CHAPTER 5: DISCUSSION

Introduction

In the previous chapter, the results of the analyses conducted on the data collected for this study were presented. Here, these findings will be discussed and related to the theoretical underpinnings on which the study is based. Also, the implications for theory and practice are presented.

Based on the detailed statistical analyses in the previous chapter, the question now being asked is: "What has been discovered from the exploration of the propositions guiding this study?" Before proceeding with a discussion of the results, presented below are the "findings" or "facts" derived from the analyses:

A. Acquisition objectives were not evenly distributed over their degrees of importance. A statistically significant relationship was found between expected frequencies and observed frequencies.

B. Some of the explicit objectives of lodging firms during the last five years of acquisition activities are as follows, in the order of importance.

Objective 1: Accelerate growth of the acquiring company.

Objective 2: Acquire accretively to enhance stockholders' value.

Objective 3: Expand capacity at less cost than constructing new hotel properties.

Objective 4: Capture scale economies to save costs through combining two firms within an industry.

C. Key success factors in the pre-acquisition management process were not evenly distributed throughout the levels of importance. A statistically significant relationship was found between expected frequencies and observed frequencies.

D. In order for an acquisition to be successful, critical success factors (CSFs) should be considered carefully in the pre-acquisition management stage in the order of importance.

CSF 1: Identify the trend of target's cash flow from operations.

CSF 2: Identify potential operating synergy (i.e., improved operating efficiency)

CSF 3: Extent of accretion or dilution of stock/Cash Flow/FFO

CSF 4: Identify the target's property locations of market served

CSF 5: Due diligence

CSF 6: Understanding how various constituents will react to the deal (i.e., shareholders)

CSF 7: Identify the trend of target's overall performance (i.e., occupancy, RevPAR, free cash flow, and ADR)

CSF 8: Identify the target's capital expenditure requirements (i.e., properties' potential renovation costs)

CSF 9: Identify potential improvements in brand & reputation

CSF 10: Method of payment (i.e., cash, stock, etc)

E. Key success factors in the post-acquisition integration phase were not evenly distributed over the levels of importance. A statistically significant relationship was found between expected frequencies and observed frequencies.

F. Critical success factors (CSFs) should be considered carefully in the post-acquisition integration phase.

CSF 1: Establish a post-acquisition strategy early in the process

CSF 2: Identify and retain key employees and managers of the target

CSF 3: Determine the degree of post-acquisition integration (i.e., extensive, moderate, no interruption of the target's autonomy)

CSF 4: Develop a formal integration plan by top management teams of both companies

CSF 5: Establish an effective communication strategy to keep the target's employees well informed

CSF 6: Establish a sense of unity between the two firms

CSF 7: Align acquisition intent and operating strategy

CSF 8: Identify the value drivers of the acquisition and focus on these

CSF 9: Provide sufficient resources for post-acquisition integration

CSF 10: Public Relations – Orchestrate effective communication with the public

G. Post-acquisition performance evaluation criteria were not evenly distributed over their degrees of relevance. A statistically significant relationship was found between expected frequencies and observed frequencies.

H. Agreement was found regarding the most appropriate post-acquisition performance measurements for the lodging industry.

Criteria 1: Return on Total Invested Capital (Relative to WACC)

Criteria 2: Free Cash Flow Per Share

Criteria 3: Operating Cash Flow (i.e., Sales, minus cost of goods/services sold and selling administrative expenses, plus depreciation and goodwill expenses).

I. Statistically significant relationships were found regarding opinions between hotelier and non-hotelier groups.

The results summarized above are the "facts," or findings, that emerged from this study. The following discussion focuses on correlating these findings with the theoretical underpinning of the study.

Discussion

In addition to discussing the factors that the Delphi panel found most significant in each of the four dimensions of the study's framework, this section will provide some findings that are contradicting to previous research.

Acquisition Intents/Objectives

Unlike the last wave of consolidations in the early 1990s, which were motivated by a desperate effort to slash costs through downsizing and restructuring, recent acquisition deals strive for growth. Because the U.S. economy has shown continuous growth since the recession earlier this decade, many business organizations have assumed a continuing growth cycle (Business Week, 1997). Further, in addition to the continuation of a stable economic environment, relatively favorable antitrust law enforcement, the low cost of capital, and the stock market's bullish condition are the catalysts of the current acquisition trend. Consolidation is a result of business firms seeking ways to boost revenue.

This study found that the most important acquisition objective for lodging firms is to accelerate their growth momentum. In order to achieve the goal of growth, hotel acquirers have been seeking new customers, strategic complementary businesses, new markets or segments of markets, and the opportunity to leverage existing competitive advantages with new ones. One of the study's Delphi panelists mentioned in a hospitality trade magazine that sixteen deals from 1995 through 1997 were driven not only for size, but also by growth plans for the brand, including any brand fit with the portfolio of current brands already managed by the acquirer (Malley, 1997).

Another specific objective that motivates management to engage in acquisition activities is the goal of enhancing shareholders' value. Since the 1980s, the ultimate goal of firms' executives has shifted to that of maximizing stockholders' wealth. Walter & Barney (1986) identified that one of the important acquisition objectives is to promote the investors' visibility. Wasserstein (1998) stated that another advantage of acquisitions is to maximize overall shareholders' wealth. In Hilton Hotels Corporation's 1996 annual report, Hilton (which is one of the most active acquirers in the hotel and casino industries) executives emphasized their strategic goal of creating value for their stockholders. This study found that this objective to be the second most important acquisition objective in the lodging industry.

Rumelt (1974) found that acquisitions are animated by the acquiring companies' desire for expanding current/existing markets. Walter & Barney (1986) identified that the goal of takeovers is to amplify capacity at less cost than developing new facilities, equipment, and/or physical assets. The authors concluded that this objective is a means for firms to expand an existing array of product lines and markets. Moreover, Wernerfelt (1984) argued that corporate acquisitions "can be seen as a purchase of a bundle of resources in a highly imperfect market. By basing the purchase on a rare resource, one can ceteris paribus maximize this imperfection and one's chances of buying cheap and getting good returns" (p. 172).

Similarly to the above findings, this study identified that expanding capacity at less cost than constructing new hotel properties was the third most important objective of corporate acquisitions in the lodging industry. Although its heyday is over, one of the most compelling reasons for consolidation in the full-service segment of the lodging market is that due to overbuilding of upscale hotels in the late 1980s, hotel operators or developers have rarely tried to build new upscale hotels, because hotel buyers can easily purchase older hotels at about 70 percent of replacement costs. In other words, building a new hotel costs much more than buying old hotel properties.

The fourth most important objective (capture scale economies to save costs through combining two firms within an industry) of hotel acquirers can be seen as a market power viewpoint. In fact, this category is one of the most traditional viewpoints about corporate mergers and acquisitions. Furthermore, this market power viewpoint is one of the most dominant perspectives about motives for horizontal acquisitions. Traditional economists have argued that industry concentration due to growth-dominant firms could allow for efficient production of products and services, save costs, and achieve competitive prices through slashing prices (Demsetz, 1973; Peltzman, 1977; Carter, 1978; Ravenscraft, 1984). Ansoff, Brandenburg, Potner & Radosevich (1971) identified that a desire to capture a large enough size to realize scale economies of production and/or distribution is another important motivation for corporate acquisitions. Moreover, Walter & Barney (1986) found another acquisition intent in the creation of scale economies through related capacity expansion. This view holds that corporate mergers or acquisitions are ways for business organizations to gain and exploit scale economies.

Keithahn (1978) contended that rapidly changing technological developments facilitated scale economies in a particular industry. Economics, technology, and logistics are leading components of the lodging establishments' ever more crucial strategic logic. A combination of an array of hotel properties ensures competitive advantage in scale economies (The Economist, 1998). Hotel acquirers have believed that they could slash costs by combining two firms. For example, when Hilton Hotels Corporation announced their acquisition of Bally's Entertainment, a Hilton executive explained that the combined company saved operating costs of approximately $60 million. Moreover, when Bollenbach, Hilton's CEO & President, announced his bid for ITT in January 1997, he argued that the acquisition of ITT would save operating costs as much as $100 million a year.

One of the interesting findings throughout the study was that participants contradicted the idea that recent acquisition deals involved an objective of widening the acquirer's customer base by expanding products and services. Some big hotel firms identify portfolio management and globalization as their merger or acquisition goals. For example, Marriott's acquisitions of Ritz-Carlton and Renaissance and Bass's takeover of Inter-Continental enhanced their platforms to access emerging opportunities for foreign markets and revealed their global corporate strategies. The merger between Doubletree and Promus enhanced its competitiveness over most segments in the lodging industry.

Critical Success Factors in the Pre-Acquisition Process

This section will focus on correlating the study's findings and previous research on influential factors in the pre-acquisition management phase. Marks & Mirvis (1998) identified three key areas in the complex pre-acquisition management phase: strategic, operational, and psychological.

According to the discounted cash flow (DCF) model, which is one of the most popular methods for corporate valuation, the value of a company is equivalent to the present value of its future cash flow generation capability. In other words, the pure value of a business is the future estimated cash flow discounted at a rate that mirrors the risk of cash flow (Copeland, Koller & Murrin, 1995). Unlike accounting measures, such as earnings, DCF conceptualizes the importance of projected cash flows and the time value of money. Proponents of the DCF approach argue for its superiority by saying "cash is king," or "cash is fact, profit is opinion."

Cash flow from operations reflects the difference between cash inflows and outflows from operating units. These cash flows are relevant for projecting business value because they represent the cash available for a firm's financial obligations, such as debt and dividends (Rappaport, 1998). Thus, in corporate acquisitions, the accurate identification of a target's cash flow generation capability is crucial to the acquirer. This study found that astute information about the trend of the target's cash flow from operations to be the most important critical success factor in the pre-acquisition management phase for hotel acquirers. The potential synergies created in corporate acquisitions translated into financial forecasts for the value drivers: "sales growth, profit margins, incremental fixed and working capital investment, taxes, the cost of capital, and the forecast period or the value growth duration" (Rappaport, 1998). Then, the value driver projections are utilized to estimate the annual cash flows for the combined firm. The ultimate goal of acquisitions is to add value to the combined firm and then maximize shareholders' value. The value of an acquisition depends upon a visible cash flow from operations.

Synergy would be realized when cash flows are increased through higher sales revenue from operations or higher prices and/or through slashing costs (Sirower, 1997). This study found that the identification of the potential operating synergy of a combined firm was the second most important critical success factor before the deal is done.

Efficiency theory about acquisition motives holds that acquisitions are executed to achieve synergies. Three types of synergies were identified from previous research. First, financial synergy, which aims for achieving a lower cost of capital through lowering the systematic risk of the acquirer. Second, operational synergy targets the achievement of operational excellence from a combined firm's operations. Third, managerial synergy is used to enhance a target's competitive position by transferring management expertise from the bidder to the target (Trautwein, 1990). Brush (1996) found that operational synergy is a key reason for acquisitions and is a determinant of post-acquisition performance. That is, post-acquisition operating efficiency is the key for achieving the anticipated synergistic benefits for a merging company. Scale economies and cost saving are the primary goals of operational synergies. As mentioned before, Hilton attempted to create value from acquisitions of Bally and ITT through combining and improving operating units between two firms.

On the financial side of an acquisition, one of the key issues that should be addressed is: "what are the cash flow and balance sheet implications of the acquisition?" (Rappaport, 1998). Among several valuation models in mergers and acquisitions, the consequences model attempted to know the pro forma impact of doing the acquisition deal. "Will earnings be diluted? What will happen to the stock price?" (Wasserstein, 1998) are the central issues in this model. An exceptional acquirer is not concerned about the immediate dilution of earnings or stock price, but instead, productive acquirers emphasize long-term earnings and cash flow impact as appropriate determinants of how a deal will be perceived (Wasserstein, 1998). This study identified an accurate valuation regarding the magnitude of accretion or dilution of stock/cash flow/FFO (Fund from Operations) as the third most important key success factor in the pre-acquisition management stage.

According to Ernst & Young (1994), evaluation of a target firm in the pre-acquisition phase includes three categories: industry competitive factors, operating strategy, and the target's competitive position. Among others, the target's market served and market boundaries are important factors that should be included in the list. The present study found that accurate information about a target's lodging property locations of the market served to be one of the most important factors in the pre-acquisition process. Traditional wisdom in the lodging industry also has emphasized the importance of location.

Also, one participant in this study mentioned in a hospitality trade magazine that the acquisition of Red Lion by Doubletree in 1996 was driven by the location of Red Lion's business/convention hotels in the Pacific and Mountain regions (Malley, 1997). He further pointed out that the acquisition of Clubhouse Hotels by Wyndham Hotels in 1997 was also driven by the desire to achieve superior locations (Malley, 1997). According to Thomas Storey, Doubletree's executive vice president of sales and marketing, "Red Lion has a number of hotels that do a significant amount of group meeting business - a market Doubletree is aggressively trying to tap into to compete with Hilton, Hyatt, Marriott, and other upscale, full-service brands."

Effective due diligence in the acquisition process leads to a deliberate acquisition strategy for the acquiring firm. Henderson (1989) pointed out that the acquirers must be straightforward with targets during due diligence discussions, guide post-acquisition goals by making a responsible statement, and outline how they anticipate accomplishing these goals, while attempting to avoid unrealistic expectations.

Oftentimes, acquiring firms ignore the importance of due diligence in gaining their intended synergy. For example, the recent turmoil surrounding the Cendant Company reflects the strategic aspect of due diligence in acquisitions. HFS and CUC agreed to merge, and then to create Cendant. However, on April 15, 1998, Cendant announced accounting irregularities in CUC's previous years' earnings reports. One professional auditing firm uncovered what was described as the "widespread and systemic practice of overstating or fabricating results" (Business Week, 1998). Given this bad news, Cendant, once highly praised by Wall Street, lost 43 percent, or more than $20 billion, of its market value within a day. Although it is not over yet, as of the writing of this study, it seems obvious that CUC had been "cooking" the accounting numbers. This study identified that due diligence is one of the crucial success factors in the pre-acquisition process.

Sirower (1997) identified four cornerstones of synergy, or elements that are essential in achieving synergy in corporate acquisitions: strategic vision, operating strategy, power and culture, and systems integration. Regarding strategic vision, Sirower (1997) emphasized that the top executives' strategic vision of an acquisition attempt must be shared with such stakeholders as suppliers, customers, lenders, and employees as a crucial framework for planning, discussions, the decision-making process, and possible unforeseen problems. The author further stated that strategic vision should be transparent to large constituents and adaptable to many unidentified situations. This study found this issue to be one of the crucial elements in the pre-acquisition management phase.

In the lodging industry, conventional wisdom is used to measure corporate or an individual property's performance, and includes occupancy rate, revenue per available room (RevPAR), and average daily room rate (ADR), in addition to free cash flow. This study found that the identification of precise information about the trend of the target's above four performance measures is a critical success factor for hotel acquirers in planning and executing the deal.

Ernst &Young (1994) proposed a general guide for information that should be collected during the target's evaluation. On the financial side, Ernst & Young (1994) pointed out the importance of the target firm's capital expenditure requirements after the deal is done. This study found the importance of information about the target's capital expenditure requirements as one of the important key success factors in evaluating the deal. In the lodging industry, cyclical renovation of an individual hotel property is a crucial factor in capital expenditures.

Depending solely on public information is a disadvantage for the acquiring firm. The acquirer must rely on the accuracy of financial statements, which may not be sufficiently detailed to give an accurate picture of the target's financial condition. In 1988, Merv Griffin acquired Donald Trump's Resorts International, Inc. and then problems arose after the deal was closed. Part of the problem was due to an inaccurate projection of the cash flows of Resorts, as well as the underestimated cost of maintaining some of Resort's assets. For example, renovation costs for the hotel-casino in Atlantic City and the firm's facilities on Paradise Island in the Bahamas proved to be higher than expected. Griffin estimated that the renovation costs would run to some $50 million. However, after the deal was done, he discovered that at least $100 million would be necessary (Yoshihashi & Barsky, 1989). It is clear that the value of Resort's assets was overestimated.

Brand is an intangible asset, but oftentimes possesses much more value than tangible assets. In the hotel business, a hotel chain's brand is a crucial source of comparative advantage in keen competition. Parr (1993) pointed out, "the brand may be worth more to the buyer than the seller because the deal unlocks hidden values. Under accounting rules, the company that developed a brand cannot assign it a value or carry it on the balance sheet as an identifiable intangible asset. But once the brand changes hands, the buyer can value it and plug it into the balance sheet" (p. 36).

McCann (1996) identified the major strategic gains pursued by service firms. The author 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) an enlarged asset base, and (7) acquisition of management expertise. The author also identified the degree of importance of these factors, as shown in the order introduced. Similarly, this study identified that a potential improvement in brand and reputation is a critical success factor in lodging industry acquisitions. One participant of this study mentioned that the takeover of Westin and ITT by Starwood, Extended Stay America's acquisition of Studio Plus, and Patriot American Hospitality's merger with Wyndham had been driven by well-established brands where strategic conversion or reflagging opportunities were vital (Malley, 1997).

Datta, Pinches & Narayanan (1992) identified some key factors which may explain differences in value creation, including: (1) the number of bidders; (2) the bidder's acquisition approach (i.e., merger vs. tender offer); and (3) the method of payment (i.e., cash vs. stock). Ikenberry, Lakonishok & Vermaelen (1995) found that cash tender offers earn more, by an average of 12 percent, than stock offers. Loughran & Vijh (1997) pointed out that the acquiring firms tend to choose stock offers when their stock is overvalued, and cash offers when their stock is undervalued. Further, Sirower (1997) found that market-adjusted gains from cash offers were consistently higher than stock offer acquisitions. This study found the payment method as one of the critical success factors in the pre-acquisition stage. In contrast, two other factors (mode of acquisition and contested bid) received moderate importance.

In sum, as shown in Table 69, among other dimensions, the information dimension received the most significant attention because among the top ten CSFs four items were categorized in the information dimension. This reflects that the attainment and evaluation of information about the target is the most important dimension in the pre-acquisition management phase.

This next section will discuss some contradictory findings of the study in the pre-acquisition process. In a rational choice perspective of corporate acquisitions, there are two key points: strategic fit and organizational fit (or cultural fit). The strategic fit between the acquirer and the target is concerned with “how the distinctive competencies of the target could be combined with those of the suitor to create additional value” (Jemison & Sitkin, 1986[1]). The organizational fit deals with such aspects as the impact of acquisitions on individual motivation and productivity (Graves, 1981; Marks, 1982) and the difficulties encountered in the matching firm’s or CEO’s operating styles (Barrett, 1973; Kitching, 1967), or management control systems (Leighton & Tod, 1969). Weber, Shenkar & Raveh (1996) stated that, “Management should pay at least as much attention to cultural fit during both the pre-merger search process and during the post-merger integration process as it does to finance and strategic factors. A lack of cultural fit may undermine the prospect of achieving synergy or add cost to the integration process, thus offsetting one of the main raison-d’etre of the merger” (p.1225).

Surprisingly, this study found strategic fit as only a moderately important factor in the pre-acquisition management stage. More importantly, this study identified that the cultural fit between two firms was the second least important factor within the study’s framework, which presented 25 diverse influential items in the pre-acquisition process. A tentative speculation about this issue is that both strategic fit and cultural fit may be too broad a concept compared to other items, and is less tangible or manageable.

A wide range of involvement, especially among operating managers and key staff people, can facilitate better strategic choices by fostering a broader information base and greater commitment from those who will have to implement the decisions made during the acquisition process (Drucker, 1981; Searby, 1969). However, according to the study’s results, hoteliers undervalued the importance of the broad involvement of key staff and employees in the planning of an acquisition. Two participants’ comments can help explain this result. They said that in the beginning of an acquisition attempt, only a few people, such as CEOs and CFOs, know their strategic plan so that maintaining secrecy for awhile is crucial to a successful deal. Copeland, Koller & Murrin (1995) also emphasized the importance of this secrecy in the initial stage of the deal.

Another interesting finding was that hotel acquirers ranked advice from investment bankers as one of the least important factors in the pre-acquisition process, as opposed to the opinion suggested by Copeland, Koller & Murrin (1994), who advocated the importance of advice from investment bankers. Finally, most interestingly, this study found the information about the target’s connectivity and compatibility with the acquiring firm’s information systems to be the least important factor in managing pre-acquisition. Further discussion of this issue will be presented in the post-acquisition integration section.

Table 69. Critical Success Factors and their Dimension in the Pre-Acquisition Process

Variable	**Mean Rating**	**Dimension**
Identify the trend of target's cash flow from operations	3.76	Information
Identify potential operating synergy (i.e., improved operating efficiency)	3.67	Value
Extent of accretion or dilution of stock/Cash Flow/FFO	3.67	Price
Identify the target's property locations of market served	3.62	Information
Due diligence	3.62	Approach
Understanding how various constituents will react to the deal (i.e., shareholders)	3.58	Approach
Identify the trend of target's overall performance (i.e., occupancy, RevPAR, free cash flow, and ADR)	3.52	Information
Identify the target's capital expenditure requirements (i.e., properties' potential renovation costs)	3.52	Information
Identify potential improvements in brand & reputation	3.52	Value
Method of payment (i.e., cash, stock, etc)	3.48	Approach
Identify strategic relatedness between the acquirer and the target	3.38	Information
Identify the fact that the present value of anticipated synergies will be greater than the premium paid	3.33	Price
Amount of acquisition premium	3.29	Price
Mode of acquisition (i.e., merger, hostile takeover, etc)	3.29	Approach
Identify potential financial synergy (i.e., lower cost of capital, lower tax rate)	3.24	Value
Bidding price is based upon the target's competitive position in the lodging industry	3.14	Price
Multiple bidders (i.e., contested bid)	3.10	Approach
Identify potential demand for products/services of combined firm over the next five years	3.05	Value
Identify potential managerial synergy (i.e., enhanced target's competitive position by transferring management expertise by the acquirer)	2.95	Value
Identify the target's management fees and franchise fees	2.95	Information
Broad involvement throughout of the acquirer's key staffs and employees in the planning of an acquisition	2.95	Approach
Getting advice from best investment bankers	2.81	Approach
Identify the target's capital structure and cost of capital	2.76	Information
Identify the target's distinctive cultural aspects compared to the acquiring company	2.43	Information
Identify the target's connectivity and compatibility with the acquirer's information systems infrastructure	2.24	Information

Critical Success Factors in the Post-Acquisition Integration Phase

This section will focus on correlating the study's findings and previous research on key success factors in the post-acquisition integration phase. The lack of systematic and thorough attention paid to the potential problems of post-acquisition integration appears to reflect the difficulty of recognizing the process itself as part of the problem (Jemison & Sitkin, 1986[1]). Differences in management styles, threats of layoffs, initial inequities in compensation programs, authority superimposed on the target firm, and an increase in size of the acquiring firm are administrative factors that may hurt the anticipated benefits of acquisitions (Lubatkin, 1983). Further, Smith & Hershman (1997) stated that "only post-merger management of an acquisition has really made a difference in determining the odds of value-creation in the major deals of the last decade" (p. 39). The authors considered post-acquisition management as the single most important determinant of a successful acquisition.

Ashkenas, DeMonaco, & Francis (1998) discussed the acquisition integration process framework that was utilized by GE Capital Services. The authors argued that acquisition integration is not a distinct step of a transaction and should not begin only after the deal is done. Instead, acquisition integration and due diligence processes should be planned, concurrent, and should be managed as an ongoing task. Similarly, this study found that the establishment of a post-acquisition integration plan early in the process was by far the most important critical success factor after the deal is closed. Therefore, post-acquisition strategy should be planned from the very first stage of the overall acquisition management process, and should be managed incrementally.

Corporate acquisitions consist of not only the acquisition of assets and technology, but also people (De Noble et al., 1997). Bergsman (1997) provides a suggestion for acquirers regarding the value of the target's people by saying, "If IBM acquires Microsoft and Bill Gates decides to join another company, is IBM buying the full value of Microsoft?" (p. 60). Proper management of acquired personnel can have a tremendous impact on creating value for the acquirers. This study found that the identification and retention of the target's key managers and employees was the second most important critical success factor in the post-acquisition integration phase. The integration, retention, and motivation of key employees from merging firms is central to a successful acquisition (Henderson, 1989; Ashkenas et al., 1998; Barney, 1988; Cannella & Hambrick, 1993; Grundy, 1992).

When the acquirer considers post-acquisition integration in terms of organizational structure, it may be advantageous to analyze and synthesize the structural influence of the united firm. Pablo (1994) analyzed post-acquisition integration problems by defining levels of integration as "the degree of post-acquisition change in an organization's technical, administrative, and cultural configuration" (p.806). There are three levels of integration: low, moderate, and high. Pablo identified five determinants of the level of integration, including:

strategic task needs, organizational task needs, multiculturalism of acquirer, compatibility of acquisition visions, and power differential.

Likewise, this study found that the determination of the degree of post-acquisition integration was the third most important critical success factor after the deal is closed. According to Pablo (1994), the acquiring firm's competence in enforcing its prosperity immediately after the takeover deal, and compatibility between the acquirer and the target firms become key factors in the post-acquisition management process.

Napier (1989) stated that collaborative mergers occur when a combined firm generates benefits through a blend of operations, assets, cultures, and managerial functions (synergy-collaborative), or through a transformation of know-how, skills, and knowledge of each other (exchange-collaborative). Speedy and collaborative work is the best way to resolve business problems and achieve continuing, positive results (Ashkenas et al., 1998). Jointly formulating an integration plan, including 100-day and communication plans, can effectively improve the combined firm's performance. Similarly, this study found that the development of a formal integration plan by top management teams of merging firms was one of the distinctively important key success factors in managing the post-acquisition process.

In order to be certain of their acquisition objectives, acquiring firms should establish an effective communication strategy to keep employees well informed and to provide them with a comfortable working environment. Raab & Clark (1992) stated that, "Communications must be frequent and clear but should not unduly raise expectations," and "communications to employees need to start on the day the deal is announced and include the objectives and benefits of the combination and the implementation process and time frames" (p. 20). The current study found this effective communications strategy to be one of the notably important factors in the transition process. Based upon a good communication strategy, the acquirers should able to integrate two different cultures and power systems, two different human resource policies, two different organizational issues, and two different operational strategies.

In corporate acquisitions, culture can have an instrumental effect on both the coordination and control functions of integration, as it can operate to generate commitment to the larger organization (Siehl & Martin, 1981), can improve organizational soundness in a circumstance of radical change (Louis, 1980), and can carry out a sense of unity to the members of the entire organization (Deal & Kennedy, 1982). This study found that the establishment of a sense of unity between merging firms was one of the important factors in the post-acquisition integration phase. In order to build a sense of unity, Kotter & Schlesinger’s (1979) six recommendations can be useful: education and communication, participation and involvement, facilitation and support, negotiation and support, manipulation and co-optation, and explicit and implicit coercion.

Sirower (1997) emphasized the alignment between the strategic vision of a pending acquisition and an explicit operating strategy and argued that without a matched operating strategy, the strategic vision or intent is “just words.” Sirower (1997) further argued that “The operating strategy must address how the new company will be more competitive along the entire value chain of the businesses. Acquisitions are often an attempt to divert attention away from a failing core business with the hope that the acquisition might provide a miracle for the acquirer. If answers are not forthcoming to the contestability questions, what becomes obvious is a vision with no strategy that will increase competitiveness or generate performance gains” (p. 32). This study identified that the keen alignment of acquisition intent and a suitable operating strategy is one of the crucial elements of a successful deal.

Rappaport (1998) stated that business value relies on seven financial value drivers: sales revenue growth, operating profit margin, incremental fixed capital investment, incremental working capital investment, cash tax rate, cost of capital, and value growth duration. However, these seven value drivers are too broad to link to operating strategies. The combined firms’ managers must be able to identify and develop micro value drivers that reflect the extent of the seven macro value drivers. This study found that the accurate identification and intensification of both the macro and micro value drivers of the acquisition were important key success factors to create value through acquisitions.

Again, Ashkenas, DeMonaco, & Francis (1998) identified the acquisition integration process framework that was utilized by GE Capital Services. They pointed out that GE’s post-acquisition integration plan began at due diligence in the pre-acquisition stage. The authors divided the post-acquisition plan into four steps: pre-acquisition, foundation building, rapid integration, and assimilation. Further, the foundation building process was divided into three sub-steps: launch, acquisition integration workout, and strategy formulation. In this foundation building stage, the authors emphasized the importance of providing sufficient resources in integration as one of the most effective practices learned from GE Capital. Integration implementation issues are manifested in various ways. The intricacies and complexities require satisfactory resource deployments (Marks & Mirvis, 1998). Similarly, this study identified this item as a crucial success component for hotel acquirers.

As mentioned in the pre-acquisition management phase in this chapter, Sirower (1997) emphasized that the acquirer's strategic vision or acquisition intent must be shared with various stakeholders such as suppliers, customers, lenders, and employees as a framework for planning, discussions, and the decision-making process. The author argued that strategic vision should be clear to large numbers of the constituents of the deal. This study identified that an exceptional public relations strategy is one of the important elements in the pre-acquisition management phase.

In sum, as shown in Table 70, the approach dimension received the highest attention because among the top ten CSFs, seven variables were occupied by the approach dimension. This represents the fact that an effective, immediate transition strategy must be considered as significant in the post-acquisition integration process for hotel acquirers.

Also, in the post-acquisition integration phase, there are some contradictory facts that resulted from this study. First, previous research emphasized rapid movement after the deal is closed, as planned by the acquirers (Ashkenas et al., 1998; Smith & Hershman, 1997; Copeland, Koller & Mullin, 1994). However, this study supported this factor only as being of moderate importance. Marks & Mirvis (1998) supported this result by saying that a careful approach is much more time-consuming and labor-intensive, but worth the investment. The authors further argued that rushed implementations or decisions can result in picking the wrong managers and employees, or systems that oppress the united firm.

Second, in the pre-acquisitions management phase, information about connectivity and compatibility between merging firms was not viewed as an important factor. However, in the post-acquisition integration stage, the integration of information systems of two firms received the highest of the moderate rankings. Moad & Carlyle (1988) identified that senior managers often view information systems as the cost of doing business, rather than a significant contribution to their competitive effectiveness. The reasons for this lack of attention to IS are lack of time, the low priority of IS functions compared to other functional activities (Harvey, 1990), or that IS activities are not discussed or represented by the acquisition management team in the pre-acquisition phase (Loverde, 1990; Harvey, 1990).

Through this study, it was found that less attention has been paid to the role of IS in firms engaged in acquisition activities before the deal is completed (Weber & Piskin, 1996; Johnson, 1989; Bohl, 1989; McCatney & Kelly, 1984). Improved attention after the deal is done can be interpreted that although hotel acquirers perceived the importance of the consolidation of two firms' information systems, this technical problem is not a significant consideration in strategic deals made for the purpose of growth momentum. However, lodging industry acquirers have realized the implications of information systems for seizing immediate opportunities for the combined firm.

Third, the current study found that the injection of a new management team into the target firm immediately after the deal is closed is one of the least important factors. Hotel acquirers prefer collaborative integration, as evidenced by the panel's choice of two collaborative integration characteristics (or factors), including: identify and retain key employees and managers of the target, and develop a formal integration plan by top management teams of both companies, as very important key success factors in the integration process. That is, hotel acquirers like to utilize the target's existing expertise for the combined entity.

Finally, one of the contradictory findings of this study was that the establishment of new procedures for competitor analysis was selected as the least important factor after the deal is done. Sirower (1997) argued that acquiring firms should consider whether competitors will react effectively and to the disadvantage of the merged firm. This "contestability" factor was largely ignored in this study.

Based upon the two stages, pre-acquisition management and post-acquisition integration, some meaningful findings have emerged. First, in general, this study found that hotel executives and industry specialists voted higher rankings for variables in the pre-acquisition stage than the post-acquisition stage, as shown in Tables 69 and 70. It can be argued that this is one of the reasons why some acquisition deals have failed. Supporting this argument, Smith & Hershman (1997) stated that only post-acquisition management is an essential source of value creation in the major deals of the last decade. Second, in both the pre- and post-acquisition stages, this study identified that hotel executives emphasized the importance of an incipient platform in both stages more than other dimensions. The evaluation of the target's information received the highest ranking before the deal, while effective post-acquisition transition management practices, particularly for immediately after the deal is completed, received the highest value in the post-acquisition process. These two issues usually were considerations in the very first stage in both processes.

Table 70. Critical Success Factors and their Dimension in the Post-Acquisition Integration

Variable	**Mean Rating**	**Dimension**
Establish a post-acquisition strategy early in the process	3.81	Approach
Identify and retain key employees and managers of the target	3.67	People
Determine the degree of post-acquisition integration (i.e., extensive, moderate, no interruption of the target's autonomy)	3.62	Approach
Develop a formal integration plan by top management teams of both companies	3.48	Approach
Establish an effective communication strategy to keep the target's employees well informed	3.48	Approach
Establish a sense of unity between the two firms	3.43	Culture
Align acquisition intent and operating strategy	3.43	Strategy
Identify the value drivers of the acquisition and focus on these	3.40	Approach
Provide sufficient resources for post-acquisition integration	3.33	Approach
Public Relations – Orchestrate effective communication with the public	3.30	Approach
Move rapidly as planned	3.29	Approach
Integration of information systems infrastructure between merging firms	3.24	Organization
Immediate announcement of career influencing post-acquisition plans (i.e., key roles and responsibilities, layoff plans, etc)	3.19	People
Deal with the people you are not retaining firmly, fairly, and quickly	3.15	People
Establish an efficient resource allocation system	3.10	Organization
Establish appropriate internal mechanisms for transferring competencies and assets across the business units	3.05	Organization
Link compensation to improvements in cash flows	3.00	People
Differences in management style between merging firms	3.00	Culture
Degree of centralization and autonomy of the target's employees	3.00	Culture
Identify a new set of opportunities for enhancement of competitive position of merged firm	2.95	Strategy
Establish procedures for building common tools, practices, processes, and languages	2.86	Organization
Assimilate the acquirer's cultural systems (i.e., values, norms) into the target's culture	2.71	Culture
Establish a new set of competitive methods (i.e., portfolios of products/services)	2.52	Strategy
Inject new management people into the target firm immediately	2.38	Approach
Establish new training and development programs	2.19	People
Establish new performance appraisal programs	2.14	People
Establish new procedures for competitor analyses	2.10	Strategy

Most Relevant Post-Acquisition Performance Evaluation Criteria

This section will discuss the most appropriate evaluation criteria for post-acquisition performance in the lodging industry in detail. In corporate acquisitions, although there is no firm agreement on the most accurate measure of appropriate post-deal financial performance, in general, there are two widely adopted performance measures: accounting profits and stock returns (Cochran & Wood, 1984).

However, accounting profitability's integrity has been brought into question because it inherently possesses biases and distortions, including changes in the bargaining power of merging partners, changes in sales to one another's customers, changes in tax implications, gearing ratios or leverage ratios, changes in accounting norms in the year of the acquisition, and changes in goodwill arising from the acquisition (Meeks & Meeks, 1981). Although it has been often considered as an obsolete measure in the current financial world, surprisingly, accounting measures captured the highest ranking in the "moderate" category.

Stock price perspective studies (primarily event studies) have had little success in relating the market value of equity gains to improvements in corresponding corporate performance (Caves, 1989). This implies that stock value advances could be due to capital market inefficiency stemming from the production of an overvalued security (Healy et al., 1992). In order to decide whether success or failure in acquisition deals are from real economic gains or capital market inefficiencies, share price research has analyzed unsuccessful acquisitions (Bradly, Desai, and Kim, 1983; Ruback, 1988). Healy et al (1992) further criticized stock performance studies, citing that they fail to determine whether acquisitions create pure economic returns, and to identify the sources of such gains. This study found that two categories of stock price performance measures were perceived as by far the least important yardstick to measure real economic gains from corporate acquisitions in the lodging industry.

In contrast, value-based management (VBM)'s economic performance measures, such as return on invested capital (ROIC), free cash flow per share, and operating cash flows, gained the highest ranking in this study. In a value-based management approach, company or business value is decided by its future discounted cash flow generation capability, and value is created only when firms invest capital that exceeds the cost of capital (Copeland, Koller & Mullin, 1994). Further, this approach emphasized that there are two core figures for drivers of cash flow, and ultimately value: growth and ROIC. In sum, this study's results reflect the ubiquitous popularity of VBM nowadays.

However, in the section concerning acquisition objectives, this study identified that one of the most important acquisition intents by hotel firms is accretively to enhance shareholders' wealth. However, stock price measures were not of interest to the hotel executives participating in this study. It can be speculated that hotel managers prefer a cash flow measure because it seems more manageable and tangible to them, rather than the volatile and relatively short-term gain characteristics of stock price measures. Or, it is merely a fact of the agency theory in financial economics. On the other hand, hotel executives chose growth as the most important goal in executing acquisition deals. This view correlates with ROIC and other VBM performance measure items. However, additional research is needed to validate or reject this finding.

It is recommended that a better approach for evaluating value both before and after the acquisition deal is a triangulation approach. For example, Wasserstein (1998) suggested a triangulation process in pre-acquisition valuation by saying that, "The outputs of various models are assessed with an understanding of the limitations of each technique and what assumptions were used as inputs. Even if the models are perfect, the room for fundamental error is huge because models assume a projection of future value based on the world of today. In addition, the terminal value in the DCF model, and the comparable companies in that analysis, reflect today's market value" (p. 531).

In terms of a triangulation viewpoint, hotel executives' revealed a highly biased interest in the VBM performance measures shown in this study. It is suggested that they consider a more balanced perspective. It may be argued that hotel executives are correct on many points, but are wrong on the key point of: protecting and enhancing shareholders' value.

Differences between Hoteliers and Non-hoteliers

In this section, the discussion will be focused on the perceived differences between two groups, hoteliers and non-hoteliers, in the overall acquisition process. Table 71 represents the differences between these groups on particular variables. In general, throughout the study, it was indicated that non-hoteliers showed less biased opinions. It is true that non-hoteliers possessed broader viewpoints than their counterparts (Walter & Barney, 1986). In contrast, hoteliers tended to express their own company-specific opinions. Some hotel executives justified their votes based upon their company-specific acquisition backgrounds when their views differed widely from the majority view. Non-hoteliers ranked one acquisition objective (broaden the acquiring firm's customer base by extending products and services [i.e., portfolio management and globalization]) as more important than did hotel executives. As mentioned before in the acquisition objective section, it was indicated that hotel acquirers executed acquisitions based upon this crucial objective for growth.

Another interesting difference between groups is that non-hoteliers unanimously voted the highest rank (4) on two related items (target's cash flow from operations and operating synergy of a combined firm), while hoteliers rated these variables statistically as less significant. However, this was a contradictory finding based upon the above discussion, because in performance measures, non-hoteliers ranked accounting profits as more important than did hotel executives, whereas hoteliers placed greater importance on conventional lodging industry performance measures (i.e., occupancy, RevPAR, and ADR) than did non-hoteliers.

Table 71. Differences between the Two Groups: Hoteliers and Non-hoteliers

Variable	**Hoteliers**		**Non-hoteliers**	
	N	**Mean**	**N**	**Mean**
#4	14	2.64	7	3.43
#9	14	3.64	7	4.00
#17	14	3.50	7	4.00
#22	14	3.57	7	2.86
#39	14	3.50	7	4.00
#41	14	2.43	7	1.71
#48	14	2.86	7	3.43
#54	14	3.21	7	3.86
#59	14	3.57	7	3.00

Chapter Summary

In this chapter, the research results presented in Chapter 4 were discussed. The variables were discussed whenever the statistics suggested or supported significant results or implications. The discussion focused on the matched relationship between the study's findings and the theoretical underpinnings of this study's research framework, that were extracted from the literature. In addition, when necessary, real hotel industry facts were presented to reinforce the relationship between the framework and findings.

In addition to the discussion of the study's results, three important discoveries were presented. First, this study found that hotel executives tended to emphasize issues arising before the deal, rather than issues arising after the deal is closed. Second, this study identified that hotel acquirers emphasized the importance of the initial stage in both the pre- and post-acquisition processes, such as target evaluation as a pre- and immediate transition strategy in the post-acquisition stage. Finally, non-hoteliers revealed relatively more unbiased opinions than did hoteliers throughout the study. In the following chapter, conclusions drawn from the data, the limitations of this research, and recommendations for future research will be presented.