaire concerning the study of merger and acquisition activity in the restaurant industry. As of the due date of June 1, 1983, no reply has been received from you. Perhaps, the questionnaire has been mislaid, or it may have been miscarried in the mail, etc.

In any event, enclosed is another copy of the questionnaire. Hopefully, you can find five to ten minutes to fill it out and drop it in your outgoing mail. It is extremely important in completing my dissertation to establish a clearer understanding of the postmerger integration process of firms acquiring restaurant operations. Your participation will be of great help to me in this effort. I would therefore appreciate it if you could complete this questionnaire with regard to the (Paren Company) acquisition of (acquired firm) and return it to me by June 22, 1983.

As previously mentioned, your individual responses will be held in the strictest of confidence. I welcome any questions regarding this study. Please write, or call my office (703) 961-7746 between 9:00 a.m. and 5:00 p.m., Monday through Friday. If no one answers, you may leave a message with the secretary in the Management Development Office (703) 961-5566.

Once again, I would like to thank you for your time, effort and assistance in this matter.

Sincerely,

Alex F. De Noble

AFD/js
Enclosure

APPENDIX Q

SUMMARY OF CONTACTS WITH FIRMS PARTICIPATING IN THE STUDY OF THE ASSOCIATION BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS FROM MAY 3 - JUNE 27, 1983

TABLE Q.1

SUMMARY OF CONTACTS WITH FIRMS PARTICIPATING
IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 3 - JUNE 27, 1983

Company Identification Number	Date Mailed	Date Returned	Date of Second Request	Date Returned	Participating Firms
1	May 3	May 10	- - -	- - -	N/U*
2	May 3	- - -	June 4	- - -	
3	May 3	- - -	June 4	June 21	X
4	May 3	- - -	June 4	June 27	X
5	May 3	May 23	- - -	- - -	X
6	May 3	- - -	June 4	- - -	
7	May 3	- - -	June 4	- - -	
8	May 3	May 20	- - -	- - -	X
9	May 3	- - -	June 4	- - -	
10	May 3	- - -	June 4	- - -	
11	May 3	May 17	- - -	- - -	X

*N/U = Not Useable

TABLE Q.1 - Continued

SUMMARY OF CONTACTS WITH FIRMS PARTICIPATING
IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 3 - JUNE 27, 1983

Company Identification Number	Date Mailed	Date Returned	Date of Second Request	Date Returned	Participating Firms
12	May 3	- - -	June 4	- - -	
14	May 4	May 17	- - -	- - -	X
15	May 4	May 17	- - -	- - -	X
16	May 4	- - -	June 4	June 21	X
17	May 5	- - -	June 4	- - -	
18	May 5	- - -	June 4	- - -	
19	May 5	May 19	- - -	- - -	X
20	May 5	May 17	- - -	- - -	X
21	May 5	May 24	- - -	- - -	X
22	May 5	- - -	June 4	June 21	X
23	May 5	May 12	- - -	- - -	
24	May 5	May 12	- - -	- - -	X
25	May 5	May 13	- - -	- - -	X

TABLE Q.1 - Continued

SUMMARY OF CONTACTS WITH FIRMS PARTICIPATING
IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 3 - JUNE 27, 1983

Company Identification Number	Date Mailed	Date Returned	Date of Second Request	Date Returned	Participating Firms
26	May 5	- - -	June 4	June 15	X
27	May 5	May 16	- - -	- - -	X
28	May 5	May 13	- - -	- - -	X
29	May 5	May 13	- - -	- - -	X
30	May 5	May 16	- - -	- - -	N/U*
31	May 6	- - -	June 4	- - -	
32	May 6	May 17	- - -	- - -	X
33	May 6	June 15	- - -	- - -	N/U*
34	May 6	May 24	- - -	- - -	X
35	May 9	- - -	June 4	- - -	
36	May 9	May 17	- - -	- - -	X

*N/U = Not Useable

TABLE Q.1 - Continued

SUMMARY OF CONTACTS WITH FIRMS PARTICIPATING
IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 3 - JUNE 27, 1983

Company Identification Number	Date Mailed	Date Returned	Date of Second Request	Date Returned	Participating Firms
37	May 9	June 6	- - -	- - -	X
38	May 9	- - -	June 4	June 17	X
39	May 9	June 1	- - -	- - -	X
40	May 9	May 19	- - -	- - -	X
41	May 9	- - -	June 4	- - -	
42	May 9	- - -	June 4	- - -	X
43	May 9	- - -	June 4	- - -	
44	May 9	May 18	- - -	- - -	X
45	May 9	May 17	- - -	- - -	X
46	May 9	- - -	June 4	- - -	X
47	May 9	May 20	- - -	- - -	X
48	May 9	- - -	- - -	- - -	

TABLE Q.1 - Continued

SUMMARY OF CONTACTS WITH FIRMS PARTICIPATING
IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 3 - JUNE 27, 1983

Company Identification Number	Date Mailed	Date Returned	Date of Second Request	Date Returned	Participating Firms
49A	May 9	May 19	- - -	- - -	X
49B	May 10	- - -	June 4	June 20	X
50	May 10	- - -	June 4	- - -	
51	May 10	- - -	June 4	June 15	X
52	May 10	May 24	- - -	- - -	X
53	May 10	May 19	- - -	- - -	X
54	May 10	May 20	- - -	- - -	X
55	May 12	- - -	June 4	- - -	
56	May 12	May 19	- - -	- - -	X
57	May 12	- - -	June 4	June 14	X
58	May 12	- - -	June 4	- - -	
59	May 12	- - -	June 4	June 21	N/U*

*N/U = Not Useable

TABLE Q.1 - Continued

SUMMARY OF CONTACTS WITH FIRMS PARTICIPATING
IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 3 - JUNE 27, 1983

Company Identification Number	Date Mailed	Date Returned	Date of Second Request	Date Returned	Participating Firms
60	May 12	May 24	- - -	- - -	X
61	May 12	- - -	June 4	- - -	
62	May 12	May 19	- - -	- - -	X
63	May 12	- - -	June 4	- - -	X
64	May 12	June 1	- - -	- - -	X
65	May 12	- - -	June 4	- - -	
66	May 12	May 24	- - -	- - -	X
67	May	May 20	- - -	- - -	X
68	May	June 7	- - -	- - -	X
69	May	- - -	June 4	June 27	X
70	May	- - -	June 4	- - -	
71	May 17	- - -	June 4	- - -	
72	May 17	June 1	- - -	- - -	X

TABLE Q.1 - Continued

SUMMARY OF CONTACTS WITH FIRMS PARTICIPATING
IN THE STUDY OF THE ASSOCIATION
BETWEEN STRATEGY AND POSTMERGER MANAGERIAL DECISIONS
FROM MAY 3 - JUNE 27, 1983

Company Identification Number	Date Mailed	Date Returned	Date of Second Request	Date Returned	Participating Firms
73	May 17	- - -	June 4	- - -	
74	May 17	June 3	- - -	- - -	X
75	May 17	- - -	June 4	- - -	
76	May 17	_ _ _	June 4	June 15	N/U*
77	May 19	- - -	June 4	- - -	
78	May 19	May 27	- - -	- - -	X

*N/U = Not Useable

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AN ANALYSIS OF

THE IMPACT OF CORPORATE AND BUSINESS LEVEL

STRATEGIES UPON POSTMERGER INTEGRATION

PRACTICES OF FIRMS ACQUIRING

FOODSERVICE ORGANIZATIONS

FOR A SIX YEAR PERIOD

by

Alex Frank De Noble

(Abstract)

The purpose of this study was to (1) investigate whether variations in corporate and business level strategies have any impact upon postmerger integration practices of firms acquiring foodservice organizations; and (2) to develop some preliminary explanations as to any relationships that may exist between the two.

Four factors which have significantly influenced the development of this study included (1) the current high volume of merger activity; (2) the high degree of merger failures which could be attributed to poor management practices after a firm had been acquired; (3) the increased significance of the service sector within the United States economy; and (4)

the high degree of merger and acquisition activity involving foodservice organizations.

Although the empirical and conceptual literature on mergers and acquisitions is quite voluminous, very few studies have specifically addressed postmerger integration practices. The relevant empirical literature, derived mainly from manufacturing firms, does suggest that parent firms, engaging in horizontal or highly related mergers do tend to exert a great deal of control and influence over their new subsidiary, while parent firms engaging in concentric, conglomerate or unrelated mergers do not.

To investigate this issue in a service sector setting, three sets of conceptual and operational hypotheses depicting different dimensions of corporate and business level strategies and eight postmerger managerial decisions were developed and tested.

The population for this study consisted of all firms acquiring a foodservice organization during the period from 1976 to 1981. The data were collected via questionnaires sent to executives in the parent organizations. Chi square was used to test all conceptual and operational hypotheses.

The results of this study, utilizing service firms in the sample, were quite consistent with the past merger and acquisition literature and the strategy-structure literature.

Each suggested that for parent firms engaging in a horizontal or highly related acquisition, a high degree of integration usually took place, while for parent firms engaging in concentric, conglomerate or unrelated acquisitions, a low degree of integration usually took place.

This study provided no evidence to suggest that service firms are treated different from manufacturing firms when it comes to integrating a new acquisition.