

## CHAPTER 6: CONCLUSION

### Introduction

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In the preceding chapter, the results of the Delphi study of critical success factors that influence successful corporate acquisitions in the lodging industry were extensively discussed. In this chapter, the overall study process and significant findings are summarized and then conclusions will be drawn. Finally, the limitations of this research as well as recommendations for future research are presented.

### Summary of the Study

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Despite the importance of mega-trends, relatively little research on corporate mergers and acquisitions has appeared in the lodging industry literature. Moreover, relatively little has been done in terms of formulating a multi-dimensional framework addressing mergers and acquisitions. Many researchers have attempted to discover evidence about a part of the whole acquisitions process. Previous research has investigated corporate acquisition issues within an uni-dimensional framework, i.e., one issue at a time. This study adopted an integrated and holistic viewpoint that includes the most critical corporate acquisition issues simultaneously and in a multi-dimensional framework.

The purpose 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, value-added impacts on corporate acquisitions in the lodging industry. Specifically, the study attempted to systematically discover 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. In addition, this study tried to identify important acquisition objectives of hotel acquirers.

In order to achieve this study's objectives, more than 300 operational indicators were initially identified from the general M&A literature. Following discussions with the advisory board, the variables were reduced from more than 300 to 60, in the process of developing the survey instrument. Then, assistance was sought in the form of a Delphi panel, from a group of

M&A practitioners and specialists in order to identify other important variables and to rate diverse critical success factors in the corporate acquisitions process for the lodging industry.

In order to organize and prioritize the collective judgment of a group of practitioners and specialists, the Delphi technique was employed as a primary methodology that involved iterative surveying of the same group. The procedure was to distribute the initial 60 operational indicators and ask the respondents to rate these variables according to their importance (or relevance). In each succeeding round, participants received feedback in the form of their own previous responses and any statistical or other data describing the entire group. This enabled the participants to reaffirm original opinions, alter some, and/or add new items to the original list. It is believed that the Delphi technique leads to consensus on major points, as well as identifies minority opinions.

The group of respondents consisted of senior officers of hotel firms, industry consultants, and M&A specialists in investment banks as a group of respondents. The panel examined the list of variables provided, generated new variables it considered important, and arrived at a final list of 68 critical success factors it judged relevant or important to the hotel acquirers in their investment decisions in corporate acquisitions. Each item was rated in terms of its perceived influence on the entire acquisition process, based on a 4-point Likert-scale scale: a score of one (1) represents unimportant (or not relevant); two (2) denotes slightly important (relevant); three (3) represents important (relevant); and four (4) denotes very important (relevant).

After the First Round, a group of 26 Delphi panelists was established and 8 additional variables were identified so that in addition to the initial list of 60 variables, a total of 68 variables were presented the Delphi panel in the succeeding rounds. During the Second Round, 21 respondents reaffirmed or changed their initial votes. Finally, all 21 of the Round 2 respondents participated in the Final Round of the survey (See Table 72).

Table 72. Number of Participants in Three Rounds

<b>Group</b>	<b>Initial Pool</b>	<b>Round 1</b>	<b>Round 2</b>	<b>Round 3</b>
Hoteliers	42	17	14	14
Non-hoteliers	29	9	7	7
Total	71	26	21	21

The modified Delphi technique employed in this study was found to be quite satisfactory. As one participant, who is vice chairman of one of the world's biggest lodging companies,

mentioned, “it was interesting as a participant to see how my views measured against the other participants.” It was learned that the Delphi can be successfully utilized as a cost-effective and quality research method to identify similarities and dissimilarities among participants about specific “hot button” issues by means of a non-face-to-face communication protocol. For a Delphi study to be effective, it was learned from this study that a researcher may achieve better results by reminding respondents frequently and consistently about the necessary for completing each round of the survey, as was done by phone and FAX messages in this study. Moreover, since the Delphi panel was comprised of a relatively small group of respondents, it was determined that customization of each panelist’s characteristics is an effective strategy when the coordinator considers contacting panel members. Further, customization of each round helped to enhance the response rate.

### **Summary of Significant Findings**

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Through the statistical analyses in Chapter 4 and the subsequent intensive discussions, this study identified the following as the most significant conclusions:

1. The most important acquisition objective that inspired acquirers in the lodging industry was to accelerate the growth of their firm.
2. The most important critical success factor for the hotel acquirers before the deal is completed was the identification of the trend of the target firm’s cash flow from operations.
3. Reliable and valid information about the target was the most significant dimension in the pre-acquisition management phase.
4. The most significant key success factor in the post-acquisition integration stage for the lodging industry was to plan and establish a post-acquisition strategy as early as possible, even before the deal is done.
5. Development of an effective post-acquisition transition strategy immediately after the deal is closed was the most crucial dimension in the post-acquisition integration phase.
6. Hotel executives gave more priority to pre-acquisition management strategy than to the post-acquisition integration process.
7. Value-based management (VBM) proved to have significance and popularity in evaluating performance gains in corporate acquisitions in the lodging industry.

In addition to these significant findings, it was found that non-hoteliars showed less biased opinions than hoteliers. Most of the findings of this study were consistent with previous M&A research as reported in the general literature. It is hoped that the findings discussed here constitute substantial contributions to an understanding of the M&A phenomenon in the lodging industry.

## **Conclusions**

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A major conclusion of this study is the discovery of critical success factors in corporate acquisitions in the lodging industry. The discovery of these factors supports the effectiveness of the theoretical framework developed for this study from the general literature. Many critical success factors found in this study correspond with what Raab & Clark (1992) identified as key success factors in a recipe for success.

The unprecedented trend toward corporate mergers and takeovers has become one of the most significant events in the business environment, a trend that radically changed not only the competitive landscape of the lodging industry, but also all industries. After desperate efforts to save costs through restructuring and downsizing up until early 1990s, many U.S. firms turned to an attempt to establish fresh growth momentum. An important finding of this study was that hotel acquirers revealed identical acquisition goals.

In order to seize synergy through acquisitions, a precise evaluation of the target is the first and foremost task for acquirers. Another vital finding of this study was that this accurate evaluation of the acquired firm is the most important critical success factor before the deal is completed. Since the current acquisitions boom is driven by strategic logic rather than by financial concerns, synergy between the acquiring firm and the acquired firm should be estimated based upon the realistic assumptions that lead to appropriately projecting the target's value and properly assessing the costs of realizing synergy (Walter & Weinhold, 1979).

Another notable finding of this study is that a timely development of post-acquisition strategy along with due diligence in the pre-acquisition phase is crucial for successful takeovers. As Ashkenas et al. (1998) mentioned, GE Capital, one of the most important value-creating firms through acquisitions in the world, planned and executed concurrently both integration strategy and due diligence. Development and execution of an effective transition strategy immediately after the deal is done is the most vital dimension in the post-acquisition integration process.

One of the most significant findings of this study is that hotel executives emphasized the importance of the pre-acquisition process more than a post-acquisition integration strategy. This finding apparently contradicts Smith & Hershman's (1997) argument. The authors stated that the only source of value-adding acquisition deals is accurate post-acquisition management. It could be argued that after the deal is completed, for the acquirer the estimated synergistic benefits are "just words," but the acquirer should be able to transform the intended goal into a realized goal. In order to achieve a realized synergy, the same or a more extensive effort than that spent in the pre-acquisition process should be planned and executed. Ignorance of the importance of integration may be the source of the deteriorated performance experienced by a certain number of acquirers.

Another significant finding of this study is that performance measures in a value-based management (VBM) model received the highest importance in evaluating economic gains from acquisitions in the lodging industry, whereas stock price performance measures received the lowest importance in the same area. It is necessary to explore this contradictory finding through further research. However, as Wasserstein (1998) suggested, a triangulation approach is an appropriate evaluation method because each performance measure possesses its own important assumptions, and also its critical limitations.

Finally, this study adopted a multi-dimensional approach that includes the entire acquisition process in its framework. The study's framework was very useful in identifying critical success factors in acquisitions for the lodging industry. As Young (1981) mentioned, "knowing what to do at the appointed time can make the difference between achieving success or failure" in corporate acquisitions. For future acquirers in the lodging industry, any firms pursuing the creation of value through acquisitions must be able to nurture, accumulate, and regenerate tacit and explicit knowledge about the overall acquisition process over time and across place.

### **Recommendations for Future Research**

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1. The results of this exploratory research have suggested the applicability of the framework for investigating the critical success factors in the corporate acquisition process for the lodging industry. Based upon this study's acquisition process framework, it is recommended that further systematic and rigorous studies should be undertaken to establish additional practical guidelines for future acquirers. For example, a large sample combined with sophisticated

statistical techniques, such as MANOVA, canonical correlation analysis, and factor analysis, could substantially improve practical utility, which is one of the ultimate goals of theories. In order to achieve this goal, future studies might find this study's framework useful.

2. As mentioned before, this study attempted to identify "what" are the building blocks of a good theory in the world of corporate acquisitions. Thus, this study's results can be utilized to answer the questions of "when, how, and why," which are the primary goals of a theory. Future inquiries into corporate acquisitions in the lodging industry should be able to answer these critical questions so that they serve to cross-validate the current study, and thus enrich the body of knowledge in the areas covered by this study.
3. The 68 critical success factors are by no means exhaustive, and therefore could be expanded by a larger Delphi panel. The larger the Delphi panel, the higher the possibility of the accuracy of the generalization of findings.
4. As mentioned in the literature review, four significant merger waves occurred in the United States, and we are presently experiencing the fifth merger wave. The motives/objectives of these mergers vary from time to time. Thus, a replicate research effort should be conducted to find out how constant or changing the key success factors identified by this study will be over the lapse of a certain period. This continuing research will also contribute to a reflection of the changing nature of the broader environment.

## **Limitations**

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One limitation of this study is that the size of the respondent groups were relatively small, so that it would be difficult to generalize from the study's results. However, as mentioned before, this study included the most active acquirers in the lodging industry, except for Starwood Hotels & resorts, and consideration should be given to the hotel respondents' significant positions in their firms' acquisition decision-making processes. Furthermore, the non-hotelier group possessed complementary and relatively unbiased opinions compared to hotel senior managers. Thus, this study's integrity is not necessary weakened by adopting a relatively small group of respondents.

The second limitation of this study is that the professional representation by field by respondents, was not in balance (e.g., 14 from hotel firms and 7 from specialists or consultants).

Balanced representation would be ideal. However, in consideration of the Delphi technique's distinctive iterative process, this problem could be overcome because participants exchanged opinions after reviewing the opinions of the other respondents, and then decided to affirm or change their initial opinions during the last two rounds. In cases where one respondent's opinion differed from the majority viewpoints, he or she attempted to justify that opinion by providing explanations about particular items. Thus, a balanced respondent group is not necessarily mandatory, or could be considered as an irrelevant issue in the Delphi study.

### **Contributions of the Study**

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“A central mission of scholars and educators in professional schools of management, health, education, and social work is to conduct research that contributes knowledge to a scientific discipline, on the one hand, and to apply that knowledge to the practice of management as a profession, on the other hand” (Simon, 1967). Good theory is practical precisely because it advances knowledge in a scientific discipline, guides research toward crucial questions, and enlightens the profession of management” (Van de Ven, 1989).

This study attempted to fulfill the above mission by identifying a practical foundation for much needed theory concerning the identification of critical success factors in the corporate acquisition process for the lodging industry. Since there are no previous theoretical or empirical works about the acquisition process for lodging firms, this study focused on theory construction regarding “what” questions, which are the building blocks of a good theory. This study's results can be considered as stepping stones for future rigorous theoretical and empirical investigations for the questions of “when, how, and why.” Furthermore, as a pioneering study of the acquisition process in the lodging industry, this study adopted a multi-dimensional approach rather than the narrowly focused uni-dimensional approach. The integrated and incremental framework of the acquisition process developed and validated through this research enhanced the academic arena's understanding of the important M&A phenomenon in the contemporary lodging industry. Finally, the results of this study can be used to contribute to an ongoing stream of research to build the industry's practical knowledge base on this crucial topic.