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Article Title

The Postmerger Financial Performance of Hotel Companies

Citation

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Abstract

This study investigates the postmerger financial performance of acquiring firms in the lodging industry between 1985 and 2000. Jensen Measure Model and Market Model are used to examine long-term and short-term market measure of performance. Additionally, return on assets (ROA) and return on equity (ROE) are used to assess the accounting measures for the financial performance of acquiring firms. The results indicate that the shareholders of acquiring hotel companies earned no abnormal equity returns over the short term, which indicates no significant relationship between merger announcement and the change in short-term equity value. As opposed to general expectations, the study reveals that merger has a negative effect on the acquiring firms' equity values over the long term. Similarly, the ROA and ROE are found to become significantly lower after mergers. Overall, this study provides evidence that shareholders of acquiring hotel companies did not benefit from the mergers.

Conclusion

The conceptual framework from industrial organization theory and strategic management suggests that acquiring firms in M&A may benefit from mergers because of technical, pecuniary, and diversification synergies. However, empirical studies have not entirely supported this argument (Lubatkin, 1983). The majority of previous M&A studies examined only the short-term market reaction to merger announcements or long-term equity market reaction or the longterm financial performance of firms involved in M&A. Using only the stock market approach to determine the success or failure of the acquisition has been criticized by many researchers (Dickerson et al., 1997; Scherer, 1988) because changes in the market valuation around the time of takeover could not reflect the true gains from the merger. As a result, they have argued that it is better to test the effect of acquisition by looking directly at company profitability and productivity. However, accounting-based measures cannot be used to isolate the effects of a specific event such as a merger. It often takes at least a few years before a merger takes effect in profitability (Biggadike, 1979; Lubatkin, 1983). This study attempts to overcome such problems by using both accounting data and market data to investigate merger effect and the long-term postmerger performance of acquiring lodging firms whose merger deals occurred between 1985 and 2000.