

## CHAPTER 1: INTRODUCTION

### Problem Statement

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Corporate acquisitions have become one of the crucial strategic issues in the hotel industry nowadays. Although acquiring companies have frequently experienced deteriorated post-acquisition performance that has reduced shareholders' wealth (Sirower, 1997), the acquisition of companies or competitors is still one of the most common strategic instruments for expansion or restructuring. It is known that acquisitions have a tremendous impact on the industry, but there is a definite lack of comprehensive and systematic research about the underlying structure of the mergers and acquisitions (M&A) phenomenon in the hotel industry.

Jemison & Sitkin (1986) stated that the acquisition process itself has the most important role in determining acquisition activities and outcomes. However, to date there have been no studies that have attempted to identify the key issues that impact the processes of acquisition strategy formulation (pre-acquisition management) and acquisition strategy implementation (post-acquisition integration) in the lodging industry. Also, there have been no studies to date that have identified post-acquisition performance evaluation criteria. In order to clarify and define the nature of the M&A phenomenon, it is necessary to conduct a systematic and comprehensive investigation of the acquisition process.

In previous research about corporate acquisitions, most studies (Asquith, 1983; Barney, 1991, 1988; Bradley, Desai & Kim, 1983; Cannella & Hambrick, 1993; Cartwright & Cooper, 1993; Chatterjee, 1992, 1986; Datta, Pinches & Narayanan, 1992; De Noble, Gustafson & Hergert, 1997; Hansen, 1987; Loughran & Vijh, 1996; Martin & McConnell, 1991; Napier, 1989; Pablo, 1994; Ravenscraft & Scherer, 1988; Schweiger & DeNisi, 1991, 1987; Trautwein, 1990; Walter & Barney, 1990; Weber, 1996) have attempted to discover evidence about a part of the whole acquisitions process, such as motives or objectives of acquisition, post-acquisition performance, either stock returns or operating performance, sources of shareholder wealth in corporate acquisitions, influences on post-acquisition integration, and others. These previous studies have investigated the above corporate acquisition issues within uni-dimensional frameworks, i.e., one issue at a time. In order to pursue more rigorous and practical studies in the future, it is necessary to take an integrated and holistic viewpoint that includes the most critical corporate acquisition issues simultaneously and in a multi-dimensional framework. The

organizing principle of this study is that it investigates the various issues that surround corporate acquisitions individually, collectively, and simultaneously.

Although there has been substantial research in the area of corporate acquisitions, academic empirical investigations have not produced critical and tangible evidence for what constitutes a successful acquisition (Sirower, 1997). The research problem investigated through this study was the identification of the underlying key success factors that occur during the overall process of acquisition that determine superior post-acquisition performance by acquiring companies within the context of the hotel industry. This was achieved through an investigation of two dimensions that co-exist within the management of acquisition process strategies: pre-acquisition management, and post-acquisition integration. Concerning pre-acquisition management, this study investigated factors affecting the anticipated benefits between the acquiring firm and the target through acquisition, as well as the acquisition intent of the acquirer. In the area of post-acquisition integration, this study attempted to identify the determinants of a successful integration of the combined firm that leads to realized, anticipated acquisition gains. In addition, this study proposed appropriate post-acquisition performance evaluation criteria, in order to assess whether or not acquisition benefits were achieved in the combined firm.

### **Context of the Study**

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The context of this study is the U. S. lodging industry. Lattin (1987) predicted the consolidation trend of the hotel industry, stating that, “Many players believe that ‘big’ is synonymous with ‘best’ and that the larger their chain, the greater the profitability of their success” (p. 10). More importantly, Lattin also predicted that, “In the future, look for a smaller number of large chains with multiple brands and extensive distribution systems, and expect more price competition among the aging, all-purpose hotels constructed during the ‘60s and ‘70s” (p. 11). An explanation of this consolidation trend can be found in the hotel industry itself, where good economics and technological and logistic developments are emphasizing the importance of size. Consolidating chains of hotels promises to take advantage of scale economies (The Economist, 1998). Most importantly, many hotel acquirers have used acquisitions to obtain multiple lines of brands over the various segments.

The year of 1997 was a historical year in the area of corporate acquisitions in the United States, representing a total of 11,029 deals. In good economic conditions that allows steady

growth, low inflation, and a bullish stock market, acquisition activities proliferate in all sectors of the industry (The Economist, 1998). According to Securities Data Co. (1998), the total value of the U.S. domestic acquisition deal announcements reached \$908 billion, representing a 47 percent increase over the total for 1996, which itself was a record year. The lodging industry was one of the most active industry sectors of acquisitions during 1997. The lodging industry occupied some 3.8 percent of the total volume of acquisition deals in 1997 (Securities Data Co., 1998). In 1997 alone, the lodging sector's total amount of acquisition deals, both announced and pending deals, reached some \$43.4 billion (Coopers & Lybrand Lodging Research Network, 1998).

This consolidation trend, fueled by industry giants and paired-share Real Estate Investors Trusts (REITs), will change not only the U.S. lodging industry structure, but also the global hotel market. For example, last year Starwood Lodging's \$14.6 billion acquisition of ITT Corp. put the hotel industry on the front stage. This continuing trend of consolidation in the hotel industry is an anticipated phenomenon by many industry experts. Lattin (Cited in Malley, 1998) argues that, "If you are to believe the appraisers and valuation experts, they are predicting there will be some pretty good buys in the marketplace—maybe in 1999 and certainly by 2000" (p. 58). Hanson (1998) predicts that, "There actually will be more mergers in 1998 than 1997. ... The actual number of mergers is only 21 [in 1997]; after the big players have their mergers, lots of the small players, just to remain relevant, will have mergers" (p. 50, Cited in Cruz).

Future continuation of lodging industry consolidation depends upon two significant variables: the U.S. economy, and the continuous acceleration of stock market prosperity. Over the past seven years, the U.S. economy has enjoyed stable growth. The future condition of the economy is the most important barometer of the hotel industry consolidation phenomenon. William P. Boardman, who is Bank One's merger chief, admitted that the ultimate success of its recent acquisition of First USA Inc. hinges mostly on "external factors," or in other words, the condition of the U.S. economy (Cline, 1997). It can be argued that the lodging industry is similarly impacted by the overall economic condition. Recent reports of a slight downturn of overall demand, and the current situation of the industry's overcapacity should remind potential future lodging acquirers to be cautious. If the U.S. capital market continuously provides money with attractive interest rates to hotel companies, the nature of the present lodging industry will

facilitate the ongoing acquisition boom, probably into the next century. Corporate acquisitions in the lodging industry can be supported if the seemingly overvalued current bullish stock market continues its trend.

### **Theoretical Underpinnings**

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According to Mercer Management Consulting (Cited in Smith & Hershman, 1997), in the 1990s the success rate of corporate acquisitions is barely 50 percent, whereas in the 1980s, 57 percent of acquisition deals failed. Acquisition is one of the most frequently used instruments for consistent growth. According to Smith & Hershman (1997), “A dollar earned through growth is worth 30 percent to 50 percent more than the same dollar earned through cost-cutting” (p. 39). Moreover, Marks & Mirvis (1998) argued that, “Increasing revenue 1 percent has five times greater impact on the bottom line than decreasing operating expenses 1 percent” (p. 5). Based upon this information, if firms utilized acquisitions well as a growth medium, there would be a better possibility that firms could achieve value growth through acquisitions.

#### **Building a Complementary Acquisition Process Framework**

Many previous studies (Salter & Weinhold, 1979; Rappaport, 1979; Leighton, 1969; Pitts, 1976; Mirvis, Marks & Sales, 1983) that have been based upon a perspective of rational choice have had two key points: strategic fit and organizational fit. Some researchers have acknowledged that the rational choice perspective may not provide a thorough view of acquisition processes and outcomes (Jensen & Ruback, 1983; Lubatkin, 1983). Correspondingly, Jemison & Sitkin (1986<sup>1</sup>) argued that the acquisition process itself has had the crucial role in determining acquisition activities and outcomes, and the conventional choice perspective should be supplemented with a process perspective. The process perspective focuses on the idea that the acquisition process will affect the post-acquisition performance of the acquiring firm, and has a complementary relationship with traditional strategic fit and organizational fit.

Jemison & Sitkin (1986<sup>1</sup>) argued that strategic fit or organizational fit approaches were focused on “successful and unsuccessful practices, and that these perspective approaches are a source of interesting research ideas. However, applied research can sometimes miss key issues that theoretical approaches reveal. Such is the case, the authors contend, in acquisition research where clues to understanding acquisition outcomes may be discovered more readily in a variety

of theories that direct to the underlying process-driven impediments to effective acquisitions” (p. 146). Jemison & Sitkin (1986) stated that the process perspective is an alternative model that will replace the traditional and popular choice perspective. The authors pointed out that the process model is the one that emphasizes the role of the corporate acquisition process itself. The authors further argued that the lack of systematic and thorough attention to potential problems of post-acquisition integration appears to reflect the difficulty of recognizing the process itself as part of the problem.

Young (1981) identified that the causes of disappointing acquisition outcomes can only be reconciled by management. Young (1981) argued that management can manage better the incremental variables through paying attention to all steps of an acquisition, therefore manipulating all related events with reference to each application to business and the demands of the acquisition. Young (1981) identified a wide variety of control points, which affect the overall acquisition management process. Young (1981) developed ten decision factors as an interdependent aspect of an acquisition transaction. The ten decision factors include motivation, contact, information, sources, analysis, value, price, financing, contract, and implementation. Due to the logically progressive nature of the events within the mechanism of the transaction, the author indicated that these ten decision factors were considered in the acquisition process. Most importantly, the author stated that “Knowing what to do at the appointed time can make the difference between achieving success or failure” (p. 611).

Marks & Mirvis (1998) identified five key dimensions with which to focus top executives’ attention and resources over the process of an acquisition. First, strategy can be described as managing the joining entity by consistently trying to align it to its strategic intents. Second, organization is described as establishing a new and healthier corporation. Third, people problems must be regarded as a crucial component and need considerable attention. Fourth, culture is described as building a desirable and healthy culture through the combination of the two firms. Finally, the transition management has an important role in developing a competent transition framework and plan. The authors further stated that the acquirer’s core competence in a corporate acquisition, including planning, executing, and learning, will differentiate the future winners and the losers.

So far, this section has discussed the important theoretical developments in the direct corporate acquisition research area. In order to add value to this study’s proposed framework, the

next section will explore some important complementary conceptual issues from other research areas. In the strategic management arena, such as Young's (1981) argument for the management of incremental variables in the overall acquisition process, Quinn (1981) argued that "constantly integrating the simultaneous incremental processes of strategy formulation and implementation is the heart of effective strategic management" (p. 63). It is important to acknowledge that the effective acquisition process must be synthesized and must simultaneously consider every factor affecting its outcome. Moreover, to maximize the acquiring firm's strategic gains, three general phases in the overall acquisition process, including the pre-acquisition management phase, the post-acquisition phase, and post-acquisition performance evaluation, must be planned as integral to one another, rather than as separate phases or a distinctive steps.

In addition to the above thoughts, this study can add value by adopting the holistic approach of systems theory, which assumes that the whole is greater than the sum of its parts, as an umbrella framework. Systems theory is closely related to the currently popular term "synergy," used with reference to corporate acquisitions. Sirower (1997) defined synergy as "the increase in performance of the combined firm over what the two firms are already expected or required to accomplish as independent firms" (p. 20). The post-acquisition outcome is the final product of an acquisition deal. In order to reach this outcome, there must be numerous specific processes involved. In a successful acquisition deal, each process has its own but crucial role. Therefore, successful acquisition management must view and execute each process seriously and in an integrated manner in order to achieve a desired final outcome, as well as enhance residual values. The acquisition process framework shown in Figure 1 represents the integrated and incremental approaches discussed so far. In sum, a systems approach can enhance the overall acquisition process.

In order to capture the intended acquisition benefits, acquiring firms must perform their acquisition process in a deliberate manner that converts the acquisition intent to a realized one. Mintzberg (1978) attacked the traditional planning approach because it inaccurately assumes that a firm's strategy is always the outcome of rational planning. Mintzberg argued that the core of strategy is that it relies on the role of process, rather than the plan. The key idea in Mintzberg's assertion is that strategies sometimes emerge from within a firm without any formal and predetermined plan. In other words, even if a firm did not possess any plan or intention, strategies can emerge from the lower levels of a firm. Indeed, sometimes a firm's appropriate

strategies are a sudden response to unforeseen environments or circumstances. Most importantly, Mintzberg (1978) defined strategy as “a pattern in a stream of decisions and actions.” The pattern represents a contingent product of either an intended or a planned strategy that is actually realized, or any unplanned or emergent strategies.

For this study, unlike Mintzberg’s emergent strategies, after closing a deal, the acquirer’s acquisition intent must be executed and controlled through an intended strategy that will be deliberated into a realized strategy. This realized strategy represents potential benefits of the acquirer that are identified before a deal is closed. If there exist emerging strategies or any deviations from the pre-determined plan in the post-acquisition integration process, they represent only emergent problems or unforeseen obstacles in achieving anticipated gains. One of the acquirer’s core competencies in corporate acquisition depends upon its capabilities to minimize emergent problems and maximize intended acquisition benefits, especially in the post-acquisition management process. In other words, the acquirer must be able to align its acquisition intent with post-acquisition integration, and must keep its strategic vision alive for a desired duration up to when necessary strategic changes are identified. The core assertion of this study was that if hotel acquirers utilize this study’s integrated and incremental process approach, they will have a greater probability for success. In other words, if they follow this study’s approach, they can convert the acquisition’s intent to a realized one, while minimizing emergent problems and obstacles to achieving acquisition gains. This study’s acquisition process framework, as shown in Figure 1, can provide useful a conceptual framework for both practitioners and academics.

The acquisition process framework shown in Figure 1 represents the integrated and incremental model developed for this study. As shown in Figure 1, this study’s conceptual framework comprises fifteen dimensions (or constructs) in three phases of corporate acquisition: pre-acquisition management, post-acquisition integration, and post-acquisition performance. Further, each phase consists of five dimensions. The framework presented here suggests that the acquirer must manage its acquisition intent throughout the overall acquisition process, which includes pre-acquisition management, post-acquisition integration, and post-acquisition performance evaluation, in an integrated/incremental manner to achieve the intended acquisition benefits. In addition, the framework suggests that the overall acquisition management process is more effective if acquirers adopt a process-driven approach rather than a sequential process. The

incremental management of a series of important issues during the whole acquisition process must be executed based upon a pre-determined acquisition blue print. This is the most crucial factor in a successful acquisition bid.

*Table 1. The Complementary Concepts for a Successful Acquisition Process*

<b>Concept</b>	<b>Content</b>
Process Perspective in Corporate Acquisitions (Jemison & Sitkin, 1986)	<ul style="list-style-type: none"> <li>• The acquisition process is another factor, in addition to strategic fit and organizational fit, that affects acquisition activities and outcomes</li> </ul>
Rational Choice Perspective	<ul style="list-style-type: none"> <li>• Strategic fit between the acquirer and the target (Salter &amp; Weinhold, 1979; Rappaport, 1979), and organizational fit in post-acquisition integration (Leighton, 1969; Pitts, 1976; Mirvis, Marks &amp; Sales, 1983)</li> </ul>
Incremental Variables (Decision Factors) in Acquisition Management (Young, 1981)	<ul style="list-style-type: none"> <li>• Motivation-Contact-Information-Sources-Analyis-Value-Price-Financing-Contract-Implementation</li> </ul>
Five Key Dimensions of an Acquisition Process (Marks & Mirvis, 1998)	<ul style="list-style-type: none"> <li>• Strategy-Organization-People-Culture-Transition Management</li> </ul>
Incrementalism in Strategy Formulation & Implementation (Quinn, 1981)	<ul style="list-style-type: none"> <li>• “constantly integrating the simultaneous incremental processes of strategy formulation and implementation is the heart of effective strategic management” (p. 63).</li> </ul>
Intended vs. Emergent Strategy (Mintzberg, 1978)	<ul style="list-style-type: none"> <li>• The pattern represents a contingent product of either intended or planned strategy actually realized or any unplanned or emergent strategies.</li> </ul>

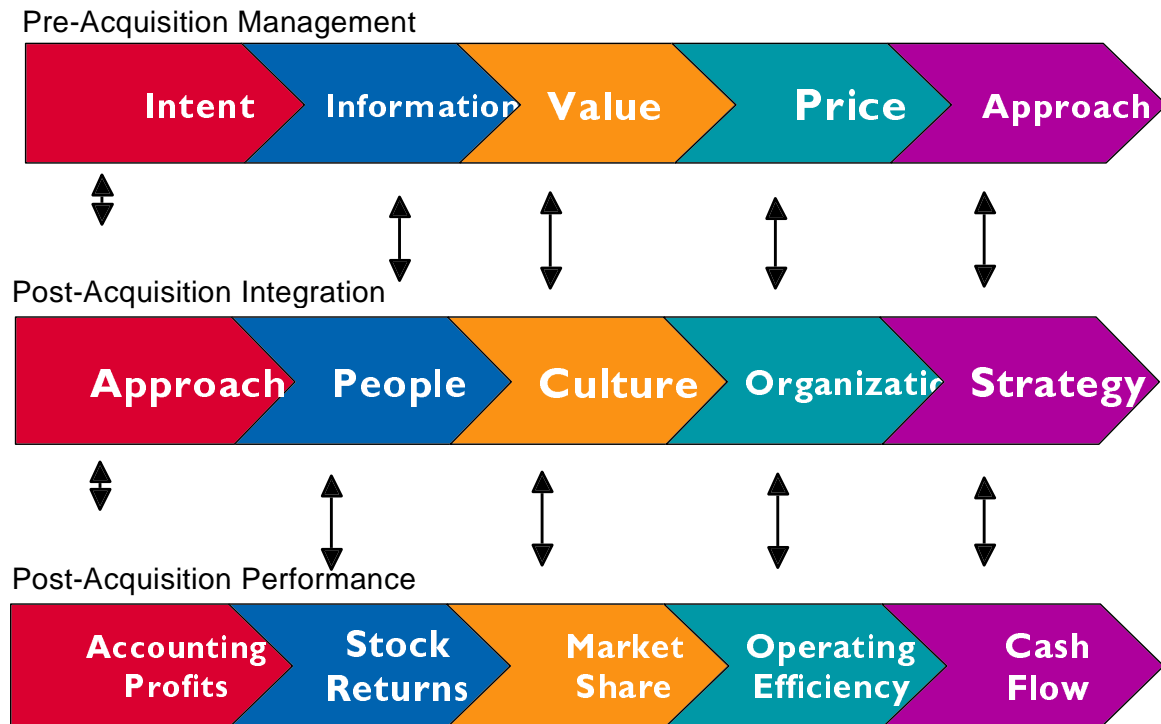
### **Dimensions in the Integrated/Incremental Acquisition Process**

It is necessary to identify here the acquisition process as a group of interacting dimensions or categories. As shown in Figure 1, this study’s conceptual framework is comprised of fifteen dimensions (or constructs) in three phases of corporate acquisition: pre-acquisition management, post-acquisition integration, and post-acquisition performance. Each phase constitutes five dimensions, as shown in Figure 1. This section will discuss aspects of each dimension in detail.

1. **Pre-Acquisition Management Phase:** If the acquirers can identify and prepare for a wide variety of factors in the pre-acquisition process, it can achieve not only smooth post-acquisition integration, but also can maximize post-acquisition performance.
  - **Intent.** What causes and/or objectives motivate a hotel acquirer to undertake buying its competitor or another hotel firm? There are number of reasons for a firm’s strategic choice to grow through acquisition, rather than utilizing various internal



growth strategies. Acquisition intent can be defined as a set of motives and/or objectives to undertake the purchase of a competitor or a business. As will be discussed in the literature review, there is a wide variety of causes and motives that



**Figure 1. An Integrated/Incremental Framework of Acquisition Process**

have been identified in previous studies. Walter & Barney (1990) identified 20 managerial objectives of acquisitions. The authors reduced these 20 objectives to 5 broad dimensions. First, acquisitions are employed by acquirers to exploit both scale and scope economies. Second, managers utilize acquisition to control their external environmental interdependencies by securing input acquisition and output disposal. Third, acquisitions frequently are adopted to expand existing product/service lines and penetrate other markets. Fourth, acquirers undertake acquisition to enter a new line of businesses by reducing operating risks. Finally, acquisitions can be utilized to maximize financial capacity.

The motives of horizontal acquisition are operating efficiency gains through scale economies or market power (Ravenscraft, 1984). Dewey (1961) argued that acquisition is simply an efficient means of transition from a failing firm's inferior assets to successful or growing firms.

- **Information.** The success of acquisition deals depends upon how the acquirer effectively evaluates value and potential synergies from acquiring the target. Gathering comprehensive and accurate, necessary information is critical to a successful deal. Information can be defined here as a wide variety of facts and data necessary to maintain and reinforce a purchasing decision.

In order to be successful in acquisitions, precise evaluations of target firms are the foremost task for acquirers. Salter & Weinhold (1979) argued that the acquirers frequently overestimate the value of the target, while underestimating the costs of realizing synergies. Markides & Williamson (1996) argued that acquisition relatedness must be measured as the degree of strategic assets. The authors' assertion is based upon a resource-based view of the firm, that acquirers must acquire the target's valuable, unique, unexchangeable, and hard to imitate assets. This assertion is equivalent to the conventional "strategic fit" argument that the target's strategic vision must complement the acquirer's and create value (Jemison & Sitkin, 1986i). It would be more effective for two firms to consider the "organizational fit" that the two firms must possess to match administrative and cultural practices, as well as complementary human resource policies.

In addition to collecting the target's information, identification of key success factors is important. Raab & Clark (1992) identified seven key success factors for a successful acquisition deal. They are: (1) Recognize the magnitude and difficulty of the undertaking; (2) Develop a realistic goal for the combined firm; (3) Discover the right target; (4) Seize top management cooperation without giving away the store; (5) Plan the appropriate post-acquisition process early; (6) Move rapidly; and (7) Communication. Communication. Communication.

- **Value.** The key goal of acquisition is to create value for the acquiring firm, and then maximize shareholders' wealth. The value of an acquisition usually depends upon a certain level of cash flow from the combined operating structures that leads to

an increase in shareholders' wealth. Value can be defined as the worth of an acquisition deal created mainly from the anticipated synergistic benefits of the combining company. In horizontal acquisitions, acquisition value usually is created from anticipated synergistic benefits. Sirower (1997) argued that intended synergy will be realized when cash flow is increased, through either increased sales or reduced costs, or when the acquirer realizes the lowered discount rate that is incorporated in an acquirer's pre-acquisition stock price. Unlike Sirower, Chatterjee (1992) found that the value in acquisition is realized through restructuring the target by the acquiring firm, rather than through synergy itself.

Acquisition gains to service firms are not different than those that have been sought by manufacturing industry acquirers (McCann, 1996). McCann (1996) identified seven benefits of service firms' acquisitions as: (1) increased market share, (2) increased capacity to offer new products/services, (3) improvements in brand & reputation, (4) improved efficiency in resource allocations, (5) increased scale economies, (6) enlarged asset base, and (7) acquisition of management expertise.

Grundy (1992) cautioned about the "iceberg of acquisition investment." Grundy found that some aspects of acquisition investment are highly observable, some are less observable, and other are murky or almost unobservable. The author argued that experienced acquirers can foresee the more visible aspects of acquisition deals better than inexperienced acquirers.

- **Price.** The negotiation and determination of acquisition price has a tremendous impact on acquiring firms' post-acquisition performance. In general, purchase price is decided upon by the target's current competitive position within its industry (Barnes, 1996). Unlike other investments, an acquisition investment usually should pay the premium over the target's current market value. Premiums have averaged between 40 and 50 percent in the first half of the 1990s (Rappaport, 1998). Sirower (1997) found that the higher the acquisition premium paid, the higher the value lost. However, Smith & Hershman (1997) found that there is no clear correlation between purchasing price and acquisition premium and whether the deal creates value. Rappaport (1998) cautioned that to create value from acquisitions, the acquirers should consider that the present value of anticipated synergies must be greater than the premium paid.

- **Approach.** In this study, approach is defined as the variety of surrounding procedures to persuade the target firm to accept and finalize an intended acquisition deal. According to Datta, Pinches & Narayanan (1992), there are several key factors which may determine value creation or value loss, including: (1) the number of bidders; (2) the bidder's acquisition approach (i.e., merger vs. tender offer); (3) the method of payment (i.e., cash vs. stock); (4) the type of acquisition (i.e., related vs. unrelated acquisition); and (5) regulatory changes (i.e., the 1968 Williams Amendment and the 1969 tax reform). For example, in organizing an acquisition plan, the acquirer should determine which payment medium is appropriate to take over the target firm successfully. The acquiring company must choose the exchange medium among cash, debt, stock, or a combination of two methods.

In terms of mode of acquisition, Jensen & Ruback (1983) found that the announcement period returns are higher for acquiring firms in tender offers than in mergers. According to Ikenberry, Lakonishok & Vermaelen (1995), cash tender offers earn more than stock offers. Sirower (1997) and Loughran & Vijh (1997) found similar results, in that cash tender offers outperform stock mergers.

**2. Post-Acquisition Integration Phase:** The lack of systematic and thorough attention to potential problems of post-acquisition integration appears to reflect the difficulty of recognizing the process itself as part of the problem (Jemison & Sitkin, 1986<sub>1</sub>).

- **Approach.** In this study, approach is defined as a variety of surrounding procedures to reconcile a pre-determined acquisition intent to the target firm, while minimizing problems and obstacles. Napier (1989) identified three types of mergers. The first is an extension merger where the acquirer allows the target to maintain its independent position as usual, even after the deal is completed. The second is a collaborative merger, where both the acquirer and the target mix their operations, assets, and cultures to achieve anticipated synergistic benefits. The final is a redesign merger, where the acquiring firm makes significant changes in the target's overall operational and managerial practices.

In order to capture their intended acquisition benefits, acquiring firms should establish and execute an effective communication strategy to maintain a stable and

comfortable work environment, especially for the target's employees. There are four primary dimensions of employee resistance when a firm announces change initiatives, including parochial self-interest, low tolerance for change, different assessments, and misunderstanding and lack of trust (Kotter & Schlesinger, 1979). To resolve these problems, Kotter & Schlesinger (1979) recommended extensive communications with employees. Raab & Clark (1992) also suggested that explicit communications with the target's employees must start immediately after the deal is announced.

- **People.** People can be defined as a group of the merging company's organizational members, who have either positive or negative perceptions toward an acquisition deal. Previous studies identified the stress and negative impacts on a target's employees. One of them is that the loss of autonomy produced a negative effect on post-acquisition efforts, as well as on post-acquisition performance. Further, the acquiring firms should manage layoffs of target employees carefully, and they should consider other possible alternatives to replace layoff plans (Leana & Feldman, 1989). Schweiger & DeNisi (1991) argued that a wide variety of communication problems and conflict between merging firms would reduce the effectiveness of post-acquisition integration. The key source of a successful acquisition depends upon the effectiveness of the human side of the deal, such as employee-related issues (Begley & Yount, 1994).

There are two opinions about retaining the target's top executives. On the one hand, since the target's top executives are the valuable assets, their retention is one of the determinants of post-acquisition performance (Cannella & Hambrick, 1993; Barney, 1988). On the other hand, the replacement of the target's top management team has facilitated the improvement of post-acquisition performance (Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983; Walsh, 1989).

- **Culture.** Cultural clash/distance can have a critical role in the post-acquisition integration process. In corporate acquisitions, some areas of the culture will be affected, including the maximization of employees' commitments to cooperate fully (Siehl & Martin, 1991), to enhance sound integration during the radical changes brought about by an acquisition deal (Louis, 1980), and to establish a sense of unity throughout all the organizational members (Deal & Kennedy, 1982). Lack of cultural

fit frequently is mentioned as a value-destructive factor in acquisitions (Nahavandi & Malekzadeh, 1988; Weber & Schweiger, 1992). Cartwright & Cooper (1993) emphasized the importance of cultural fit by saying that that, “cultural fit and culture compatibility are well used but ill-defined expressions” (p. 60).

In this study, culture is defined as a set of important assumptions, such as norms, values and politics, that members of an organization share in common. Weber (1996) found a negative relationship between cultural distances and the effectiveness of post-acquisition integration. Moreover, Pablo (1994) identified that service firms tend to weigh cultural fit far more than manufacturing firms. In the post-acquisition integration stage, the alignment between management’s philosophy and merging firms’ culture has a critical impact on post-acquisition performance (Shrivastava, 1986).

- **Organization.** In order to improve resource allocation practices for combined firms, an effective and sound organizational structure is an essential in achieving acquisition benefits. Organizational design, reporting procedures, and various relationships in the work place must be established very quickly after the deal is completed (Henderson, 1989). In order to create and sustain potential competitive advantages from acquisitions, an appropriate, new organizational design that leads to an effective resource allocation structure must be a necessary process. In this study, organization is defined as a wide variety of organizational configurations, including formal and informal structures, systems, and processes.

In the related diversification strategy, to achieve potential benefits from acquisitions, merging firms need to establish proper internal mechanisms to efficiently transfer competencies and strategic assets across business units (Markides & Williamson, 1996). When merging firms are well reorganized, they can achieve scale economies and can reduce redundancy in order to capture synergies. As more and more firms follow suit to utilize information technology, their dependence on information systems infrastructure has continually increased. One of the most important areas to which acquirers should pay particular attention is information systems and network infrastructure. The ignorance of information systems, both in

pre- and post-acquisition processes, will have negative impacts on the immediate execution of a wide variety of operations for merging firms.

- **Strategy.** In this study, strategy is defined as a set of consistent alignment efforts to achieve the long-term goals of the merging company based upon the acquisition intent. It is crucial to renew or reinvent the target firm and/or combined firm's overall strategy to realize acquisition objectives. Further, it is essential to match acquisition vision and management processes and systems (Smith & Hershman, 1997). Sirower (1997) also emphasized the importance of the alignment between the strategic vision of the acquisition deal and the operating strategy. The author further argued that the operating strategy must be executed immediately after the deal is closed, and it must be developed based upon a new set of competition analyses. After the deal is completed, the operating strategy must address clearly how the combined firm is to seize a competitive position that is incorporated within the entire value chain of the business (Sirower, 1997). The combined firm must be able to improve its competitive methods and/or to extend other competitive methods to compete effectively in order to achieve its intended synergistic benefits and sustain its competitive advantages.

**3. Post-Acquisition Performance Evaluation:** It is important to evaluate the post-acquisition performance of the combined firm based upon pre-determined, definite evaluation criteria. In general, financial measures are utilized to evaluate post-acquisition performance. Cochran & Wood (1984) identified that there is no consensus on an appropriate measure of financial performance. Given the ambiguities and difficulties in assessing accurately the impact of acquisitions on performance, it becomes crucial to develop proper key performance gauges of post-acquisition performance.

- **Accounting Profits.** Accounting profitability (i.e., return on sales, return on equity, return on net assets) is one of the typical measures used as an indicator of post-acquisition performance. Grant, Jammine & Thomas (1988) argued that accounting profits more effectively measure the direct results of post-acquisition performance than stock price, which reflects the future expectations of investors. In this study, accounting profits are defined as measures of financial performance (i.e., ROE, ROI, Profit Margin, etc).

- **Stock Returns.** There are two measures of post-acquisition performance in terms of stock price. Most prior studies adopted the stock price changes surrounding acquisition announcement dates as a performance indicator (Dodd & Ruback, 1977; Kummer & Hoffmeister, 1978; Dodd, 1980; Asquith, 1983; Bradley, Desai & Kim, 1983; Jensen & Ruback, 1983; Malatesta, 1983). On the other hand, relatively few studies have investigated the long-run performance of acquiring firms after acquisitions (Franks, Harris & Titman, 1991; Agrawal, Jaffe & Mandelker, 1992). In this study, stock returns are defined as the acquirer's stock price changes either surrounding the acquisition announcement date or certain periods of time after the deal is announced.
- **Operations Cash Flow.** Healy, Palepu, & Ruback (1992) argued that since stock performance studies cannot identify the real economic value gains from acquisitions, post-acquisition operating cash flow is a better indicator to measure post-acquisition performance. In this study, operations cash flow is defined as sales, minus cost of goods sold and selling administrative expenses, plus depreciation and goodwill expenses.
- **Market Share.** Some previous studies have utilized changes in market share as measures of competitive performance (Buzzell, Gale & Sultan, 1975; Stigler, 1958). Brush (1996) argued that, "Market share and change in market share are the only measures of business performance available at the level of disaggregation necessary for intraindustry analysis at the business level of the firm for all manufacturing companies" (p. 8). In this study, market share is defined as the ratio of sales revenue of the combined firm to the total sales revenue of all firms in the particular industry, including the merged firm itself.
- **Operating Efficiency.** Since this study only focuses on horizontal acquisitions, post-acquisition operating efficiency is the key for achieving the anticipated acquisition benefits for a combining firm. Brush (1996) argued that operational synergy is a key acquisition objective and a determinant of post-acquisition performance. Linn & Switzer (1994) found that acquirers experienced significantly worse industry- and size-adjusted operating performance for up to five years following an acquisition transaction. In the hotel industry, occupancy rate, RevPAR



(Revenue Per Available Room), and ADR (Average Daily Room Rate) are the most fundamental indicators in measuring operating efficiencies.

## **Research Questions**

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The primary purpose of this study is the systematic discovery of evidence about the determinants of a successful pre-acquisition management process, and the determinants of successful post-acquisition integration, as well as the identification of appropriate evaluation criteria for determining the post-acquisition performance of an acquisition deal. The following research questions are employed to guide this study:

**Research Question 1:** What specific intents and/or objectives have been instituted by hotel firms in their recent acquisition activities?

**Research Question 2:** What is the content of specific pre-acquisition management processes used by hotel firms that contribute to successful acquisitions?

**Research Question 3:** What is the content of specific post-acquisition management processes that determine effective post-acquisition integration?

**Research Question 4:** What specific performance evaluation criteria can be utilized to judge whether or not an acquisition deal is successful?

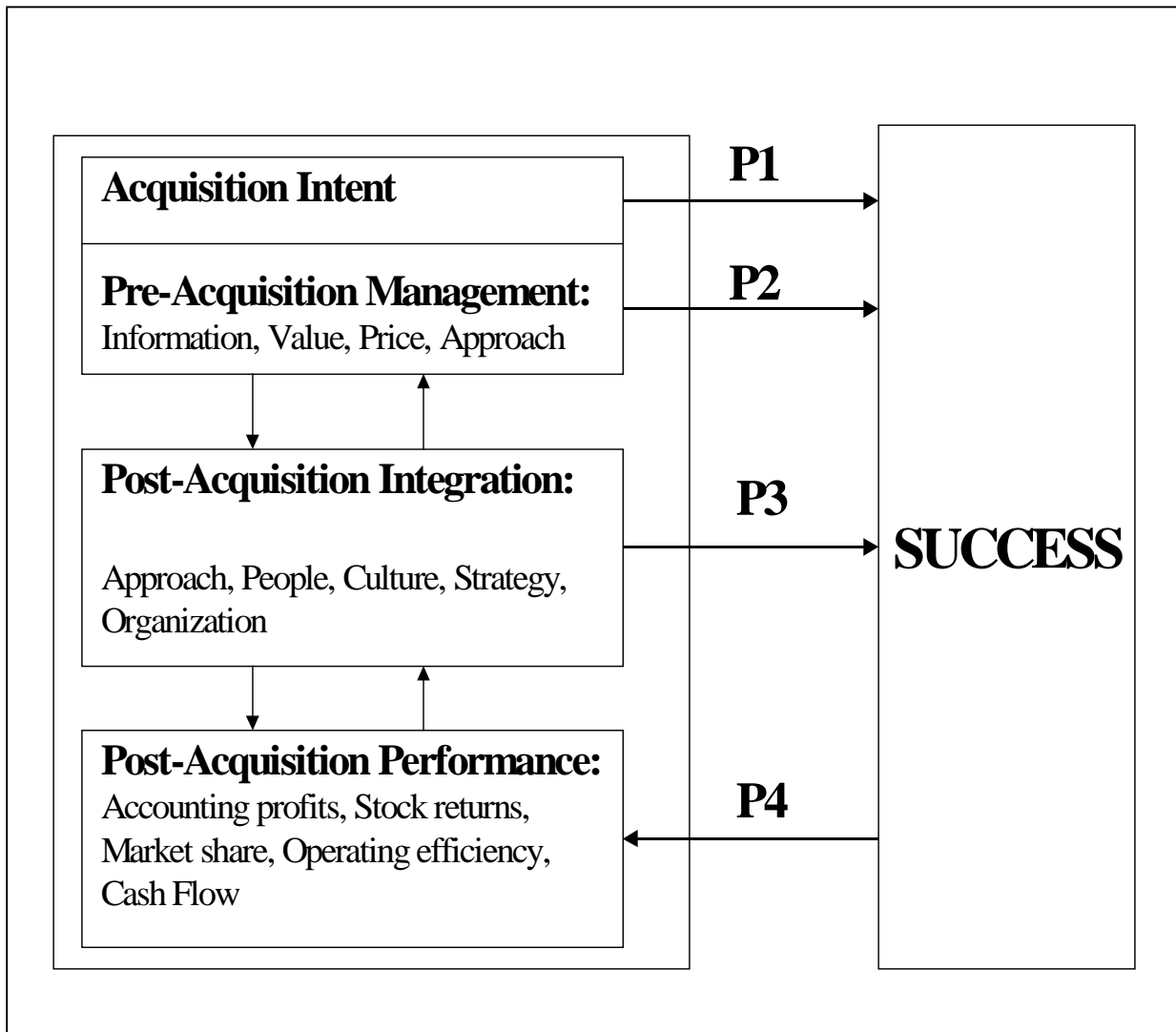
On the basis of the literature reviewed and the questions that were derived from the literature, four research propositions have been identified in this study (See Figure 2), as follows:

**Proposition 1:** There are explicit intents that have driven recent acquisition activities by hotel firms.

**Proposition 2:** There are key success factors in the pre-acquisition phase that will determine a successful acquisition deal in the lodging industry.

**Proposition 3:** There are key success factors in the post-acquisition integration phase that will determine a successful acquisition deal in the lodging industry.

**Proposition 4:** There are appropriate performance evaluation criteria that can determine a successful acquisition transaction in the lodging industry.



**Figure 2. An Integrated/Incremental Acquisition Process Model**

### **Contribution to the Literature**

Since there are no previous theoretical or empirical works about the acquisition process for lodging firms, this study will focus on “what” is the specific content of the acquisition process, and on performance criteria. As Whetten (1989) stated, “what” questions are the important ingredients of a good theory. This study’s results can be considered as a stepping stone for future theoretical and empirical investigations for the questions of “when, how, and why,” which are also core components of a good theory. It is believed that without sufficient description about a particular ambiguous reality, it is very difficult to construct a good theory.

This study provides evidence regarding the hotel industry specifically, and systematic information about the acquisition process, in order to enhance our understanding about a part of the underlying structure of the current merger wave in the U. S. lodging market. This study represents the most comprehensive effort to date to systematically conceptualize and operationalize the acquisitions process utilized by U.S. lodging firms, by developing a new strategic acquisition management framework, as well as validating post-acquisition performance evaluation criteria.

### **Overview of the Research Methodology**

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The Delphi technique has been employed as the methodology for this research. The Delphi is essentially an iterative format delivering a specific topic. Consensus is created through a series of questionnaires. First, panelists respond independently, then their responses are analyzed and synthesized by the coordinator, and then the summaries are fed back to the panelists for further answers, and so on. One of the key objectives of Delphi is to acquire a reliable agreement from a group of specialists or experts in a particular field. The present study's Delphi panelists will consist of senior managers of hotel firms, who have had one or more acquisition experiences since 1995, lodging industry consultants, and M&A specialists in investment banks.

### **Limitations**

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There are some potential limitations to or problems with this study. First, this study did not empirically measure the post-acquisition performance of recent hotel acquirers. Therefore, it cannot exactly determine the differences between successful and unsuccessful acquirers. However, this study attempts to identify those factors that have relatively important roles in the acquisition process. Using this study's results as a basic framework, future studies can reveal useful evidence about the success or failure of an acquisition deal.

Second, the Delphi is inherently labor intensive and time consuming. The participants' responses in the Delphi process are the key to its success. One of the difficulties of the study was in motivating the subjects to participate, a difficulty that has been addressed by many previous Delphi studies. Finally, there is a possible high attrition rate as Delphi rounds continue. This problem can be reduced by capturing as many participants as possible in Round 1 of Delphi.