

## **CHAPTER 3: THEORY DEVELOPMENT AND RESEARCH METHODOLOGY**

### **Introduction**

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Corporate acquisitions have become an increasingly broad-based phenomenon throughout the business world. Their numbers and volume are growing drastically, not only in the United States, but also all over the world. The primary objective for acquisitions is to enhance shareholders' value. Value is usually created through integrating two companies into a combined firm that will enhance its competitive position.

Unfortunately, many acquisitions have not achieved their expectations. In terms of financial measures, acquisition failure rates are typically in the 50 percent to 60 percent range (Cartwright & Cooper, 1993). Although many firms intended and expected optimistic future outcomes of acquisition investments, overall, their effectiveness is much less than their anticipations. Many unforeseen problems and obstacles have hindered the achievement of their desired outcomes.

While lack of understanding of the acquisition process has been mentioned as a potential factor in acquisition failures, empirical studies that have investigated the determinants of successful acquisition processes in the lodging industry remain a rarity. Moreover, relatively little has been done in terms of a multi-dimensional framework.

The primary objective of this study was to fill some of these gaps. That is, to uncover the determinants of successful acquisitions through adopting a process perspective. This study attempted to determine the most important, influential factors that have significant impacts on success in corporate acquisitions.

The purpose of this chapter was to outline the development of the theory presented in this study, and further, to describe the research design, including the methodology used to test the study's assertions. Discussed in this chapter are the operationalization of the constructs of various acquisition processes, the units of analysis employed, measurement issues, sampling and data collection methods, and reliability and validity issues.

### **Theory Development and Conceptual Framework**

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Bacharach (1989) stated that "a theory is a statement of relations among concepts within a set of boundary assumptions and constraints" (p. 496). Bacharach identified that boundaries set

the limitations of utilizing a theory. Further, Dubin (1969) stated that all theories are restricted by their distinctive crucial bounding assumptions. Bacharach viewed a theory “as a system of constructs and variables in which the constructs are related to each other by propositions and the variables are related to each other by hypotheses. The whole system is bounded by the theorist’s assumptions” (p. 498). According to Bacahrach (1989), these bounding assumptions include “the implicit values of the theorist and the often explicit restrictions regarding space and time” (p. 498).

Bacharach (1989) stated that, “values are the implicit assumptions by which a theory is bounded” (p. 498). Bacharach further stated that, “spatial boundaries are conditions restricting the use of the theory to specific units of analysis (e.g., specific types of organizations). Temporal contingencies specify the historical applicability of a theoretical system” (p. 499, 500). Based upon Bacharach’s assertion, this study’s boundary assumptions are described in Table 33.

*Table 33. Boundary Assumptions of the Present Study*

<b>Assumption</b>	<b>Content</b>
Space	U.S. Hotel Companies
Time	1994 to Present
Values	Determinants of a Successful Acquisition Process

Bacharch (1989) stated that, unlike description, which aims to answer the inquiry of “what,” the primary goal of a theory is to answer the questions of “when, how, and why.” However, since there are no previous theoretical or empirical works about the acquisition process for lodging firms, this study will focus on theory construction regarding “what.” Whetten (1989) pointed out that “what” questions are the building blocks of a good theory. This study’s results can be considered as a stepping stone for future rigorous theoretical and empirical investigations for the questions of “when, how, and why.” It is believed that without sufficient description about a particular ambiguous reality, it is very difficult to construct a good theory. Zikmund (1994) stated the degree of uncertainty about a research problem decides the research methodology, based upon a continuum between absolute ambiguity and complete certainty. This study will adopt exploratory research to determine the underlying structure of the overall acquisition process for hotel acquirers, focusing in particular upon horizontal acquisition, rather than vertical acquisition and unrelated diversification.

Jemison & Sitkin (1986<sub>1</sub>) criticized the conventional choice perspective in corporate acquisition studies that has limited viewpoints. As mentioned in the introduction, Jemison & Sitkin (1986<sub>1</sub>) emphasized the effectiveness of a process perspective that influences acquisition activities and outcomes. Jemison & Sitkin (1996) argued that this process perspective has a complementary relationship with the traditional views of strategic fit and organizational fit, which are core parts of a rational choice perspective. As seen in Figure 1, this study developed an integrated/incremental acquisition process framework based upon systems theory.

### **Unit of Analysis**

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The unit of analysis of this study was the overall acquisition process. As shown in Figure 1 in chapter one, the overall acquisition process identified for this study was classified into three stages, including pre-acquisition management, post-acquisition integration, and post-acquisition performance evaluation. The acquisition process itself has a crucial role in deciding the success of the acquisition deal (Jemison & Sitkin, 1986<sub>1</sub>).

Utilizing information from previous research, this study identified fifteen dimensions in three stages in the overall acquisition process. In the present study, these fifteen dimensions were employed as the building blocks of a successful acquisition transaction. Through synthesizing multiple dimensions in the overall acquisition process simultaneously, this study attempted to identify the content of specific factors that affect a successful acquisition deal. In other words, this study investigated the determinants of successful acquisition deals that lead to enhancing shareholders' wealth in the hotel industry.

### **Constructs and Variables**

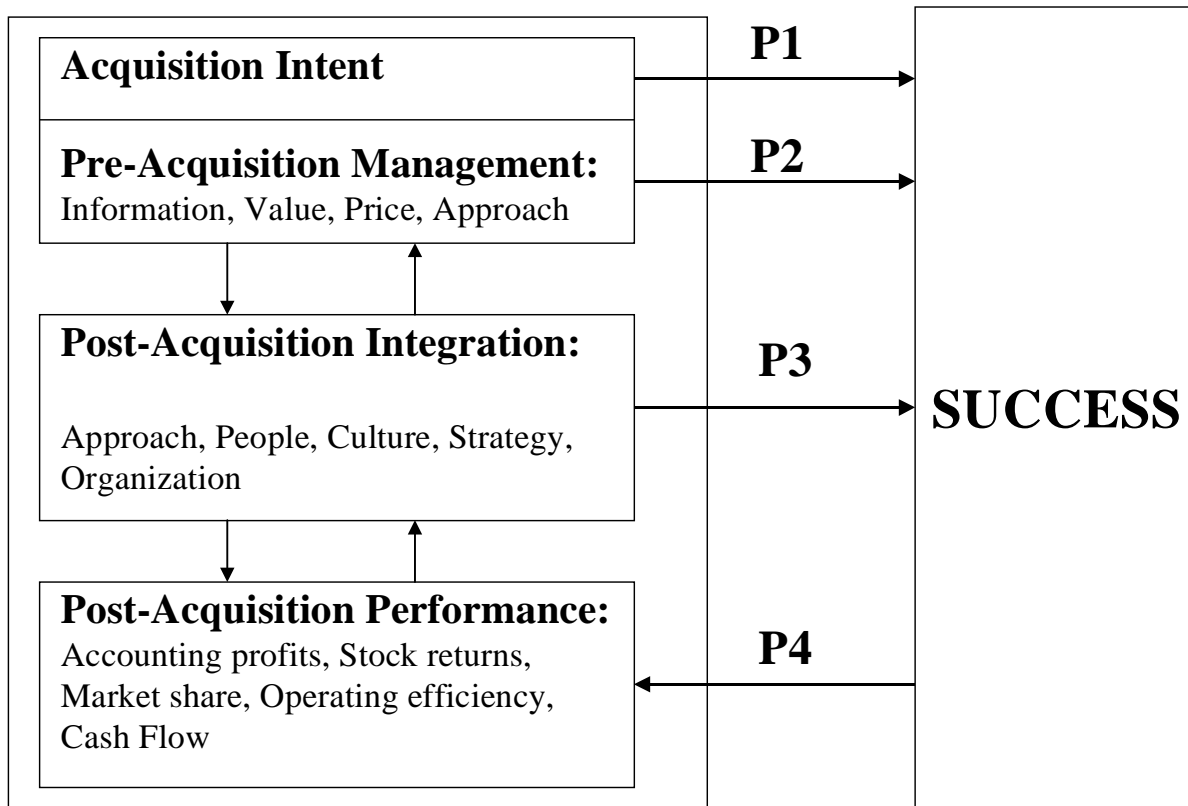
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Bacharach (1989) stated that, "a construct may be viewed as a broad mental configuration of a given phenomenon, while a variable may be viewed as an operational configuration derived from a construct" (p. 500). As seen in Figures 1 and 2, this study established an integrated/incremental acquisition process. In this framework, the overall acquisition process is classified into three phases, including pre-acquisition management, post-acquisition integration, and post-acquisition performance evaluation. Three acquisition phases constituted a total of fifteen dimensions, each consisting of one to nine items, with a total of 60 items (or operational configurations).

First, the pre-acquisition management phase was comprised of five dimensions, including intent, information, value, price, and approach. Second, the post-acquisition integration phase also consists of five dimensions, including approach, people, culture, organization, and strategy. Finally, post-acquisition performance was comprised of five dimensions, including accounting profits, stock returns, market share, operating efficiency, and cash flows. Each dimension's definition is given in Table 34. Further, the testable implications in the overall acquisition process investigated through the present study are described in Figure 7.

*Table 34. Definitions of the Fifteen Dimensions in the Integrated/Incremental Approach Model*

<b>Dimension</b>	<b>Definition</b>
	<b>Pre-Acquisition Management</b>
Intent	A set of motives and/or objectives to undertake the purchase of a competitor or a business
Information	A wide variety of facts and data necessary to maintain and reinforce a purchasing decision
Value	The worth of an acquisition deal created mainly from anticipated synergistic benefits of the combining company
Price	A payment of necessary capital to acquire a target company or a business
Approach	A variety of surrounding procedures to persuade the target firm to finalize an intended acquisition deal
	<b>Post-Acquisition Integration</b>
Approach	A variety of surrounding procedures to reconcile a pre-determined acquisition intent to the target firm, while minimizing problems and obstacles.
People	A group of the merging company's organizational members, who have either positive or negative perceptions toward an acquisition deal
Culture	A set of important assumptions, such as norms, value and politics, that members of an organization share in common
Organization	A wide variety of organizational configurations, including formal and informal structures, systems, and processes
Strategy	A set of consistent alignment efforts to achieve long-term goals of the merging company based upon the acquisition intent
	<b>Post-Acquisition Performance Evaluation</b>
Accounting Profits	A set of conventional measures of financial performance (i.e., ROE, ROI, Profit Margin, etc)
Stock Returns	The acquiring firm's stock price changes either surrounding acquisition announcement date or certain periods of time after the deal is announced
Market Share	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	Value-added gains from realized synergies, including operational and managerial synergies
Operations Cash Flow	Sales, minus cost of goods sold and selling administrative expenses, plus depreciation and goodwill expenses



**Figure 7. An Integrated/Incremental Acquisition Process Model**

The fifteen dimensions (and the number of items used to measure each) were: intent (6 items); information (9 items); value (5 items); price (3 items); approach in the pre-acquisition phase (6 items); approach in the post-acquisition phase (7 items); people (5 items); culture (4 items); organization (4 items); strategy (4 items); accounting profits (1 item); stock returns (2 items); market share (1 item); operating efficiency (1 item); and cash flow (2 items). Details of individual constructs and variables were discussed in Chapter I.

### **Research Propositions**

Based upon the interacting relationships among fifteen dimensions, four research propositions have been identified in this study (See Figure 7), 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.

In order to clarify the relationship between study propositions and operational measurements, the present study identified a set of important decision points for each dimension in the overall acquisition process to facilitate the appropriate identification of critical success factors for acquisitions, as shown in Table 35.

*Table 35. Decision Points of the Fifteen Dimensions in the Acquisition Process*

<b>Dimension</b>	<b>Decision Points</b>
	<b>Pre-Acquisition Management Phase</b>
Intent/Objective	A motivation to attempt the purchase of a target firm
Information	A decision on the information necessary to purchase a target firm
Value	A decision on what the actual worth of the acquisition transaction should be
Price	A decision on the extent of financial resources expected for the acquisition deal
Approach	A decision on the form and content of the acquisition deal regarding the relationship between the acquiring firm and the target firm
	<b>Post-Acquisition Integration Phase</b>
Approach	A decision on the development of effective post-acquisition transition management practices, particularly for immediately after the deal is completed
People	A decision on the effective management of the human component
Culture	A decision on the effective integration of two different cultural systems
Organization	A decision to build a new and stronger organization
Strategy	A decision to achieve the strategic intent of the acquisition deal
	<b>Post-Acquisition Performance Evaluation Phase</b>
Accounting Profits	A decision to measure post-acquisition performance in terms of gains (or losses) in accounting profits
Stock Returns	A decision to measure post-acquisition performance in terms of gains (or losses) in stock price
Market Share	A decision to measure post-acquisition performance in terms of gains (or losses) in market share
Operating Efficiency	A decision to measure post-acquisition performance in terms of gains (or losses) in operating efficiency
Operations Cash Flow	A decision to measure post-acquisition performance in terms of gains (or losses) in operations cash flow

More details of the relationships among research questions, propositions, conceptualization, operationalization, previous research, and validity/reliability were described in Table 36 in the chapter summary.

## **Research Design**

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There is no one, empirical study that has been done to date on the corporate acquisition process in the lodging industry. Therefore, this study explored the underlying structure of the overall acquisition process for hotel acquirers, focusing in particular upon horizontal acquisition. The Delphi technique (hereafter Delphi) was employed as the methodology for this research. Delphi can be defined as “a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (p. 3, Linstone & Turoff, 1975).

### **Research Methods**

This section will discuss characteristics of the Delphi in relation to the present study’s objective, which attempts to uncover the underlying key success factors that occur during the overall process of acquisition, and that determine the superior post-acquisition performance of acquiring companies within the context of the hotel industry. First, an overview of the Delphi will be discussed. This is followed by a discussion of the strengths and weaknesses of the Delphi. The section concludes with an overview of the Delphi procedure.

**The Delphi.** Many research methods focus on bringing research respondents together for face-to-face communication of ideas and opinions, or to reach agreement. However, interacting groups, or face-to-face communications, are not the only ways to exchange ideas and opinions or to accomplish consensus. An alternative method that does not necessitate face-to-face communications is the Delphi. One of the key objectives of the Delphi is to acquire a reliable agreement from a group of specialists or experts in a particular field (Andranovich, 1995).

The Delphi technique was developed by staff at the RAND Corporation in Santa Monica, California, in the early 1950s to predict the former Soviet Union’s strategic targeting system. Recently, the Delphi has been utilized in a wide variety of divergent areas including land-use planning, regional policy-making, and organizational restructuring (Andranovich, 1995). The Delphi was developed for non-interacting groups. Non-interacting groups can involve groups whose members are geographically apart, groups whose members are inclined to contrast, or groups in which position or situation differences might affect decision-making. The Delphi is effective when the issue facing the particular industry or community is a “hot button” topic. The

Delphi requires a necessary expertise on the part of the coordinator about the topic (Andranovich, 1995).

**Strengths and Weaknesses of the Delphi.** In general, the Delphi has three important advantages (Andranovich, 1995). First, anonymous, personal responses are at the heart of the procedure. The Delphi can assemble participants' opinions collectively without bringing them into the same place or room. This can reduce the overall research costs. More importantly, through avoiding participants getting together, the Delphi can minimize the possible effect of the dominant person, due to status problems, and it can lead the group to share responsibility. Shared responsibility is a catalyst for reaching an agreement, and also can facilitate satisfaction through involvement in and claims to the results. Second, carefully managed iterative feedback can minimize possible direct conflict and the disadvantages that dispute leads to: abruptly accepting or discarding other opinions. The problem of a dominant participant can cause other problems, such as focusing on personal characteristics rather than concentrating on the issues at hand, and possible deviant or novel ideas. Finally, in terms of a statistical group response, the Delphi ensures that each participant's opinion is contemplated in the final response. This promotes shared responsibility for not only the product of the Delphi, but also in the process that ultimately leads to the product. These advantages contribute to accomplishing a group consensus about a "hot button" topic through promoting participation and providing ownership of the overall Delphi. To date, corporate acquisition is one of the "hot button" topics in the lodging industry, as well as in the business world at large.

However, the Delphi also possesses three critical disadvantages (Andranovich, 1995). First, the Delphi is inherently labor intensive and time consuming. If the time frame is short, the Delphi is not useful. In many cases, especially if mailed questionnaires are employed, the Delphi usually takes 45 days to administer over a 12-week period, from decision-to-go to the final outcome. To avoid this problem, sometimes the Delphi is used in conjunction with meetings. The participants' commitment to the Delphi process is a key to its success. Second, the Delphi requires of the participants some degree of written communication skills. Since the Delphi is bounded by a written communication instrument, it is important for all participants to be able to understand, and to answer well within a written format. Finally, in order to get a valuable outcome, the Delphi needs highly motivated respondents. Since there is no guarantee that the



Delphi questionnaires will be completed and returned, the selection of qualified participants depends upon their interests, motives, and benefits throughout the overall procedure.

**The Delphi Procedure.** According to Andranovich (1995), there are three preliminary steps in the Delphi. First, the objective of the Delphi must be clear so that the initial questions can be established. The Delphi questions must match interests between the study problem and the participants' interests and benefits. Moreover, the Delphi questions must ensure clarity because the panelists will respond on their own. Delbecq (1975) recommended three probes to develop focused Delphi questions: (1) Why are you interested in this particular Delphi?; (2) What do you need to know that you don't know now?; and (3) How will results from the Delphi influence decision-making once the procedure is completed?

Although there are some limitations to employing the Delphi, it is an appropriate method for the present study, and the strengths of the Delphi can overcome its problems. The present research problem, corporate acquisitions, does not have the underpinning of common knowledge that can be applied to many areas in the business world. Moreover, since there is no, one empirical investigation on this topic in the lodging industry, there is a lack of consensus in the hotel acquisition arena. As a pioneering work in this field, the present study will navigate a broad range of acquisition issues by listening to experienced experts and practitioners in this area. Linstone & Turoff (1975) stated that the Delphi is useful when necessary information is unavailable or expensive to collect, and when subjective inputs are necessary to evaluate models. Valuable ideas and facts collected from hotel industry acquisition experts and practitioners and then synthesized, can contribute to the promotion of future potential hotel acquirers' understanding, and also to academics' continuing research.

The researcher needs to decide on the qualified participants who will be included in the Delphi as panelists. Since experts vary according to circumstances, it is crucial to determine a set of criteria for appropriate panelists. The Delphi must also be able to determine how many panelists are necessary. If the group of panelists are fairly homogeneous (sharing similar opinions), then ten to fifteen participants are sufficient. If differences of opinions are expected, then the size of the panel will be increased to ensure balance. As mentioned before, the Delphi is a labor intensive procedure and the greater the number of participants, the greater the information load, for both the participants and the coordinator. Therefore, it is critical to seriously appraise the number of participants. Since the present study has two clusters of

participants, which are comprised of hoteliers and non-hoteliers, it was necessary to increase the number of panelists to at least twenty experts.

**The Delphi Mechanics.** The Delphi has essentially an iterative format that delivers a specific topic (Andranovich, 1995). Agreement is created through a series of questionnaires. First, panelists respond independently, then their works are analyzed and synthesized by the coordinator, and then the summaries are fed back to the panelists for further answers, and so on.

Once the answers are collected in the First Round, the coordinator will analyze and then summarize the results. Based upon the summaries, the coordinator will develop a single master list of responses. This master list will be converted as the Second Round questionnaire. The master list must emphasize areas of agreement and disagreement, so that it identifies the degree of consensus. The Round 2 questionnaire will be distributed again to the panelists who answered the First Round questionnaire. Round 3 will repeat a similar procedure, and then this iterative step will be repeated until consensus is established.

### **Instrumentation and Scaling**

The present study employed the Delphi questionnaires as a research instrument to collect practitioners' and experts' opinions. For Round 1 of the Delphi, the questionnaire was comprised of four sets of questions constituting Sections I, II, III, and IV. A copy of the full initial questionnaire is presented in Appendix I. In the questionnaire, this study employed Likert scales. As is a consideration with most of the popular scales, the Likert scale usually asks respondents to indicate whether they agree or disagree with provided statements (Neuman, 1994).

In addition, this study employed four scales (or voting scales) rather than the more popular five or seven scales. For example, in Section II of the questionnaire, the study asked participants about the importance of each factor or variable within four scales, including unimportant (1), slightly important (2), important (3), and very important (4). This study investigated the acquisition policy. Turoff (1975) stated the reasons to choosing four scales in a policy Delphi as:

“There are many different voting scales that have been utilized on policy type Delphis; however, there are four scales, or voting dimensions, that seem to represent the minimum information that must be obtained if an adequate evaluation is to take place. On the resolutions to a policy issue it is usually necessary to assess both desirability and feasibility. ... Typical examples of these scales follow. Note that no neutral answer is allowed other than No Judgment (which always allowed on any question). A neutral position offers very little information in policy debates and it is

usually desirable to force the respondents to think the issue out to a point where he can take a nonneutral stance. In other words, the lack of a neutral point promotes a debate which is in line with developing pros and cons as one primary objective. This design choice has sometimes upset those who feel consensus is the only valid Delphi objective” (p. 90).

Section I of the Round 1 questionnaire focused on items about acquisition motives and objectives of recent hotel acquisition deals, since 1994. Section II of the Round 1 questionnaire focused on questions about the key factors in the pre-acquisition management process based upon four dimensions, including information, value, price, and approach, identified in Figure 2. Section III of the Round 1 questionnaire focused on items about key variables in the post-acquisition integration process based on five dimensions, identified in Figure 2., including approach, people, culture, organization, and strategy. Finally, Section IV of the Round 1 questionnaire focused on criteria to determine the post-acquisition performance of an acquisition deal. The performance criteria were based upon five dimensions, identified in Figure 2., including accounting profits, stock returns, market share, cash flow, and operating efficiency.

### **Validity and Reliability of the Measurement Instrument**

Reliability refers to a measure free from error and therefore yielding consistent results (Zikmund, 1994). Reliability applies when a measure shows the same results over time and across situations. Reliability is a necessary pre-condition for validity (Zikmund, 1994). According to Zikmund (1994), there are two underlying dimensions of reliability: repeatability, and internal consistency. Assessing the repeatability of a measure is the first aspect of reliability.

Here, keep in mind a key attribute of the Delphi, its iterative nature, which minimizes reliability problems because after Round 1, the coordinator can correct problems, based upon participants’ specialized opinions about the acquisition issues, so that the Delphi coordinator can continue to Round 2, and so on. After Round 3, the final outcome is based upon an improved internal consistency of the instrument, because the outcome is the consensus of the experts about the proposed inquiry.

Validity refers to a scale that measures what is intended to be measured (Zikmund, 1994). There are three primary ways to assess validity. First, face (or content) validity refers to subjective agreements among professionals when a scale appears to be accurately reflecting what was intended to be measured. This face validity is achieved by a thorough M&A literature review and committee members’ advice on their discipline areas about M&A issues.

Second, criterion validity refers to the ability of a measure to correlate with other measures of the same concepts (Zikmund, 1994). There are two ways to assess criterion validity. The first is concurrent validity. Concurrent validity refers to the ability of a scale to correlate with criterion measures of the same constructs when measured at the same time. The second is predictive validity. Predictive validity refers to the ability of a measure to predict future values or to correlate with criterion measures of the same construct measures later. In sum, the difference between concurrent and predictive validity is a different time horizon.

The topic of this study is a contemporary “hot button” topic in the business world. As mentioned in the introduction, the lodging industry is in the midst of an unprecedented merger wave. Therefore, the measures may satisfy concurrent validity. Further, it is believed that today’s phenomenon is the best indicator of future circumstances, so that the measures meet the requirement of predictive validity.

Construct validity refers to the ability of a scale to confirm a network of related hypotheses that are based on a theory developed from constructs (Zikmund, 1994). Construct validity occurs when the researcher is conducting statistical tests. Construct validity attempts to make sure that there is a consistent relationship between empirical evidence and the theoretical logic developed from the constructs. There are two types of construct validity. Convergent validity refers to the ability of a measure to have a high correlation with other measures of the same construct. Criterion validity and convergent validity are almost equivalent. Finally, discriminant validity refers to the ability of a measure to have a low correlation with measures of the different constructs.

As mentioned before, previous studies have investigated corporate acquisition issues within uni-dimensional frameworks, i.e., one issue at a time. However, the present study employed an integrated research approach that includes the most critical corporate acquisition issues simultaneously. That is, it employs an overall acquisition process that assesses crucial corporate acquisition issues simultaneously in a multi-dimensional framework. Based upon a thorough investigation of previous studies about a variety of acquisition issues, an integrated framework was developed that consists of three phases of the overall acquisition process, as shown in Figure 2., including pre-acquisition management, post-acquisition integration, and post-acquisition performance evaluation. The framework includes fifteen dimensions, with each dimension comprising numerous variables. These categorized dimensions and their

corresponding variables are not only reasonably related to each other, but they are also reasonably differentiated, based upon their attributes in the overall acquisition process.

Moreover, the present study employed multiple informants about the topic of acquisitions, so as to balance viewpoints and reduce the likelihood of bias. This method is equivalent to the triangulation approach which researchers use when employing various types of measures, data gathering methods, or observations of divergent viewpoints, in order to investigate the same variables (Neuman, 1994). Neuman (1994) stated that if it has identical measurements from diverse sources, a study may achieve greater validity than another study employing a single source or similar sources. Therefore, by adopting multiple informants, this study improved measurement validity. However, Cronbach (1971) stated that construct validity cannot be established by any one study. As mentioned before, this study is the first to investigate the acquisition process in the lodging industry. Thus, based upon this study's outcome, further studies may improve validity issues.

### **Sample**

The study focused on executive and senior officers of hotel firms, who have had one or more acquisition experiences since 1994, because acquisition activities in the lodging industry substantially increased since that year. It also focused on lodging industry consultants, and M&A specialists in investment banks as a sampling frame. These subjects were selected for three reasons. First, hotel acquirers' senior managers play a significant role in formulating and implementing the broadest dimensions of acquisition strategy. Their beliefs and values may saturate and influence the entire acquisition process. As such, senior managers may be considered to be a reasonable manifestation of the overall acquisition process. Second, as Walter & Barney (1990) pointed out, an acquiring firm's managers may not be willing to reveal their intended goals for an acquisition that has not been realized, because those goals reflect their shareholders' interests. To buffer this seemingly biased perception, M&A specialists in investment banks were also chosen as Delphi panelists. M&A specialists typically must rely upon the acquiring firm's senior managers for information, and M&A specialists also communicate with customers and competitors so that they may treat information gathered from acquiring firms with some skepticism. Therefore, they possess relatively unbiased opinions compared to acquiring firms' managers. Importantly, many times they are deeply involved in the

acquisition process by offering a variety of valuable information. Finally, lodging industry consultants have a valuable network of partners engaged in acquisition deals. They would have less biased opinions, overall.

Although there were numerous acquisition deals since 1994, only fourteen major hotel acquirers were identified, based upon the criterion of acquisition deals of more \$100 million. The reason for this is that, in some cases, previous acquirers became targets. For example, ITT acquired Ciga and Caesars Palace in the past, but it was acquired by Starwood Lodging in 1997. Further, in many acquisition deals, hotel firms have acquired individual hotel properties, rather than company-to-company acquisitions. This is a unique characteristic of the lodging industry, due to its fragmented ownership structure. Among those fourteen hotel acquirers, this study identified a pool of senior managers as Delphi panelists from each of the hotel firms. The sum of this sample was comprised of 42 executive and senior managers. Using trade journals, twenty-nine lodging industry consultants and M&A specialists in investment banks were identified as an initial pool of potential Delphi panelists. Thus, a total of 71 potential participants were identified. More details about Delphi panelists discussed in the next chapter.

### **The Present Study's Delphi Process**

In order to improve the response rate in the overall research process, the preset study was modified somewhat, compared to the classical Delphi as described in the above section. The present study was limited to Round 3, rather than being left open-ended, and the potential were panelists informed of this in the initial letter of invitation to participate in the research exercise. This was a precaution against outright refusal to participate or a high attrition rate between the rounds, because panelists are executive and senior officers of relatively large hotel firms, industry analysts, or M&A experts, with busy schedules and who needed to be aware of the level of the commitment required to participate in the panel beyond Round 1. Other Delphi studies have cited high attrition rates as a critical problem (Turnbull, 1996).

Other significant but still valid modifications should be explained at this point. These include: (1) Unlike the classical Delphi, a tentative list of variables or items were presented in the Round 1 Questionnaire; (2) The feedback provided after each of the first rounds was in summary form, rather than comments for each item provided along with each participant's previous round rating for each item. This procedure was incorporated to minimize the length of

time panelists need in processing a series of questionnaires. Uhl (1971) and Kennedy (1982) used the same types of modifications, and provided ample justification for these changes to the Delphi.

The purpose of Round 1 of the Delphi implemented in this research was, in the words of Kennedy (1982) to “shake down” the key variables, eliminate the ones felt to be obviously unsuitable and to generate new items from the respondents. Round 2 focused on refining and stabilizing the identity and ratings of the key variables. In Round 3 the research addressed the outstanding issues of the determinants of successful acquisition processes, including pre-acquisition management, post-acquisition integration, and post-acquisition performance evaluation. This round also pursued to identifying the degree of importance among a wide variety of question items based upon the pre-determined fifteen dimensions shown in this study’s framework of the acquisition process.

Panelists who failed to respond to Round 1 were not included in Round 2, and similarly those who were unwilling to respond in Round 2 were not incorporated in Round 3. A brief account of the process involved in conducting the group communication process of managing and interpreting the data output follows:

### **Round 1**

The Round 1 Questionnaire and cover letter were distributed to the first batch of 71 potential respondents, along with a set of guidelines for answering instructions, between May 15 and May 18. The coordinator requested the return of the answers by fax. In the cover letter, respondents were requested to complete and return the questionnaire within two weeks. This turned out to have been overly optimistic and indeed unrealistic. Replies to the Round 1 questionnaires were received at a very slow rate. Therefore, it was necessary to send four letters of reminder to potential participants. Moreover, the researcher made some selective calls to the likeliest participants, based upon his perception.

On June 19, 1998, the total number of Round 1 questionnaires completed and returned reached the figure of 23, which was considered adequate for commencing work on processing the Round 1 returns and preparing the Round 2 questionnaires. Thus from an initial pool of 71 potential panelists, a final group of 23 agreed and took part in Round 1 of the study. Within a few days after the 23 Round 1 responses had been analyzed and Round 2 questionnaires prepared and distributed, two more hotel executives and one industry consultant from among the initial

pool of 71 potential respondents, sent completed Round 1 questionnaires. Although these responses were a bit late to be analyzed with the batch of 23 that were received earlier, and for them to be reflected with the Round 2 questionnaire which by then already had been distributed, the researcher decided to include these late participants in the process of analyzing and interpreting the results of both Round 1 and subsequent rounds. The actual analysis of the 1<sup>st</sup> Round results presented in Chapter 4 was performed based upon these 26 respondents. It was necessary to retain these late participants because one of the most important critical success factors in Delphi study is to reducing the attrition rate throughout the entire process. In order to solve this problem, as mentioned before, it was critical to obtain as many respondents as possible in the First Round

A review of the questionnaire returned at the end of Round 1 revealed that the panel had expanded the initial list of 60 critical success factors with the addition of 8 new variables, thus bringing the full list of variables to 68. These new, additional variables were included in the expanded list in the Round 2 questionnaire after the necessary editing for comments. Based upon the results of Round 1, it appeared that 15 dimensions and 60 operational indicators, which addresses the corporate acquisition process in the lodging industry had been largely understood and were retained unchanged in all subsequent rounds of the process. A few respondents pointed out their viewpoints on some variables but the impacts were minimal based upon the majority opinion.

In the Round 2 questionnaire, the ratings made by panelists in Round 1 of the critical success factors in the acquisition process were summarized. The data provided for each item rated include:

- (i) the frequencies of the panel rating for each variable
- (ii) the panel's aggregated mean for each variable
- (iii) the panel's mode for each variable, and
- (iv) the standard deviations (SD) of the variables.

Along with these summaries, each panelist received a summary of his/her Round 1 ratings for each variable. In addition, all panelists were given the opportunity to either reaffirm or change the Round 1 rating after considering the summary of the panel ratings. Moreover, it was requested of respondents that they rate eight additional variables identified by their peers. The



Second Round questionnaire which was expanded from that sent out for Round 1 because of the eight variables that were added by respondents is shown in Appendix 2.

### **Round 2**

Materials for Round 2 were sent out by fax on June 22, 1998 to the first 23 respondents from Round 1, and also sent out on June 23 and 24, 1998 to the three respondents. Participants were asked in the accompanying faxed cover letter to return the completed questionnaire within one week. However, this was also overly optimistic. Thus, follow-up telephone calls and faxed letters of reminder were also included in the data gathering process for this round.

During the 2<sup>nd</sup> Round, it was identified that some panelists failed to rate the eight additional items identified in Round 1 by other respondents. Therefore, the researcher made either phone calls or faxed a letter to ask them to complete the questionnaire. On July 10, 1998, 21 responses had been received and this was considered adequate to begin analysis of the Round 2 responses, and to begin preparation of the Round 3 questionnaire.

### **Round 3**

On July 10, 1998, the Third Round Delphi questionnaire was distributed to those 21 respondents who answered in Round 2 of the study. The researcher asked in the accompanying cover letter to return the completed questionnaire within 10 days. Unlike the first two rounds, during the Final Round, panelists responded quickly within the required return date, which was July 21, 1998, except for one respondent who was on leave for her vacation. On July 23, 1998, the remaining one respondent returned the completed questionnaire so that the Final Round response rate was an impressive 100 percent.

Also, during the Final Round, some panelists failed to rate the eight additional variables identified in Round 1. However, in Round 3, the response rate on these variables substantially improved.

## **Chapter Summary**

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This chapter identified the objectives of the study. The primary objective of this study was the systematic discovery of evidence about the determinants of the successful pre-acquisition management process, and the determinants of successful post-acquisition integration, as well as validating appropriate evaluation criteria to determine the post-acquisition performance of an acquisition deal. This was followed by a discussion of the framework used to

test research propositions. Based upon an integrated/incremental model, units of analysis, constructs, and variables were identified.

As a research method, the Delphi was decided upon for this research. The characteristics and procedures of the Delphi were discussed, and the instrument's measurement issues were also discussed. Then, this study's sampling frame was identified. The present study's Delphi process was developed. Three rounds of Delphi were designed and executed. Finally, the process of the present study's three rounds was discussed. Table 36 summarized this study's research methodology briefly.

*Table 36. Summary of the Research Methodology*

<b>Research Question</b>	<b>Proposition</b>	<b>Construct</b>	<b>Measure</b>	<b>Literature</b>	<b>Validity/ Reliability</b>
What specific intents and/or objectives have been instituted by hotel firms in their recent acquisition activities?	There are explicit intents that have driven recent acquisition activities by hotel firms.	Acquisition Objective	Variables 1 – 6 in the Delphi Questionnaire (Appendix 1)	Ansoff, Brandenburg, Portner & Radosevich, 1971; Walter & Barney, 1986	Delphi; Descriptive Statistics; Chi-Square, test, Cronbach's Alpha
What is the content of specific pre-acquisition management processes used by hotel firms that contribute to successful acquisitions?	There are key success factors in the pre-acquisition phase that will determine a successful acquisition deal in the lodging industry.	Critical Success Factors	Variables 7-15 Variables 16-20 Variables 21-23 Variables 24-29	Marks & Mirvis, 1998; Sirower, 1997; Markides & Williamson, 1996; Raab & Clark, 1992	Delphi; Descriptive Statistics; Chi-Square, test, Cronbach's Alpha
What is the content of specific post-acquisition management processes that determine effective post-acquisition integration?	There are key success factors in the post-acquisition integration phase that will determine a successful acquisition deal in the lodging industry.	Critical Success Factors	Variables 30-36 Variables 37-41 Variables 42-45 Variables 46-49 Variables 50-53	Marks & Mirvis, 1998; Smith & Hershman, 1997; Pablo, 1994; Henderson, 1989; Ashkenas et al, 1998	Delphi; Descriptive Statistics; Chi-Square test, Cronbach's Alpha
What specific performance evaluation criteria can be utilized to judge whether or not an acquisition deal is successful?	There are appropriate performance evaluation criteria that can determine a successful acquisition transaction in the lodging industry.	Post-Acquisition Performance	Variable 54 Variables 55-56 Variables 57-58 Variable 59 Variable 60	Cochran & Wood, 1984; Grant, Jammie & Thomas, 1988; Asquith, 1983; Healy, Palepu & Ruback, 1992	Delphi; Descriptive Statistics; Chi-Square test, Cronbach's Alpha