THE POST-ACQUISITION PERFORMANCE

IN THE HOTEL AND RESTAURANT

INDUSTRIES

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DEDICATION

This dissertation is dedicated to my father, Hak-Rae Kim, and my mother, Jae-Ok Kim.

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For the memory of the past, the delight of the present, and the glory of the future

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CHAPTER I

INTRODUCTION

1. Background

Introduction

Mergers, acquisitions, and takeovers indicate a situation where independently owned firms join under the same ownership (Shy, 1995). In a basic sense, they describe a combination of two companies and refer to the purchase (or sale) of a company, in whole or in part. The US Federal Trade Commission classified mergers and acquisitions into horizontal, vertical, and conglomerate based on the competitive relationships between the merging parties. A horizontal merger occurs when two companies in the same industry merge, indicating that the two companies are direct competitors prior to the merger. On the other hand, a vertical merger occurs when two companies that have a potential buyer-seller relationship. Finally, a conglomerate merger occurs when firms in different lines of business merge under the same ownership, indicating that the two firms have no evident relationship before the merger. Conglomerate mergers are further classified into three categories; product extension, market extension, and other conglomerate. A production extension merger occurs when a firm producing one product acquires a firm that makes a

different product that requires the application of similar manufacturing or marketing techniques. On the contrary, a market extension merger occurs when acquiring and acquired firms produce the same product but sell the product in different geographic markets. This merger is also referred to as a geographic extension merger. Finance literature illustrates various reasons for corporate mergers and acquisitions. The ultimate goal of any merger or acquisition might be to create synergy by enhancing competitiveness through economies of scale and scope. In the next section, a historical overview and motives (or objectives) of corporate mergers and acquisitions are provided.

Historical Overview

The number and size of corporate mergers and acquisitions continue to increase at an exponential rate. According to Town (1992), the best characterization of mergers and acquisitions over time is that they occur in waves. Indeed, economic analysts have also stated that corporate mergers occur in waves. In other words, there are short periods of intense merger and acquisition activities of corporations. According to MERGERSTAT (2004), there are seven periods of intense merger and acquisition activities since the 20th century. They are as follows (MERGERSTAT, 2004, p.4);

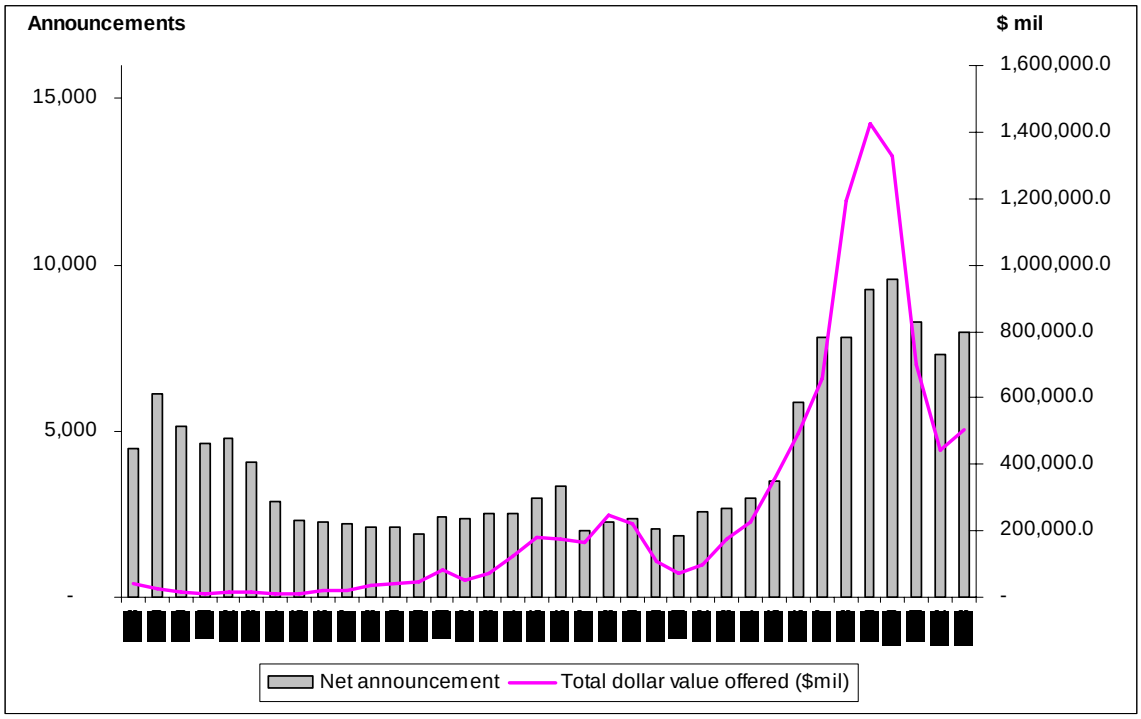
- 1893 – 1904: activity dominated by same industry consolidations of many small firms, resulting in monopolistic entities. Some believe the Sherman Antitrust Act of 1890 helped foster these horizontal mergers since the Sherman Act outlawed collusion, but not mergers.
- 1915 – 1929: characterized by horizontal mergers of secondary firms, resulting in oligopolies, in which a few large firms dominated an industry.
- 1940s: activity consisted of friendly acquisitions of many small, privately held businesses by large companies. Burdensome estate taxes forced smaller corporate owners to sell out.

- Mid-1950s – 1969: identified as the longest and largest merger and acquisition wave with the highest number of transactions. Conglomerate mergers were characterized by small and medium-sized companies acquiring other small and medium-sized firms in unrelated industries. The conglomerate merger wave was propelled by the theory of diversification, which held that the control of a variety of businesses would lessen the risk of business cycles.
- Mid-1970s – 1980s: characterized by two main trends: takeovers of very large, public corporations and the divestiture of unrelated or unprofitable operations. As a result, the number of deals announced began to decline in the mid-1970s and in turn, the dollar value offered began to steadily increase. The 1980s ushered in a decade of megadeals with the overall acceptance of hostile takeovers, leveraged buyouts and strategic megamergers. The introduction of the junk bond market made financing easier to obtain and allowed banks and brokerage firms to fund LBOs.
- 1990s: driven by deregulation and consolidation, the banking, utilities, office supply, and health care industries have combined their operations to increase market share, achieve economies of scale and expand product offerings. This period has been characterized by megadeals creating dominant market players. The globalization of business has also been a catalyst for megadeals.
- 2000-2003: the new millennium started with the M&A market at an all-time peak in dealflow. The market then steadily declined in 2001 and 2002, driven lower by the bursting of the Internet bubble, recession in the overall economy, corporate scandals, terrorist attack, and conflict with Iraq. After a slow start in 2003, the market turned the corner of the strength of private equity firms deploying more capital and buying more US companies than at any other time. By the end of 2003, the US M&A market saw a return of more strategic buyers, more megadeal announcements, and the first increase in the number of deals and in total deal value since 2000.

It is notable that there have been recent increases in corporate mergers and acquisitions in terms of both number of announcements and dollar value. As seen in Figure 1-1, the number of announcements of worldwide mergers and acquisitions increased more than threefold between 1994 and 2000. Moreover, the dollar value of worldwide mergers and acquisitions increased nearly fivefold for the same time period. Even though the mergers and acquisitions market experienced a decline between 2001

and 2002 due to worldwide economic downturn, the market started to recover in the year of 2003.

Figure 1-1. Trend in worldwide mergers and acquisitions



Source: MERGERSTAT Review, 1988 and 2004

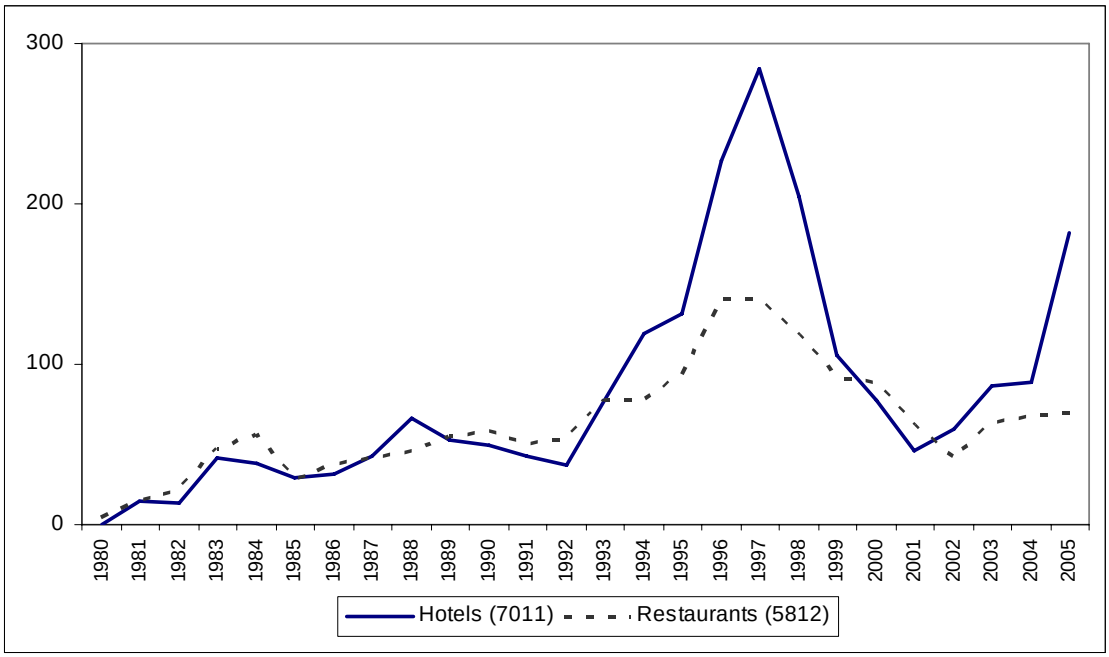
Table 1-1. Worldwide merger and acquisition announcements (1968 – 2003)

Year	Net announcement	Total dollar value offered [a] ($mil)	Base [b]
1968	4,462	43,609.0	1,514
1969	6,107	23,710.9	2,300
1970	5,152	16,414.9	1,671
1971	4,608	12,619.3	1,707
1972	4,801	16,680.5	1,930
1973	4,040	16,664.5	1,574
1974	2,861	12,465.6	995
1975	2,297	11,796.4	848
1976	2,276	20,029.5	998
1977	2,224	21,937.1	1,032
1978	2,106	34,180.4	1,071
1979	2,128	43,535.1	1,047
1980	1,889	44,345.7	890
1981	2,395	82,617.6	1,126
1982	2,346	53,754.5	930
1983	2,533	73,080.5	1,077
1984	2,543	122,223.7	1,084
1985	3,001	179,767.5	1,320
1986	3,336	173,136.9	1,468
1987	2,032	163,686.3	972
1988	2,258	246,875.1	1,149
1989	2,366	221,085.1	1,092
1990	2,074	108,151.7	856
1991	1,877	71,163.8	722
1992	2,574	96,688.3	950
1993	2,663	176,399.6	1,081
1994	2,997	226,670.8	1,348
1995	3,510	356,016.4	1,735
1996	5,848	494,962.1	2,658
1997	7,800	657,062.6	3,013
1998	7,809	1,191,861.1	3,091
1999	9,278	1,425,884.8	3,384
2000	9,566	1,325,734.4	3,757
2001	8,290	699,398.4	2,997
2002	7,303	440,701.0	2,839
2003	7,983	504,596.2	2,927

Source: MERGERSTAT Review, 1988 and 2004
a: This column is based on base (b) which disclose dollar value.

The hospitality industry is not exempt from this gigantic merger wave of recent years. As a matter of fact, the industry has experienced noteworthy transformation in recent years resulting in fewer and larger hospitality companies. Specifically, there has been a sharp increase in the number of mergers and acquisitions since the 1990s. Figure 1-2 and Table 1-2 present descriptive statistics of US hospitality firms' mergers and acquisitions. Figure 1-2 plots the number of completed acquisitions in the US hotel and restaurant industries by year. As seen in Figure 1-2, hospitality firms' merger and acquisition activities have been brisk in the recent past, especially in the late 1990s.

Figure 1-2. Trend in US hospitality firms' mergers and acquisitions



Source: Securities Data Company (SDC)

Table 1-2. Completed mergers and acquisitions in the US hospitality industry

Year	Hotels (SIC code: 7011)[a]	Restaurants (SIC code: 5812)[a]
1980	0	4
1981	15	15
1982	14	22
1983	42	47
1984	38	56
1985	29	28
1986	31	38
1987	43	42
1988	66	46
1989	53	55
1990	49	58
1991	43	51
1992	37	54
1993	78	77
1994	119	78
1995	132	93
1996	227	141
1997	284	140
1998	204	118
1999	106	92
2000	77	89
2001	46	62
2002	60	42
2003	87	63
2004	89	68
2005	182	70

Source: Securities Data Company (SDC)

In spite of the similarity of the mergers and acquisitions trends between the hospitality industry and the overall corporate mergers and acquisitions market, there is a noticeable difference between them. That is, the hospitality mergers and acquisition market moves faster than the overall mergers and acquisition market. The number of announcements and dollar value of mergers and acquisitions in the hospitality industry started to decrease in 1998, whereas the overall corporate mergers and acquisitions

market started to decrease in 2001. In addition, the mergers and acquisitions market in the hotel industry started to recover in 2002, whereas the overall corporate mergers and acquisitions market started to improve in 2003. This depicts that the hospitality industry is sensitive to the overall economic conditions and the merger and acquisition market of the hospitality industry reacts faster to economic changes than that of other industries.

Motives of Mergers and Acquisitions

Corporate mergers and acquisitions are considered primary expansion and growth strategies nowadays. However, related studies have reported that mergers and acquisitions occur for a variety of reasons. Researchers have shown interests in why mergers and acquisitions occur. Particularly, Ansoff, Brandenburg, Portner, and Radosevich (1971) summarized motives for mergers by US manufacturing firms as follows: 1) a desire to limit competition or achieve monopoly profits, 2) a desire to utilize unutilized market power, 3) a response to shrinking opportunities for growth and/or profit in one's own industry due to shrinking demand or excessive competition, 4) a desire to diversify to reduce the risks of business, 5) a desire to achieve a large enough size to realize and economical scale of production and/or distribution, 6) a desire to overcome critical lacks in one's own company by acquiring the necessary complementary resources, patents, or factors of production, 7) a desire to achieve sufficient size to have efficient access to capital markets or inexpensive advertising, 8) a desire to utilize more fully particular resources or personnel controlled by the firm, with particular applicability to managerial skills, 9) a desire to displace an existing management, 10) a desire to utilize tax loopholes not available without merging, 11) a desire to reap the promotional or

speculative gains attendant upon new security issues, or changed price earnings rations, 12) a desire of managers to create an image of themselves aggressive managers who recognize a good thing when they see it, and 13) a desire of managers to manager an ever-growing set of subordinates.

Ikeda and Doi (1983) also documented seven common motives for corporate mergers and acquisitions. They were 1) increasing market share or market power, 2) increasing efficiency, especially realization of scale economies, 3) increase of research and development (R&D), 4) investment adjustment or avoidance of overlapping investment, 5) promotion of fundraising capacity, 6) firm growth, and 7) reducing risk of business. Further, they condensed the seven common merger motives into four broader categories; 1) increasing market share or market power, 2) increasing efficiency, 3) firm growth, and 4) increase of research and development.

Trautwein (1990) took a theoretical approach to explain merger motives and provided seven theories of merger motives. They were efficiency theory, monopoly theory, raider theory, valuation theory, empire-building theory, process theory, and disturbance theory. According to Trautwein (1990), efficiency theory views mergers as being planned and executed to achieve net gains through synergies, monopoly theory argues mergers as being planned and executed to achieve market power, raider theory also views mergers as being planned and executed to transfer wealth from target's shareholders to acquirer's shareholders, valuation theory likewise views that mergers are planned and executed by managers who have better information about the target's value than the stock market, empire-building theory argues that mergers are planned and executed by managers who thereby maximize their own utility instead of their

shareholders' value, process theory, unlike the previously mentioned five merger motives, views mergers as an outcome of the strategic decision process, and finally disturbance theory views mergers as macroeconomic phenomenon and argues that merger waves are caused by economic disturbances.

On the other hand, Walter and Barney (1990) conducted personal interviews with professionals in mergers and acquisitions and concluded that types of managerial objectives determined types of mergers and acquisitions. Specifically, they found five different objectives of corporate mergers and acquisitions using a cluster analysis. The five objectives in the study were; 1) mergers are a way managers obtain and exploit economies of scale and scope, 2) mergers are a way managers deal with critical and ongoing interdependencies with others in a firm's environment, 3) mergers are a way managers expand current product lines and markets, 4) mergers are a way managers enter new business, and lastly 5) mergers are a way managers maximize and utilize financial capability.

In a more recent study, Paulter (2003) summarized the most common merger and acquisition motives. By reviewing related literature, Paulter (2003) argued that corporate merger and acquisition activities are more than a simple business extension and classified merger motives into six categories; 1) efficiencies, 2) financial and tax benefits, 3) market power effects, 4) management greed, self-aggrandizement, or hubris, 5) obtaining a good buy, and 6) stakeholder expropriation.

In the field of the hospitality industry, Kim and Olsen (1999) investigated important acquisition objectives in the lodging industry using the Delphi technique. The panel of the study indicated that the most important objective of acquisitions in the

lodging industry was to accelerate growth of the acquiring company followed by to acquire accretively to enhance stockholders' value, to expand capacity at less cost than constructing new hotel properties, to capture scale economies to save costs through combining two firms within an industry, to utilize synergistic attributes of the acquired company with reference to the acquiring company, to broaden the acquiring company's customer base by extending products and services (i.e., application of portfolio management, globalization), to improve credit capacity of resultant company, and to achieve the personal goals, vision, and particular objectives of the acquiring company's chief executive. Corporate mergers and acquisitions are complicated business propositions and, as stated previously, there are various merger motives/objectives. However, those motives are not completely independent and separated. In most cases, more than one motive might be at work in corporate merger and acquisition activities.

2. Research Motives and Objectives

In the modern business environment, it is considered that corporate mergers and acquisitions are key growth strategies for any corporation. While aforementioned motives or objectives of corporation mergers and acquisitions are still held, merger waves after 1990s were considered to be different from those in the past in terms of motives as well as objectives. Corporate merger and acquisition activities today are aiming at lower costs as well as new technologies, markets, skills, and even employees (Business Week, 1999). It is particularly true to a service company that the value of employees is being

capitalized through mergers and acquisitions. In this regard, Amihud and Lev (1981) argued that firms even pursued mergers and acquisitions to protect their human capital. Furthermore, Auster and Sirower (2002) argued that "even beyond the redistribution of billions of dollars of corporate assets and shareholder wealth, merger waves are important to understand because they reconfigure industries, fundamentally reshape corporate strategies, transform organizational cultures, and affect the livelihoods of employees (p. 217)."

Consequently, there has been a great deal of interest in corporate mergers and acquisitions in the finance literature. There are several topics related to corporate mergers and acquisitions. Some examples might be policy and regulation related to mergers and acquisitions (e.g., Clougherty, 2005; Morgan, 1997), relationship between innovation and acquisitions (e.g., Hudson, 1994; Man & Duysters, 2005; Morgan, 2001), successful mergers and acquisitions process (e.g., Quah & Young, 2005; Kim & Olsen, 1999), human resource management after the completion of mergers and acquisitions (e.g., Waring, 2005; Bryson, 2003; Huang & Kleiner, 2004; Cartwright & Cooper, 1993), motives/objectives of mergers and acquisitions (e.g., Walter & Barney, 1990; Trautwein, 1990; Kim & Olsen, 1999), prediction of acquisition targets (e.g., Ragothaman, Naik, & Ramakrishnan, 2003; Akhigbe, Madura, & Whyte, 2004; Kim & Arbel, 1998), and post-acquisition performance (e.g., Healy, Palepu, & Ruback, 1992; Kwansa, 1994; Canina, 2001).

The steady increase of mergers and acquisitions in hospitality industry has aroused interest among investors, managers, and scholars. Accordingly, several studies have been conducted on corporate mergers and acquisitions in the hospitality industry.

For example, Hudson (1994) argued that innovation through acquisitions has become a major strategy in the restaurant industry. In addition, Kim and Olsen (1999) investigated determinants of successful corporate acquisitions in the US lodging industry. From a process perspective, they proposed a model which encompasses critical corporate acquisition issues in pre-acquisition management, post-acquisition integration, and post-acquisition performance evaluation. Kim and Arbel (1998) investigated differentiating characteristics of acquisition targets using a logit model during the period 1980 to 1992. They found that firm size, asset valuation, growth-resources imbalance, and capital expenditure were significant variables in predicting merger targets of hospitality firms. On the other hand, Lafferty and Fossen (2001) described dynamics in horizontal and vertical integration in the hotel and airline industries. Furthermore, Oak and Andrew (2006) investigated if informed traders such as managers and financial analysts use information asymmetry regarding a hospitality firm's valuation prior to an acquisition payment announcement. They found that informed traders utilize information asymmetry to maximize their private benefits. They also suggested evidence that market makers, who function as match makers between buyers and sellers, try to avoid losses against informed traders by imitating the informed trader's trading patterns. However, there is still not much information available for hospitality firms' merger and acquisition activities.

Since maximization of a firm's value is the utmost purpose and role of any management, a number of empirical studies have attempted to test if corporate mergers and acquisitions increase a firm's overall value. As a matter of fact, a significant body of finance literature has tried to find out post-acquisition performances of firms in terms of

market-based performances (e.g., Mitchell & Stafford, 2000; Gregory, 1997; Rau & Vermaelen, 1998; Raad, Ryan, & Sinkey, 1999; Canina, 2001; Kwansa, 1994), accounting-based performances (e.g., Ramaswamy & Waegelein, 2003; Dickerson, Gibson, & Tsakalotos, 1997; Ravenscraft & Scherer, 1989), and other performance measures (e.g., Avkiran, 1999; Brush, 1996; Ferrier & Valdmanis, 2004). While a number of empirical studies have attempted to investigate post-acquisition performances, the evidence is conflicting. It is clearly understood that the shareholders of acquired or target firms financially benefit from mergers and acquisitions. Yet, the financial returns for shareholders of acquiring firms are questionable. Mergers and acquisitions are carefully planned in an attempt to ensure financial success for both acquiring and acquired firms. Ironically, however, much of the empirical research to date on mergers and acquisitions has reported that acquiring firms commonly gain neutral to negative market reaction after mergers and acquisitions announcements (Connor & Geithman, 1988). In general, the shareholders of acquiring firms financially benefit from merger and acquisition announcements on less than half of the occasions (Early, 2004).

While there is significant body of research on post-acquisition performances, there is only a handful of studies concerning post-acquisition performances of hospitality companies. Nevertheless, empirical evidence from the studies is not consistent. Like studies on post-acquisition performances in other industries and across industries, studies on hospitality corporations' post-acquisition performances agree that financial market value of acquired firms increased after mergers and acquisitions (e.g., Kwansa, 1994; Canina, 2001). However, it is contradictory whether the shareholders of acquiring firms benefit from mergers and acquisitions. Canina (2001) reported that merger and

acquisition events resulted in benefits to the shareholders of the acquiring companies. In contrast, Sheel and Nagpal (2000) and Hsu and Jang (2006) provided evidence that mergers and acquisitions did not result in gains for the shareholder of the acquiring hospitality companies.

The past two decades have witnessed the largest merger and acquisition activities of hospitality companies in history. However, very little information regarding post-acquisition performances has been available for the hospitality industry to help financial stakeholders within the industry. Considering the sharp increase in mergers and acquisitions in the hospitality industry for the past 20 years, it is timely to study the post-acquisition performances of hospitality firms with newly available data.

Problem Statement

Although previous studies have expanded our knowledge of the post-acquisition performances in the hospitality industry, it remains uncertain if the shareholders of hospitality firms earned economic gains from mergers and acquisitions since the findings from the existing literature are contradictory.

Research Objectives

This study aims to investigate the post-acquisition performance of both acquiring and acquired companies in the hotel and restaurant industries. Related studies reported that the shareholders of acquired hospitality firms generally gained from mergers and acquisitions. Yet, it is questionable if the shareholders of acquiring hospitality firms gained from mergers and acquisitions because the findings are controversial. In

particular, this study is designed to investigate the stock market's reaction surrounding merger and acquisition announcements using the event study method. In addition, prior studies showed that the post-acquisition performance of firms differed in terms of mode of acquisitions (Jensen & Ruback, 1983; Canina, 2001; Loughran & Vijh, 1997) and payment methods (Loughran & Vijh, 1997; Agrawal, Jaffe, & Mandelker, 1992). Therefore, this study considers mode of acquisitions (i.e., merger or tender offer) and payment methods (i.e., cash, stock, or mixed). Furthermore, prior post-acquisition studies also utilized accounting-based performance measures in order to investigate the effect of mergers and acquisitions on acquiring firms because they allow scholars to examine the acquiring firms' performances directly. However, it takes long time before the accounting-based performance measures reflect the effect of mergers and acquisitions. Therefore, the current study investigates long-term performance of acquiring hospitality firms following mergers and acquisitions using accounting-based performance measures.

Research Questions

Based on the aforementioned objectives of the study, research questions of the current study are as follow:

Research Question 1: Is the short-term financial performance of acquiring and acquired hospitality firms affected by merger and acquisition announcements?

Research Question 2: Does the mode of merger (i.e., mergers and tender offers) affect the short-term financial performance of acquiring and acquired hospitality firms?

Research Question 3: Does the method of payment (i.e., cash, stock, and mixed payments) affect the short-term financial performance of acquiring and acquired hospitality firms?

Research Question 4: Are there any significant differences between pre- and post-acquisition accounting-based performances of acquiring hospitality firms?

3. Significance of the Study

The current research is an extension of post-acquisition financial performance research in the hospitality industry in that it incorporates newly available data. In addition, this study considers the relationship between the payment method and hospitality acquisitions since previous studies in finance literature revealed that post-acquisition performance differed based on the method of payment and mode of mergers (e.g., Loughran & Vijh, 1997; Agrawal, Jaffe, & Mandelker, 1992). Further, previous studies in the hospitality industry have primarily focused on the lodging industry. However, this study adopts the event study method to investigate post-acquisition financial performance in the restaurant industry as well as the lodging industry. Although a post-acquisition study with market-based data could provide useful information regarding a firm's performance at and around acquisition announcements, the effect of mergers and acquisitions may appear slowly in the firm's operational performance. Therefore, this study also includes accounting-based measures to investigate long-term impact of mergers and acquisitions on performance of acquiring hospitality firms. The

results of this study would provide useful information to both potential acquirers and targets for their merger-related decision makings. In addition, investors who are interested in the hospitality industry should benefit from the findings.

Another important aspect of the current research is its contribution to the body of knowledge relative to post-acquisition performance in the hospitality industry. Although there is only limited research on post-acquisition financial performance in the industry, results from previous studies are mixed. Thus, it is expected that the findings of this study will provide a better understanding of short-term dynamics surrounding merger and acquisition announcements in the hotel and restaurant industries. Additionally, by incorporating long-term performance of acquiring hospitality firms with accounting-based data, the findings will provide a better picture of merger and acquisition impact on the performance of acquiring hospitality companies.

4. Organization of the Study

This study consists of five chapters attempting to investigate post-acquisition performance of hospitality firms. The exposition of the present study is as follows. Chapter II is the literature review section. In this chapter, a literature review on post-acquisition performance is presented. In particular, previous literature regarding post-acquisition performance is summarized in terms of measures utilized in the studies including market-based measures, accounting-based measures, and other types of measures. Chapter III explains the research methodologies such as data collection and

analysis procedures used for the current study. Further, Chapter IV addresses the empirical results of this study. Lastly, Chapter V is the conclusion section. It discusses the implications and limitations of the study.

CHAPTER II

REVIEW OF LITERATURE

There is a considerable body of research concerning post-acquisition performance in both acquiring and target companies. The goal of the present literature review is to identify relevant variables and methodologies of post-acquisition performance used in previous studies. Numerous studies have examined the post-acquisition performance to verify whether corporate mergers and acquisitions increased a firm's value and/or operating efficiencies. Researchers (Yook, 2004; Dickerson, Gibson, & Tsakalotos, 1997; Paulter, 2003; Cochran & Wood, 1984) have documented that there are two main streams in the existing post-acquisition performance literature. The fundamental difference between the two streams of research is the type of data used to measure the performance of firms. One is the stock market approach which uses stock market valuation to determine post-acquisition performance, and the other is the accounting data approach which directly focuses on a company's profitability and other barometers such as efficiency and growth. While each of the two approaches has its advantages and disadvantages, it is true that the existing finance literature regarding post-acquisition performance reviewed is appropriately separated and classified into the two categories. In addition, researchers have operated other performance barometers such as operation-based performance, even though they are not as frequently used as the stock market

approach or the accounting data approach. In this chapter, prior studies on post-acquisition performances are summarized according to measures employed in their studies; market-based (i.e., stock market approach), accounting-based (i.e., accounting data approach), and other performance measures.

1. Studies on Market-Based Post-Acquisition Performances

The market-based performance measure is probably the most common measure utilized in studies concerning post-acquisition performances of firms (Sirower, 1997; Paulter, 2003; King, Dalton, Daily, & Covin, 2004). Kwansa (1994) stated that "most of studies on acquisitions have concentrated on impact, especially in relation to increased shareholder wealth (p.17)." Even though there are critics against market-based performance measures such as failure in separating a firm's merger-related economic gains (Healy, Palepu, & Ruback, 1992), numerous studies have utilized it (e.g., Malatesta, 1983; Brown & Warner, 1985; Franks, Harris, & Titman, 1991; Agrawal, Jaffe, & Mandelker, 1992; Kwansa, 1994; Gregory, 1997; Loughran & Vijh, 1997; Rau & Vermaelen, 1998; Raad, Ryan, & Sinkey, 1999; Mitchell & Stafford, 2000; Canina, 2001). The main reason for the preference of market-based performance measures is that the stock market is highly efficient and it incorporates newly available market information into the share prices of both the acquiring and target firms, implying that these measures represent the economic gains of mergers and acquisitions (Halpern, 1983;

Dickerson, Gibson, & Tsakalotos, 1997). Indeed, Elton and Gruber (1984) insisted that strong market efficiency implies that stock prices reflect all available information.

Broadly speaking, there are two categories in the existing finance literature involving market-based post-acquisition performance; short-term performance and long-term performance. While there are more post-acquisition studies on short-term financial performance than long-term financial performance, the event study approach is the most frequently observed analytic tool in both short-term and long-term post-acquisition performance studies. In short-term performance studies, the event study approach concerns the impact of merger and acquisition announcements on shareholders' wealth of either or both acquirers and targets at and around the announcements. On the contrary, the event study approach used in the long-term performance studies interests financial performance of merged business units in the long run.

Short-Term Financial Performance

Stated previously, the event study approach is the most frequently used analytical tool in post-acquisition performance literature. Earlier studies on post-acquisition performance using the event study approach used the final date of approval by shareholders of target firms as the event day (e.g., Mandelker, 1974; Langetieg, 1978). Later, scholars started to use the announcement day instead of the effective date of merger as the event day because the stock market is efficient and, therefore, stock prices change following the announcements (Dodd & Ruback, 1977; Jensen & Ruback, 1983) and even right before the announcements (Kwansa, 1994).

The event study approach is one of the market-based performance measure approaches and assumes that the stock prices of both acquiring and acquired firms change rapidly at or around merger and acquisition announcements since the stock prices quickly reflect available information. The primary goal of this approach is to decide if the stockholders of either or both acquirers and targets earn abnormal returns because of the merger and acquisition announcements. Thus, the event study approach tracks the stock prices of acquirers and targets for a period of time around merger and acquisition announcements. In other words, it measures the response of the stock price performance against an estimate of expected (or normal) return based on prior performance. When the observed returns are statistically different from the expected returns, it is concluded that merger and acquisition announcements affect the value of firms. Particularly, the excess (or abnormal) returns are gained when the observed returns exceed the expected returns (Peterson, 1989).

Most previous studies utilizing the event study approach relied on the market model proposed by Brown and Warner (1980; 1985) which is considered as a standard procedure in the event study approach (e.g., Chalk, 1988; Kwansa, 1994; Black, Fields, & Schweitzer, 1996; Sheel & Nagpal, 2000; DeLong, 2003; Delaney & Wamuziri, 2004; Hsu & Jang, 2006). The market model is based on the capital asset pricing model (CAPM) and utilizes the ordinary least square estimator. In addition, the market model considers both the past performance of the stock and the sensitivity to the overall market changes in the measurement of excess returns.

The standard specification of the market model is as follows:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}, \quad (1)$$

where, α_i is the intercept, β_i is the beta coefficient or slope, ε_{it} is the random error term or the residual portion, R_{mt} is the return of the market portfolio for day *t*, and R_{it} is the return of the *i*th stock for day *t*.

The expected (or normal) return of the stock is written as:

$$E(R_{it}) = \alpha_i + \beta_i R_{mt}, \quad (2)$$

where, α_i is the intercept, β_i is the beta coefficient or slope, and R_{it} and R_{mt} are the returns on the *i*th stock and the market portfolio for day *t*, respectively.

On the other hand, the abnormal returns are calculated based on the following equation:

$$A_{it} = R_{it} - E(R_{it}) \quad (3)$$

$$= R_{it} - \alpha_i - \beta_i R_{mt},$$

where, A_{it} is the abnormal return for a given stock *i* for day *t*, R_{it} is the observed or actual return of stock *i* for day *t*, and $E(R_{it})$ is the estimated return of stock *i* for day *t* which is derived from the equation (2).

Using the equation (3), the abnormal return for each event day is then averaged across all companies in the sample to calculate an overall average abnormal return based on the following equation:

$$AR_t = \frac{\sum_{i=1}^{N} Ait}{N}, \quad (4)$$

where, AR_t is the mean abnormal return for a portfolio of securities for day *t* and *N* is the number of companies in the sample.

Finally, daily abnormal returns are summed over the event window period to obtain cumulative abnormal return (or residual) using the following formula:

$$CAR_{t1}^{t2} = \sum_{t=t1}^{t2} ARt \quad (5)$$

where, CAR_{t1}^{t2} is the cumulative abnormal return, *t1* is the is the first period in which the *ARt* are accumulated and *t2* is the last period in which the *ARt* are accumulated.

Since the daily abnormal return is the average of the difference between the actual returns and the expected returns, both daily abnormal returns and cumulative abnormal return should fluctuate around zero. Otherwise, it is concluded that the event (merger and acquisition announcements in this case) affected stock price valuations of the market (Peterson, 1989; Armitage, 1995; MacKinlay, 1997).

The existing literature showed three different methodologies that are possible for computing firms' abnormal returns (Matsusaka, 1993). A common method is cumulative abnormal return which is explained previously. This method reflects a rate (or percentage) return on equity. On the other hand, Malatesta (1983) adopted another way of measuring the stockholders return and utilized a dollar return instead of a rate return. Malatesta (1983) argued that a dollar return is superior to a rate return because the result

is firm-size sensitive when a rate return is used. For instance, if a large and a small firm experience a same amount of increase in value after mergers, the result would show that the small firm made a better merger. In this method, cumulative average return from the market model is weighted by the value of the firm based on the following equation:

$$\text{CADR} = \sum_{t=1}^{T} ARt \times Vt \,, \qquad (6)$$

where, CADR is the cumulative abnormal dollar return and V_t is the firm's value at the start of day t.

In addition, Morck, Shleifer, and Vishny (1990) scaled the changes in the stock value by the purchase price. However, Matsusaka (1993) pointed out the following:

> However, suppose a firm makes two acquisitions, on the costs $10 million and results in a $1 million value increase and another that costs $ 100 million and increase value by $5 million. The investment measure rates the takeovers at 10% and 5%, respectively, but the latter adds more value and is a better acquisition for the stockholders. Because the change in the buyer's value impounds the purchase price, it seems redundant to rescale by the purchase price (p.361).

Even though there are variations in measuring abnormal returns, Matsusaka (1993) depicted that "all three measures generally tell the same story (p. 361)."

The findings from studies adopting the event study methodology generally agree that shareholders of acquiring firms received neutral to negative economic gains and shareholders of acquired firms benefited from merger and acquisition transactions (Healy, Palepu, & Ruback, 1992; Roll, 1986; Paulter, 2003). In the realm of hospitality research, few studies have utilized the event study approach in investigating post-acquisition performance of hospitality firms.

In an earlier study, Kwansa (1994) investigated the amount of wealth created for the shareholders of target hotels surrounding merger and acquisition announcements using 18 hotel firms involved in mergers and acquisitions for the period of 1980 through 1990 and an event window of 61 trading days. In the study, expected (or normal) returns were calculated from 200 days to 51 days prior to the announcements and cumulative abnormal residual was utilized as a performance measure. The findings revealed that the shareholders of the target hotels benefited from the acquisition announcements between 1980 and 1990. Especially, the cumulative average residual (CAR) for the 18 target hotels increased approximately 400% between days -2 to +2 (from 7.63 to 28.63). Based on the findings, Kwansa (1994) concluded that the stock market is efficient in valuing hotel stocks.

On the other hand, Canina (2001) investigated stock returns surrounding merger and acquisition announcements in the hotel and hotel real estate investment trust (REIT) industries using the event study approach. Her investigation covered stockholders of both acquiring and target companies including both public and private companies. As Canina (2001) documented, the study was an extension of Kwansa's work (1994) by extending the sampling period and including acquiring hospitality firms. The findings showed extremely large abnormal returns (8.9%) for target companies on the announcement day. For the following day (+1), the abnormal returns for the target firms were also positive and significant (1.3%). For the acquiring firms, the results also showed significant positive abnormal returns (1.3%) on the announcement day. However, the abnormal returns for the acquiring firms on the following announcement day (+1) were negative and not significant (-0.2%). At the same time, the study examined mergers and tender

offers separately. “A tender offer is a publicly announced offer to buy shares at a fixed price from any who tenders their shares” (Canina, 2001, p.48) and it usually occurs when the bidding company already has a significant portion of stocks, whereas a merger requires the approval of both stockholders and the board of directors of the target firms. The results showed that “wealth gains ensuing from lodging-industry tender offers are significantly greater than those of mergers (p. 54).” Based on the findings, Canina (2001) concluded that the shareholders of both acquiring and target hospitality firms benefit from merger and acquisition announcements. Further, the author explained that the positive market reaction might be derived from “stockholders’ expectations regarding the effects of monopolistic market power, increased productive efficiency due to synergies, or increased efficiency due to the removal of inefficiencies (p.52).”

Hsu and Jang (2006) also examined whether the stockholders of acquiring hotels gained financial returns from merger announcements using the event study method. They estimated normal returns for the shareholders of acquiring hotels using 200 days of stock trading (-250 days to -50 days) and calculated abnormal returns for an event window of 11 trading days (-5 days to +5). The findings revealed that the shareholders of acquiring hotels earned no abnormal returns following merger and acquisition announcements.

Long-Term financial performance

Long-term financial performance of merged firms is another frequently studied topic in the literature of finance. Agrawal, Jaffe, and Mandelker (1992) investigated post-acquisition performance of 765 companies that were involved in merger and acquisition activities between 1955 and 1987. In computing a stock’s abnormal performance, they

used the following equation which was proposed by Dimson and Marsh (1986) and utilized in other studies (e.g., Lakonishok & Vermaelen, 1990):

$$A_{it} = R_{it} - R_{st} - (\beta_i - \beta_s)(R_{mt} - R_{ft}), \quad (7)$$

where A_{it} is the stock's abnormal performance, R_{it} is the return on security *i* over month *t*, R_{st} is the equally weighted average return during month *t* on the control portfolio of all firms in the same size decile as firm *i* based on the market value of equity at the end of the previous year, β_i and β_s are the beta of security *i* and the control group, respectively, (estimated using monthly data over months +1 to +60 after the merger completion), R_{mt} is the return on the market index, and R_{ft} is the risk-free rate in month *t*.

The average abnormal return (ARt) over all stocks in month t is computed based on the equation (4) and the cumulative average abnormal return from event month t1 to t2 is measured by equation (5). The model specifically aims to adjust firm size effect and changes in risk. The findings from the study by Agrawal, Jaffe, and Mandelker (1992) showed that the firms merged between 1955 and 1987 lost approximately 10% in their value over the five years following the merger completion.

In addition, Gregory (1997) recognized differences among various models of expected returns and investigated long-term post-acquisition performances of UK firms using three models: the CAPM, risk and size adjusted model by Dimson and Marsh (1986), and three-factor model proposed by Fama and French (1992; 1993; 1996). The results reported -11.18% to -17.06% of loss in value of acquiring UK firm's two years after mergers and acquisitions, regardless of the model of expected returns used. Other

studies on long-term post-acquisition financial performance also reported decrease in the firm value (Loughran & Vijh, 1997; Mitchell & Stafford, 2000).

Particularly, Loughran and Vijh (1997) conducted a long-term post-acquisition financial performance study with 947 acquisitions during 1970-1989 and found a relationship between the post-acquisition returns for shareholders and the mode of acquisition and payment method. More specifically, they compared the stock returns of acquiring firms to those of matching firms. The results showed that the stock returns for acquiring companies were higher than matching companies when a tender offer was made and when cash was used for payment.

In the hospitality industry, Sheel and Nagpal (2000) examined post-acquisition equity value performance for acquiring hospitality firms involved in mergers and acquisitions for the period of 1980-2000, which encompassed 21 hospitality firms. They utilized the Jensen Measure Model to calculate the long run abnormal equity value performance of the acquiring firms. "Under fairly reasonable condition, the Jensen Measure, which is the intercept from the regression of the excess return on the excess return of a benchmark portfolio (Frank, 1991) provides an appropriate measure of merger performance (Sheel & Nagpal, 2000, pp. 39-40)." In their study, monthly returns of acquiring firms after the final bid were converted to excess returns by subtracting the yield on one month US Treasury Bills. Then, the market returns were converted to excess market returns. The following equations were used:

$$R'_{it} = R_{it} - R_{ft}, \quad (8)$$

$$R'_{mt} = R_{mt} - R_{ft}, \quad (9)$$

where R'_{it} is the excess return for company *i* in month *t*, R_{it} is the equity holder return for company *i* in month *t*, R_{ft} is the yield on one month US Treasury Bills, R'_{mt} is the excess return on market index *m* in month *t*, R_{mt} is the return on market index *m* in month *t*, and *t* is the month relative to the announcement date ($t = 0$ is the announcement month).

Next, the excess equity returns (R'_{it}) was regressed on the excess market return (R'_{mt}) in order to obtain the intercept using the following equation:

$$R'_{it} = \alpha_i + \beta_i R'_{mt} + \varepsilon_{it}, \quad (10)$$

where, α_i is the intercept for company *i* measuring abnormal performance, β_i is the sensitivity coefficient of company *i* to market index, and ε_{it} is the random error with mean zero.

Sheel and Nagpal (2000) used monthly return data for 36 months beginning the month after the final bid for the 21 acquiring firms and concluded that the equity value of acquiring hospitality firms from 1980 to 2000 had declined significantly. Following the methodology used by Sheel and Nagpal (2000), Hsu and Jang (2006) also investigated long-term market performance of acquiring hospitality industry during the period 1985 to 2000. The findings indicated that the equity value of acquiring hospitality firms had decreased significantly for the 36 months following mergers and acquisitions, which were consistent with the findings of Sheel and Nagpal (2000).

Sheel and Nagpal (2000) further conducted an event study focusing on the long-run impact of mergers and acquisitions on the shareholder's value. They calculated normal return between the 36 months prior to announcements and 7 months prior to announcements. In addition, they utilized a long event window period compared to other studies related to hospitality firms (-6 month to +36 month). The results indicated the CAR increased slightly in the first month (from -17.99 to -16.86) although the amount was not significant, which, according to them, suggested the introduction of possible biases due to market speculation. However, the study also revealed that the acquiring hospitality firm's equity values declined significantly (CAR of -176.67 at +36 month) in the long run, indicating that the shareholders of acquiring hospitality firms gained negative returns subsequent to mergers and acquisitions.

While a significant body of finance research in the general business area has focused on examining the post-acquisition performance in terms of long-term and short-term, only a few hospitality researchers have investigated post-acquisition financial performances. To date, studies on post-acquisition performance in the hospitality industry frequently used the event study approach and CAR, a percent return, was favorably employed as a performance measure. Based on the findings from prior studies, it is well understood that the stockholders of acquired firms in the hospitality industry earn financial gains from merger and acquisition announcements as do in other industries (Kwansa, 1994; Canina, 2001). Yet, whether the stockholders of the acquiring hospitality firms gain financial returns from merger and acquisition announcements remains much less certain. For instance, Canina (2001) reported that the shareholders of acquiring firms

in the hospitality industry gained small abnormal returns following merger and acquisition announcements. On the contrary, Hsu and Jang (2006) documented that the shareholders of acquiring hotels earned no abnormal returns after merger and acquisition announcements. Furthermore, Sheel and Nagpal (2000) argued that the shareholders of acquiring hospitality firms gained negative returns subsequent to merger and acquisition announcements. Table 2-1 summarizes studies using the event study approach in the hospitality industry.

Table 2-1. Studies using the event study approach in the hospitality industry

Author(s)	Industry/focus (sample period, n)	[Estimation period], [Event window] (days)	Findings
Kwansa (1994)	Hotel /targets (1980-1990, 18)	[-200, -51], [-30, +30]	Shareholders of target hotel companies benefited from acquisitions between 1980 and1990. The CAR for the target hotels increased approximately 400% between days -2 to +2 (from 7.63 to 28.63).
Sheel & Nagpal (2000)	Hotel & REIT /acquirers (1980-2000, 21)	[-36, -7] (months), [-6, +36] (months)	A small positive insignificant abnormal return occurred in the first month (from CAR of -17.99 at 0 to CAR of -16.86 at +1). However, the acquiring firms' equity values decreased significantly in the long run (CAR of -176.67 at +36).
Canina (2001)	Hotel & REIT /both acquirers and targets (1982-2000, 57)	[-111, -12], [-1,+1]	Although the gains are uneven, the shareholders of both the acquiring and target firms gain at the time of the merger announcement. In addition, wealth gains ensuing from tender offers are significantly greater than those of mergers.
Hsu & Jang (2006)	Hotel /acquirers (1985-2000, 17)	[-250, -51], [-5,+5]	The shareholders of acquiring hotels earned no abnormal returns following merger and acquisition announcements.

2. Studies on Accounting-Based Post-Acquisition Performances

Financial information users have long been using accounting data in order to assess companies' financial conditions. Unsurprisingly, the accounting-based measure is one of the popular measures utilized in studies related to corporate mergers and acquisitions. For example, a number of scholars have adopted accounting ratios in predicting takeover targets (e.g., Kim & Arbel, 1998; Meador, Madden, & Johnston, 1986; Palepu, 1986). Furthermore, scholars have extensively used accounting information to analyze firms' performances and also conducted post-acquisition performance studies with accounting-based measures in order to investigate the impact of mergers and acquisitions on firms' performances (e.g., Hsu & Jang, 2006; Chamberlain & Tennyson, 1998; Dickerson, Gibson, & Tsakalotos, 1997; Cornett & Tehranian, 1992; Healy, Palepu, & Ruback, 1992; Ikeda & Doi, 1983).

Researchers, who stand for accounting-based performance measures, argued that accounting-based performance measures are superior to market-based performance measures because they directly reflect a company's performance more so than the market-based performance measures do (e.g., Grant, Jammine, & Thomas, 1988; Dickerson, Gibson, & Tsakalotos, 1997). In other words, they argued that market-based performance measures fail to indicate whether a firm truly achieves economic gains. Specifically, Healy, Palepu, and Ruback (1992) argued the following:

> There is near-unanimous agreement that target stockholders benefit from mergers, as evidenced by the premium they receive for selling their shares. The stock price studies of takeovers also indicate that bidders generally breakeven, and that the combined equity value of the bidding and target firms increases as a result of takeovers… But, researchers have had little success in relating the equity value gains to improvements in subsequent corporate performance… From the stock price

> perspective, the anticipation of real economic gains is observationally equivalent to market mispricing… Stock price studies are also unable to provide evidence on the sources of any merger-related gains. (p.136)

In an attempt to determine post-merger performances of Japanese manufacturing firms, Ikeda and Doi (1983) employed a variety of accounting-based performance measures. They utilized return on equity (ROE) and return on assets (ROA) as profitability measures, general and administrative expenses to sales ratio and sales to total assets ratio as efficiency measures, sales to employee ratio as a productivity measures, year-to-year change of sales as a firm growth measure, and R&D expenses and its ratio to sales as R&D measures. They conducted both three-year and five-year post-merger performance tests and findings suggested that mergers of Japanese manufacturing firms generally increased the performances, particularly in the five-year test.

Healy, Palepu, and Ruback (1992) utilized both accounting-based and market-based performance measures to determine post-acquisition performance for the 50 largest US mergers from 1979 to mid-1984. Distinctively, they relied on operating cash flow returns on market value of assets as a post-acquisition performance. They believed that cash flows represent the actual economic benefits generated by the assets. They used industry-adjusted cash flow returns and showed significant improvement in asset productivity as measured by operating cash flow returns for the 50 largest US merger and acquisition transactions between 1979 and mid-1984. They also found that there was a strong positive relationship between increases in operating cash flows and abnormal stock returns at merger announcements.

Following the methodology of Healy, Palepu, and Ruback (1992), Cornett and Tehranian (1992) compared the post-acquisition performance of 30 large bank

acquisitions with the pre-acquisition performance of the merging banks. Specifically, they identified seven indicators determining cash flow returns in the banking industry. The seven indicators were profitability (i.e., ROA and ROE), capital adequacy (i.e., capital to assets, loans to equity, and deposits to equity), credit quality (i.e., charge-offs to loans), efficiency (i.e., expenses to revenues, assets to employees, income to employees, and return on loans), liquidity risk (i.e., loans to assets and liquidity ratio), growth (i.e., asset growth rate), and interest-rate risk (i.e., net interest income to earning assets) indicators. They found out that, on average, the merged banks outperformed the banking industry. They explained that the outperformance was derived from the ability to attract loans and deposits, employee productivity, and asset growth. Additionally, they reported a positive relationship between abnormal stock returns surrounding merger announcements and their performance measures.

Pilloff (1996) also investigated post-acquisition performance of merged banks with publicly traded banking institutions that were involved in merger activities between 1982 and 1991. In the study, ROA and ROE were included as profitability measures. In addition, expenses to average assets, expenses to revenues, personnel costs to average assets, fixed assets expenses to average assets, and non-interest expenses to average assets were used as efficiency measures. For balance sheet measures, on the other hand, capital to assets, loan to assets, and deposits to assets were employed. The results revealed that both performance measures and consolidated abnormal returns show little to no change on average.

Dickerson, Gibson, and Tsakalotos (1997) also examined post-acquisition performance for UK acquiring companies using accounting-based performance measures.

They studied a large panel of UK companies (n=613) between 1948 and 1977 using ROA as a profitability measure. They compared acquirers' performances with their previous performances as well as with non-acquirers' performances and found that acquisition had a negative impact on ROA of firms even when company-specific and time-specific effects were controlled. Further, they extended their examination by including firm size as measured by net assets, leverage as measured by debt to net assets ratio, and both internal and acquisition growth into their model and concluded that corporate mergers and acquisitions in the UK lead to a negative long-term effect on profitability.

In the property-liability insurance industry, Chamberlain and Tennyson (1998) examined whether financial and operating synergies were created in a sample of 72 mergers that merged between 1980 and 1990 in relation to non-acquired firms of comparable characteristics. They stated that the objective of mergers and acquisitions is to create financial synergies through operating synergies. Even though they admitted that the two types of synergies were not completely distinct, they used two different groups of performance measures to investigate both financial and operating synergies. Solvency (i.e., surplus to total assets), liquidity (i.e., liquid assets to total assets), and leverage (i.e., premiums written to surplus and loss reserves to surplus) were used to measure financial synergies. To measure operating synergies, net income was used scaled by both premiums and assets. Their findings, in general, indicated that the performance of the merged firms was about as well as non-acquired firms indicating that financial synergies were not a strong motivator for mergers and acquisitions in the property-liability insurance industry.

Ramaswamy and Waegelein (2003) analyzed long-term post-merger performance using a pool of 162 publicly traded US firms that were involved in merger and acquisition transactions from 1975 to 1990. They took a similar methodology to that of Healy, Palepu, and Ruback (1992) and used industry-adjusted cash flow returns on market value of assets as a performance measure. They studied long-term post-merger performances of the combined firms while the focus was placed on: if post-merger performances of merged firms were comparable across acquisitions of different sizes, compensation plans, payment methods, industries, hostile acquisitions, and time. The results showed that post-merger performance was negatively associated with relative target size and positively associated with long-term incentive compensation plans, which indicated that mergers and acquisitions improved the combined firms' performances as measured by industry-adjusted ROA.

Among post-acquisition performance studies in the hospitality industry, Hsu and Jang (2006) investigated post-merger performance in the lodging industry from 1985 to 2000 using a sample of 17 lodging firms. They employed both market-based and accounting-based measures of performance. For the accounting-based measure of performance, ROA and ROE were included in the study. The empirical findings from the study showed that ROA and ROE were significantly lower after mergers indicating that mergers and acquisitions in the lodging industry had a negative impact on the performance of firms. Additionally, they reported that mergers and acquisitions in the lodging industry had no significant impact on short-term equity value, while they had a negative impact on the lodging acquirers' equity values in the long-term.

Table 2-2. Summary of studies on accounting-based post-acquisition performance

Author(s)	Industry (n)	Performance measure	Findings
Ikeda & Doi (1983)	Manufacturing (49)	ROA ROE Expenses/sales Sales/assets Sales/employee Sales growth R&D expenses R&D expenses/sales	Mergers generally increased the managerial performances of Japanese manufacturing firms concerned in a five-year test, while the merger performances in a three-year test were inferior to those in the five-year test.
Healy, Palepu & Ruback (1992)	Various (50)	ROA	The 50 largest US mergers between 1979 and mid-1984 showed significant improvement in asset productivity as measured by operating cash flow returns. Also, there was a strong positive relationship between increases in operating cash flows and abnormal stock returns at merger announcements
Cornett & Tehranian (1992)	Banking (30)	Cash flow ROA ROA ROE Capital/assets Loans/equity Deposits/equity Charge-offs/loans Expenses/revenues Assets/employees Income/employees Return on loans Loans/assets Liquidity ratio Asset growth rate Net interest income/earning assets	Overall, the merged banks outperformed the banking industry in terms of performance measures. In addition, there was a positive relationship between abnormal stock returns surrounding merger announcements and the performance measures.
Pilloff (1996)	Banking (48)	ROA ROE Expenses/average assets Expenses/revenues Personnel costs/average assets Fixed assets expenses/average assets Non-interest expenses/average assets Capital/assets Loans/assets Deposits/assets	Performance measures showed little to no change after mergers and acquisitions.
Dickerson, Gibson & Tsakalotos (1997)	Various (613)	ROA	Corporate mergers and acquisitions in the UK lead to a negative long-term effect on performance as measured by ROA.

Chamberlain & Tennyson (1998)	Property-liability insurance (72)	Solvency Liquidity Leverage Net income/premiums Net income/assets	Overall, the performance of the merged firms was about as well as non-acquired firms.
Ramaswamy & Waegelein (2003)	Various (162)	ROA	Mergers and acquisitions improved the combined firms' performances as measured by industry-adjusted ROA.
Hsu & Jang (2006)	Lodging (17)	ROA ROE	ROA and ROE were significantly lower for acquiring lodging firms after mergers and acquisitions.

In summary, researchers have frequently utilized accounting-based performance measures in examining post-acquisition performance for both multi-industries (e.g., Healy, Palepu, & Ruback, 1992; Ramaswamy & Waegelein, 2003) and specific industry (e.g., Chamberlain & Tennyson, 1998; Hsu & Jang, 2006), even though it is known that accounting-based performance measures have disadvantages such as inability to separate the effect of merger (Lubatkin, 1983) and the time lag between the merger and its impact on accounting data (Biggadike, 1979). The most frequently used accounting-based performance measures in the previous literature are ROA and ROE. Studies using accounting-based performance measures are interested in whether the merged firms actually increased their profitability and operating efficiencies after merger and acquisition transactions. As a result, the focus of this stream of research is the post-acquisition performance of merged firms after transactions are completed. The findings, however, are not conclusive. For example, Ikeda and Doi (1983) and Ramaswamy and Waegelein (2003) reported increased performance following mergers and acquisitions. On the contrary, Pilloff (1996) and Dickerson, Gibson, and Tsakalotos (1997) concluded that mergers and acquisitions had little to no impact on performance. While there is abundant research on post-acquisition performance using accounting-based performance

measures, only one study, to the best of my knowledge, has been conducted in the field of the hospitality. Hsu and Jang (2006) investigated ROA and ROE of merged lodging firms and reported that ROA and ROE decreased significantly following mergers and acquisitions.

3. Studies Using Other Performance Measures

While the majority of the previous literature on post-acquisition performance has utilized either market-based or accounting-based performance measures, other types of performance measures have been adopted as well. Several studies employed accounting data in order to assess acquiring firms' performances under the assumption that accounting data reflect firms' performances originated from their operations (e.g., Hsu & Jang, 2006; Healy, Palepu, & Ruback, 1992; Feroz, Kim, & Raab, 2005). Yet, scholars have also utilized operation-based measures instead of using accounting-based measures as proxies of performance measures (e.g., Ferrier & Valdmanis, 2004). In this section, studies on post-acquisition performance using other types of performance measures (i.e., market share and operation-based measures) are illustrated.

Market Share as a Performance Measure

Camara and Renjen (2004) exemplified that the merged firm is more able to increase revenues and gain market share through synergies which are made possible by mergers and acquisitions than the firm could on its own. While the relationship between

corporate takeovers and market shares is often discussed in the subject of antitrust (e.g., Cameron & Glick, 1996), mergers and acquisitions are widely recognized as a fast way to increase market power through synergies hopefully created by combing two companies. Brush (1996) argued that "market share and change in market share are the only measures of business performance available at the level of disaggregation necessary for intraindustry analysis at the business level of the firm for all manufacturing industries (p.8)." Because market share is believed to be a long-term generator of future profits, scholars have utilized it in examining competitive performance of a firm (e.g., Buzzel, Gale, & Sultan, 1975; Stigler, 1958). Brush (1996) also argued that using market share as a performance is beneficial because it could be compared to other performance measures. Indeed, Buzzel, Gale, and Sultan (1975) investigated the relationship between market share and ROI and reported positive correlation between them. However, Woo (1987) pointed out one drawback of market share as a performance measure. That is, there could be a firm that has small market share but is highly profitable.

In the context of mergers and acquisitions, Mueller (1985) conducted a large scale study on the relationship between mergers and market share. Particularly, the study investigated the impact of mergers on the market shares of the 1,000 largest companies from 1950 to 1972 by comparing market shares of acquired firms to those of non-acquired firms in the same industry. The results revealed that firms merged between 1950 and 1972 lost substantial market shares compared with non-acquirers. Additionally, Rose (1982) studied the effect of bank holding company affiliation on the market share performance of banks acquired from 1968 to 1978 and found out that banks with relatively small market share had increased the market share after acquisitions, whereas

the market share of banks with relatively large market share had decreased after acquisitions. Avkiran (1999) also conducted a post-acquisition performance study in the banking industry using market share. Especially, Avkiran (1999) utilized changes in a bank's market share of deposits as a measure of performance. The findings from the study were mixed. Two merged banks out of four cases showed an increase in market share after mergers, whereas the other merged banks did not.

On the other hand, Brush (1996) studied acquired companies between 1980 and 1984 and concluded that the acquired business units could increase market share through operational synergies following mergers and acquisitions. In addition, Borenstein (1990) studied two mergers in the airline industry (i.e., Northwest/Republic airlines and Trans World/Ozark airlines) with regard to price changes, market shares, and changes in service. The findings showed that market shares of merged airline companies increased following acquisitions.

Operation-Based Post-Acquisition Performance Measures

As mentioned earlier, enhancing operational efficiencies is one commonly found merger objective in the literature. Not surprisingly, scholars investigated operational efficiencies of merged firms. There are several post-acquisition studies in the health care industry that utilized operation-based performance measures. For example, Sinay (1998) investigated the operating efficiencies of merged hospitals in comparison with controlled hospitals prior to, one, and two years after mergers focusing on cost reduction. Overall, the findings revealed that the merged hospitals successfully reduced costs following mergers indicating that mergers and acquisitions increased operating efficiencies through

scale and scope economies. In a more recent study regarding hospital mergers and acquisitions, Ferrier and Valdmanis (2004) investigated if mergers and acquisitions improved efficiency and productivity using operation-based measures such as number of beds, number of physicians, number of registered nurses, number of surgeries, and number of emergency room visits. They showed that the merged hospitals performed better when they were compared to hospitals that were not merged. However, they also revealed that the improvements in performancef were not sustained in the long run. Several post-acquisition performance studies have been conducted with operation-based measures and market share. However, no post-acquisition performance study with operation-based measure or market share, to the best of my knowledge, has been conducted in the hospitality industry.

4. Summary of Literature Review

Researchers have shown a great deal of interest on post-acquisition performances of firms. While the performance of a company can be measured by many criteria, market-based and accounting-based measures remain the most frequently used measures in empirical studies. As the research on post-acquisition performance progressed, it became clear that acquirers, on average, gained non-positive (neutral to negative) returns as a result of acquisitions, whereas targets gained positive returns. There also have been attempts to explain this paradox. While several attribute this paradox to overpayment of bidding firms for target firms (Barney, 1988, Bradley, Desai, & Kim, 1988; Shleifer &

Vishny, 1991), several blamed methodological issues (Yook, 2004; Mitchell & Stafford, 2000). Lubatkin (1983) suggested possible answers for this paradox: 1) administrative problems may accompany merger and cancel out the benefits of mergers, 2) methodological problems have prevented the empirically based studies from detecting the benefits, and 3) only certain types of merger strategies benefit the stockholders of the acquiring firm. Furthermore, previous studies also reported other variables affecting post-acquisition performance of firms such as mode of acquisitions (merger or tender offer: Loughran & Vijh, 1997; Jensen & Ruback, 1983; Rau & Vermaelen, 1998; Agrawal, Jaffe, & Mandelker, 1992) and payment methods (cash or stock: Loughran & Vijh, 1997; Martin, 1996).

In the field of the hospitality, only a few studies have been conducted to investigate post-acquisition performance. The literature review suggests that the event study approach is the most frequently used methodology in the industry and findings showed that the shareholders of acquired hospitality firms did gain economic returns subsequent to mergers and acquisitions. However, it remains uncertain if the shareholders of acquiring hospitality firms earned economic gains from mergers and acquisitions since the findings from the existing literature are contradictory.

CHAPTER III

METHODOLOGY

1. Data Collection

This study utilizes the secondary data extracted from SDC, CRSP (Center for Research in Security Prices), and Standard & Poor's Compustat database. The data for the current study was collected based on the following procedure.

1. Completed merger and acquisition transactions for the hotel (SIC code of 7011) and restaurant (SIC code of 5812) industries from 1980 to 2004 were retrieved from SDC database in which either acquirer's or target's SIC code was 7011 (for the hotel industry) or 5812 (for the restaurant industry).
2. Deals with small amount of transaction value were dropped out from the initial list. For the hotel industry, deals less than $20 million were eliminated. In addition, deals less than $10 million were removed from the list for the restaurant industry.
3. Then, only hospitality companies that were listed in National Association of Securities Dealers Automated Quotation System

(NASDAQ), American Stock Exchange (AMEX), or New York Stock Exchange (NYSE) were included. Further, companies were retained only when they were included in the CRSP database so that the researcher could obtain daily closing stock prices.

4. Several hospitality firms have made multiple mergers and acquisitions for the sampling period. When a company was involved in multiple mergers and acquisitions within three years, the largest deals were retained. However, if a company made multiple mergers and acquisitions over three years, each transaction was treated independently.

The above procedure led to 91 hotel companies (38 acquirers and 53 targets) and 159 restaurant companies (79 acquirers and 80 targets). Furthermore, the companies were classified into subsets based on merger mode and payment method in each industry (see Table 3-1).

Additionally, the accounting-based measures were collected from Standard & Poor's Compustat database. Only acquiring companies that have available data at least for three years of pre- and post-acquisition period were retained. As a result, a total of 14 acquiring companies were used to investigate long-term accounting-based performance of acquiring hospitality firms.

Table 3-1. The number of companies included in the study

Hotel industry (n=91)

	Merger mode		Payment method		
	Merger	Tender offer	Cash	Stock	Mixed
Acquirer (n=38)	36	2	13	8	17
Target (n=53)	39	14	22	5	26
All	75	16	35	13	43

Restaurant industry (n=159)

	Merger mode		Payment method		
	Merger	Tender offer	Cash	Stock	Mixed
Acquirer (n=79)	72	7	40	18	21
Target (n=80)	52	28	53	10	17
All	124	35	93	28	38

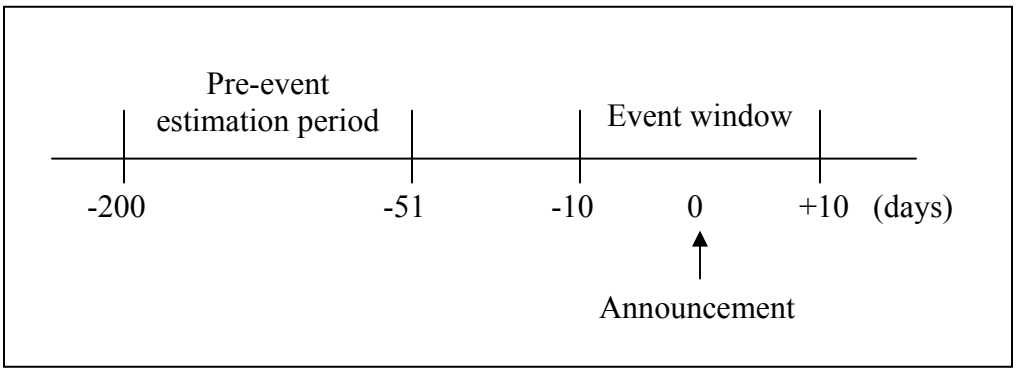
2. Computation of Abnormal Returns

Since isolating the effect of mergers and acquisitions on stock prices is difficult, an important methodological consideration concern is how long the event window should be. Although using a long event window might be appropriate to determine the extent of the economic implications of acquisitions, it is possible that it may not truly isolate the effect of acquisition announcements. On the other hand, using a shorter event window might isolate the effect of announcements on the stock prices. However, it may not be helpful to assess the stock market's overall reaction to the announcements because it takes longer than three to five days surrounding the announcements for investors to correctly evaluate the events. It seems that previous studies on short-term post-acquisition

financial performance in the hospitality industry made arbitrary judgments on time period for normal return computations and the length of the event windows. For the computation of normal/expected returns, previous studies included 100 to 200 trading days ending prior to 12 to 51 days of the acquisition announcements. In addition, they utilized [-1, +1] to [-30, +30] days of event windows. That is 3 to 61 trading days of event windows.

In this study, normal or expected returns for both acquiring and acquired companies were estimated using the equation (2) with adjusted daily closing stock prices of 150 trading days, ending 51 days before the merger and acquisition announcements [-200, -51] because the public might hint the announcements even prior to the announcements (Kwansa, 1994; Hsu & Jang, 2001). In doing so, S&P 500 composite index is utilized as the return of the market portfolio following Hsu and Jang (2001). Next, abnormal or unexpected returns for each company were computed using the equation (3). Then, the abnormal returns for each event day were averaged across all companies using the equation (4). Finally, the averaged returns were accumulated for each day over the entire event period to produce CAR using the equation (5). In this study, the event window for measuring each stock's abnormal returns is the common 10 days before and 10 days after the announcements. Thus, the length of the event window is 21 trading days and, from the equation (5), $CAR_{-} = \sum_{t=-10}^{10} ARt$. Figure 3-1 represents the time line for this study.

Figure 3-1. The time line of the study



In order to determine whether ARt was significantly different from zero, a t-test was employed. Prior to conducting the t-test, the aggregate of pre-event standard deviation of abnormal returns across all securities should be computed (Kritzman, 1994). The following equation is the formula for estimating the standard deviation of daily abnormal returns during the estimation period (from -200 days to -51 days):

$$\sigma_{i,pre} = \sqrt{\frac{\sum_{-200}^{-51}(ARt - AR_{pre})^2}{n-1}}, \qquad (11)$$

where, $\sigma_{i,pre}$ is the standard deviation of abnormal returns of security *i* estimated from the pre-event estimation period, AR_{pre} is the average of returns of security *i* estimated from the estimation period, and *n* is number of days in the estimation period (i.e., 150 days).

The standard deviations, as formulated above, are aggregated by squaring the standard deviation of each security's return estimated during the estimation period,

summing these values across all securities, dividing it by the number of securities, and taking the square root of the value:

$$\sigma_{N,pre} = \sqrt{\frac{\sum_{i=1}^{N} \sigma^2_{i,pre}}{N}}, \quad (12)$$

where, $\sigma_{N,pre}$ is the aggregate of the pre-event standard deviations of abnormal returns across all securities and N is the number of securities in the sample.

Next, the t-statistics for ARt and CARt are as follows:

$$AR_t \text{ t-stat} = \frac{ARt}{\sigma_{N,pre}} \quad (13)$$

3. Accounting-Based Measures

Apart from short-term financial performance at and around merger and acquisition announcements, this study also aims to investigate long-term performance of acquiring hospitality firms with accounting-based measures. More specifically, this study compares the post-acquisition performance of acquiring hospitality firms with the pre-acquisition performance of the firms.

ROA and ROE are the most frequently used accounting-based measures in previous post-acquisition studies (e.g., Pilloff, 1996; Ikeda & Doi, 1983; Cornett & Tehranian, 1992). In addition, the importance of cash flow in evaluating a firm's performance is well recognized. In post-acquisition studies, Healy, Palepu, and Ruback

(1992) and Cornett and Tehranian (1992) utilized cash flow return as a performance measure. Healy, Palepu, and Ruback (1992) argued that cash flows represent the actual economic benefits generated by the assets. Thus, this study includes ROA, ROE, and operating cash flow to assets ratio as profitability measures. In addition, a ratio of sales to assets is included as an efficiency measure. Apart from increasing profitability and efficiency, enhancing a firm's growth is a common merger motive. Hence, this study also examines the impact of mergers and acquisitions on a firm's growth as measured by sales divided by the previous year value of sales.

The accounting-based measures were collected from Standard & Poor's Compustat database. Only acquiring companies that have available data at least for three years of pre- and post-acquisition period were retained. As a result, a total of 14 acquiring companies (5 hotel firms and 9 restaurant firms) were retained. In terms of analytic technique, a dependent-sample (or paired) t-test was conducted in order to test if there were any differences between pre- and post-acquisition performances of acquiring hospitality firms. In addition, Wilcoxon ranks test, a non-parametric technique, was also utilized because several items were not normally distributed (Kolmogorov-Smirnov test at 5% significance level).

CHAPTER IV

FINDINGS

The goal of this study is to investigate the short-term post-acquisition financial performance in the hotel and restaurant industries surrounding merger and acquisition announcements. This study analyzes post-acquisition financial performance in the hotel and restaurant industries separately. Subsequently, this study analyses data for both acquirers and targets and for both mergers and tender offers separately. This study further analyses data for cash payment, stock payment, and mixed payment separately. Moreover, this study also investigates the long-term accounting-based performance of acquiring hospitality firms with accounting-based measures.

There are two subsections in this chapter. The first section reports the impact of merger and acquisition announcements on the stock prices of both acquiring and acquired in the hotel and restaurant industries. Hotel companies (SIC code of 7011) and restaurant companies (SIC code of 5812) were analyzed separately. In addition, data was analyzed separately in terms of mode of merger (i.e., merger and tender offer) and method of payment (i.e., cash, stock, and mixed payments). The second section summarizes the results of long-term financial performance in the hospitality industry using accounting-based measures. In this section, hotel and restaurant companies were analyzed separately. However, mode of merger (i.e., merger and tender offer) and method of payment were

not considered in the second section mainly due to the limited number of companies in the study.

1. Financial Performance Surrounding Announcements

Post-Acquisition Performance in the Hotel Industry

The abnormal returns and cumulative abnormal returns for acquiring hotel companies are presented in Table 4-1. The first section summarizes the results for the entire acquiring hotels of both mergers and tender offers. The second and third sections exhibit the results for mergers and tender offers, respectively.

A series of t-tests for the AR did not find any statistical significance, which indicates that acquiring hotel companies neither gain nor lose from merger and acquisition announcements. Descriptively, however, the entire acquiring hotel companies generally experienced a little decrease in their wealth ($CAR_{-10}^{+10} = -17.05$). When mergers and tender offers are treated separately, it is found that the shareholders of acquiring hotel firms experienced a little more deterioration in their stock prices in tender offers ($CAR_{-10}^{+10} = -20.31$) than in mergers ($CAR_{-10}^{+10} = -16.87$). However, the companies included in this study is largely skewed to merger cases (n=36). Thus, it is difficult to make meaningful inference due to the limited number of companies for tender offer cases (n=2).

Table 4-1. Abnormal returns for acquiring hotels and merger modes

Event day	Total (n=38)			Mergers (n=36)			Tender offers (n= 2)		
	AR	t	CAR	AR	t	CAR	AR	t	CAR
-10	-1.98	-0.24	-1.98	-2.07	-0.24	-2.07	-0.39	-0.41	-0.39
-9	0.45	0.05	-1.53	0.52	0.06	-1.55	-0.70	-0.72	-1.09
-8	-2.38	-0.28	-3.91	-2.46	-0.28	-4.02	-0.89	-0.92	-1.98
-7	0.26	0.03	-3.65	0.32	0.04	-3.70	-0.92	-0.94	-2.90
-6	-2.04	-0.24	-5.69	-2.10	-0.24	-5.80	-0.89	-0.92	-3.79
-5	0.54	0.06	-5.15	0.61	0.07	-5.18	-0.78	-0.80	-4.57
-4	-1.53	-0.18	-6.68	-1.56	-0.18	-6.75	-0.97	-1.00	-5.55
-3	-1.55	-0.18	-8.23	-1.59	-0.18	-8.34	-0.83	-0.85	-6.37
-2	0.55	0.06	-7.69	0.61	0.07	-7.72	-0.66	-0.68	-7.04
-1	0.80	0.10	-6.88	0.90	0.10	-6.82	-0.97	-1.00	-8.01
0	-1.67	-0.20	-8.55	-1.70	-0.20	-8.52	-1.14	-1.18	-9.15
1	-1.56	-0.19	-10.11	-1.59	-0.18	-10.11	-0.98	-1.01	-10.14
2	-1.18	-0.14	-11.30	-1.20	-0.14	-11.32	-0.81	-0.84	-10.95
3	-1.04	-0.12	-12.34	-1.06	-0.12	-12.38	-0.66	-0.68	-11.61
4	-1.31	-0.16	-13.65	-1.33	-0.15	-13.70	-0.99	-1.02	-12.60
5	-1.52	-0.18	-15.17	-1.55	-0.18	-15.25	-1.05	-1.09	-13.65
6	-1.49	-0.18	-16.66	-1.52	-0.18	-16.77	-1.10	-1.14	-14.76
7	0.93	0.11	-15.73	1.05	0.12	-15.72	-1.13	-1.16	-15.88
8	0.96	0.11	-14.77	1.09	0.13	-14.63	-1.49	-1.53	-17.37
9	-0.89	-0.11	-15.66	-0.85	-0.10	-15.48	-1.54	-1.59	-18.91
10	-1.39	-0.16	-17.05	-1.39	-0.16	-16.87	-1.40	-1.44	-20.31

Table 4-2 reports the abnormal returns and cumulative abnormal returns for the target hotels for the event window period. Again, t-tests for the AR do not find any statistical significance. Overall, the descriptive statistics show that the shareholders of acquiring hotels gain positive returns ($CAR_{-10}^{+10} = 33.26$) around acquisition announcements. This finding is consistent with previous studies (e.g., Kwansa, 1994; Canina, 2001). Additionally, mergers and tender offers were analyzed separately and the

returns were about the same in mergers (CAR_{-10}^{+10} = 33.45) and in tender offers (CAR_{-10}^{+10} = 32.70).

Further, the companies were classified into three subsets: cash, stock, and mixed payments. Companies were assigned to cash (or stock) payment when the payment was made with pure cash (or stock). On the other hand, companies were categorized to mixed payment when the payment was not made with pure cash or pure stock. Table 4-3 presents the daily abnormal returns and cumulative abnormal returns for acquiring hotel companies. The first section is the results for the entire acquiring hotels which is identical to the first column of Table 4-1. The second, third, and forth columns summarize results for cash payment, stock payment, and mixed payment, respectively. Descriptive statistics suggest that the wealth of acquiring hotels' shareholders deteriorated the most when a stock payment is made. Acquiring hotels with stock payment have a CAR_{-10}^{+10} = -61.17 compared to a CAR_{-10}^{+10} = -12.33 for cash payment. This finding, even though it was not significant, is consistent with Loughran and Vijh (1997).

Table 4-2. Abnormal returns for target hotels and merger modes

Event day	Total (n=53)			Mergers (n=39)			Tender offers (n=14)		
	AR	t	CAR	AR	t	CAR	AR	t	CAR
-10	0.27	0.06	0.27	0.44	0.13	0.44	-0.22	-0.03	-0.22
-9	0.61	0.13	0.88	0.86	0.26	1.31	-0.10	-0.01	-0.32
-8	-0.02	0.00	0.86	0.83	0.25	2.13	-2.38	-0.34	-2.70
-7	0.26	0.06	1.11	0.39	0.12	2.53	-0.13	-0.02	-2.83
-6	0.54	0.12	1.66	0.79	0.24	3.32	-0.16	-0.02	-2.98
-5	0.53	0.11	2.19	0.74	0.22	4.06	-0.04	-0.01	-3.02
-4	0.00	0.00	2.19	0.07	0.02	4.12	-0.17	-0.02	-3.19
-3	0.69	0.15	2.88	1.01	0.31	5.13	-0.20	-0.03	-3.39
-2	0.89	0.19	3.77	1.18	0.36	6.31	0.07	0.01	-3.32
-1	1.26	0.27	5.03	1.58	0.48	7.90	0.35	0.05	-2.97
0	2.29	0.50	7.32	2.20	0.67	10.10	2.53	0.36	-0.44
1	2.57	0.56	9.89	2.56	0.78	12.66	2.59	0.37	2.15
2	2.36	0.51	12.25	2.57	0.78	15.23	1.77	0.25	3.92
3	2.78	0.60	15.02	2.58	0.78	17.81	3.33	0.47	7.25
4	2.68	0.58	17.70	2.57	0.78	20.39	2.96	0.42	10.21
5	2.63	0.57	20.33	2.43	0.74	22.82	3.20	0.45	13.41
6	2.72	0.59	23.05	2.48	0.75	25.30	3.39	0.48	16.80
7	2.93	0.64	25.98	2.59	0.79	27.89	3.88	0.55	20.68
8	2.99	0.65	28.98	2.67	0.81	30.56	3.89	0.55	24.57
9	2.10	0.45	31.08	1.39	0.42	31.95	4.08	0.58	28.65
10	2.18	0.47	33.26	1.51	0.46	33.45	4.05	0.57	32.70

Table 4-3. Abnormal returns for acquiring hotels and payment methods

Event day	Total (n=38)			Cash (n= 13)			Stock (n=8)			Mixed (n=17)		
	AR	t	CAR	AR	t	CAR	AR	t	CAR	AR	t	CAR
-10	-1.98	-0.24	-1.98	-3.30	-0.26	-3.30	-2.80	-0.65	-2.80	-0.59	-0.11	-0.59
-9	0.45	0.05	-1.53	3.83	0.30	0.54	-2.96	-0.69	-5.76	-0.52	-0.10	-1.11
-8	-2.38	-0.28	-3.91	-3.36	-0.27	-2.83	-3.03	-0.71	-8.80	-1.32	-0.25	-2.44
-7	0.26	0.03	-3.65	3.64	0.29	0.81	-2.72	-0.63	-11.51	-0.93	-0.18	-3.37
-6	-2.04	-0.24	-5.69	-3.24	-0.26	-2.42	-2.72	-0.63	-14.23	-0.80	-0.15	-4.17
-5	0.54	0.06	-5.15	3.59	0.28	1.16	-2.65	-0.62	-16.89	-0.29	-0.06	-4.46
-4	-1.53	-0.18	-6.68	-3.38	-0.27	-2.22	-2.94	-0.68	-19.83	0.55	0.10	-3.91
-3	-1.55	-0.18	-8.23	-3.40	-0.27	-5.62	-3.04	-0.71	-22.87	0.56	0.11	-3.35
-2	0.55	0.06	-7.69	3.40	0.27	-2.22	-3.00	-0.70	-25.87	0.04	0.01	-3.31
-1	0.80	0.10	-6.88	3.53	0.28	1.31	-3.22	-0.75	-29.09	0.61	0.12	-2.70
0	-1.67	-0.20	-8.55	-2.74	-0.22	-1.43	-3.77	-0.88	-32.86	0.14	0.03	-2.56
1	-1.56	-0.19	-10.11	-2.68	-0.21	-4.11	-2.89	-0.67	-35.75	-0.08	-0.01	-2.64
2	-1.18	-0.14	-11.30	-2.68	-0.21	-6.80	-2.58	-0.60	-38.32	0.62	0.12	-2.02
3	-1.04	-0.12	-12.34	-2.41	-0.19	-9.20	-2.74	-0.64	-41.06	0.80	0.15	-1.22
4	-1.31	-0.16	-13.65	-2.58	-0.20	-11.78	-2.84	-0.66	-43.90	0.38	0.07	-0.84
5	-1.52	-0.18	-15.17	-2.45	-0.19	-14.23	-2.75	-0.64	-46.65	-0.24	-0.04	-1.07
6	-1.49	-0.18	-16.66	-2.48	-0.20	-16.71	-2.98	-0.69	-49.63	-0.04	-0.01	-1.11
7	0.93	0.11	-15.73	4.42	0.35	-12.29	-2.88	-0.67	-52.51	0.06	0.01	-1.05
8	0.96	0.11	-14.77	4.40	0.35	-7.89	-2.75	-0.64	-55.26	0.07	0.01	-0.98
9	-0.89	-0.11	-15.66	-2.21	-0.17	-10.11	-2.78	-0.65	-58.03	1.01	0.19	0.03
10	-1.39	-0.16	-17.05	-2.22	-0.18	-12.33	-3.14	-0.73	-61.17	0.07	0.01	0.10

Table 4-4 summarizes the short-term financial of target hotels and categorizes results by method of payment. As does for acquiring hotels, cash payment outperforms stock payment. There is even a bigger difference between stock and cash payments for target hotels (CAR_{-10}^{+10} = -63.86 for stock payment and CAR_{-10}^{+10} = 49.09 for cash payment). For the target hotels, on average, the stock market reacts favorably to the merger and acquisition announcements on and following the announcements when the

payment is pure cash (AR_0 = 3.27) or mixed (AR_0 = 2.34), but reacts negatively when the payment is pure stock (AR_0 = -2.32).

Table 4-4. Abnormal returns for target hotels and payment methods

Event day	Total (n=53)			Cash (n=22)			Stock (n=5)			Mixed (n=26)		
	AR	t	CAR	AR	t	CAR	AR	t	CAR	AR	t	CAR
-10	0.27	0.06	0.27	1.50	0.30	1.50	-7.20	-1.56	-7.20	0.66	0.16	0.66
-9	0.61	0.13	0.88	1.40	0.27	2.90	-3.81	-0.82	-11.00	0.79	0.19	1.45
-8	-0.02	0.00	0.86	0.00	0.00	2.90	-3.96	-0.86	-14.96	0.72	0.17	2.17
-7	0.26	0.06	1.11	1.46	0.29	4.36	-7.30	-1.58	-22.26	0.69	0.17	2.86
-6	0.54	0.12	1.66	1.38	0.27	5.74	-4.20	-0.91	-26.46	0.74	0.18	3.61
-5	0.53	0.11	2.19	1.30	0.25	7.04	-4.47	-0.97	-30.93	0.84	0.20	4.45
-4	0.00	0.00	2.19	-0.04	-0.01	7.00	-3.86	-0.84	-34.79	0.79	0.19	5.24
-3	0.69	0.15	2.88	1.50	0.29	8.50	-4.04	-0.88	-38.83	0.91	0.22	6.15
-2	0.89	0.19	3.77	1.67	0.33	10.17	-3.62	-0.78	-42.46	1.10	0.26	7.24
-1	1.26	0.27	5.03	2.04	0.40	12.21	-2.52	-0.55	-44.97	1.32	0.32	8.57
0	2.29	0.50	7.32	3.27	0.64	15.48	-2.32	-0.50	-47.29	2.34	0.56	10.91
1	2.57	0.56	9.89	3.62	0.71	19.10	-1.98	-0.43	-49.28	2.56	0.61	13.47
2	2.36	0.51	12.25	3.57	0.70	22.67	-1.65	-0.36	-50.93	2.11	0.51	15.58
3	2.78	0.60	15.02	3.65	0.72	26.31	-1.58	-0.34	-52.51	2.88	0.69	18.46
4	2.68	0.58	17.70	3.66	0.72	29.97	-1.74	-0.38	-54.25	2.70	0.65	21.15
5	2.63	0.57	20.33	3.61	0.71	33.58	-2.25	-0.49	-56.50	2.75	0.66	23.90
6	2.72	0.59	23.05	3.63	0.71	37.21	-1.92	-0.42	-58.42	2.83	0.68	26.74
7	2.93	0.64	25.98	3.94	0.77	41.16	-1.86	-0.40	-60.28	3.00	0.72	29.74
8	2.99	0.65	28.98	4.01	0.79	45.17	-1.32	-0.29	-61.61	2.96	0.71	32.69
9	2.10	0.45	31.08	1.89	0.37	47.06	-1.22	-0.26	-62.83	2.92	0.70	35.61
10	2.18	0.47	33.26	2.04	0.40	49.09	-1.03	-0.22	-63.86	2.92	0.70	38.53

Figure 4-1 and 4-2 represent the AR and CAR for acquiring and acquired hotel companies, respectively. As can be seen in Figure 4-1, the AR of acquiring hotel companies generally fluctuates around zero, except when the payment was made by pure stock. Accordingly, CARs do not move far away from zero. However, acquiring hotels

with stock payment experienced a steady decrease in stock prices over the event period. This implies that merger and acquisition announcements for the acquiring hotels are perceived quite negatively especially when the payment is made by stock.

Like the AR of acquiring hotels, the AR of target hotels fluctuate around zero indicating that the shareholders of target hotels do not gain returns due to merger and acquisition announcements. However, descriptive statistics suggest that there is a small increase in AR after the announcement. Consequently, CARs show a small but steady increase since the announcement day. However, as Figure 4-2 suggests, merger and acquisition announcements are negatively absorbed by the stock market when they are paid by pure stock.

Figure 4-1. AR and CAR for acquiring hotels

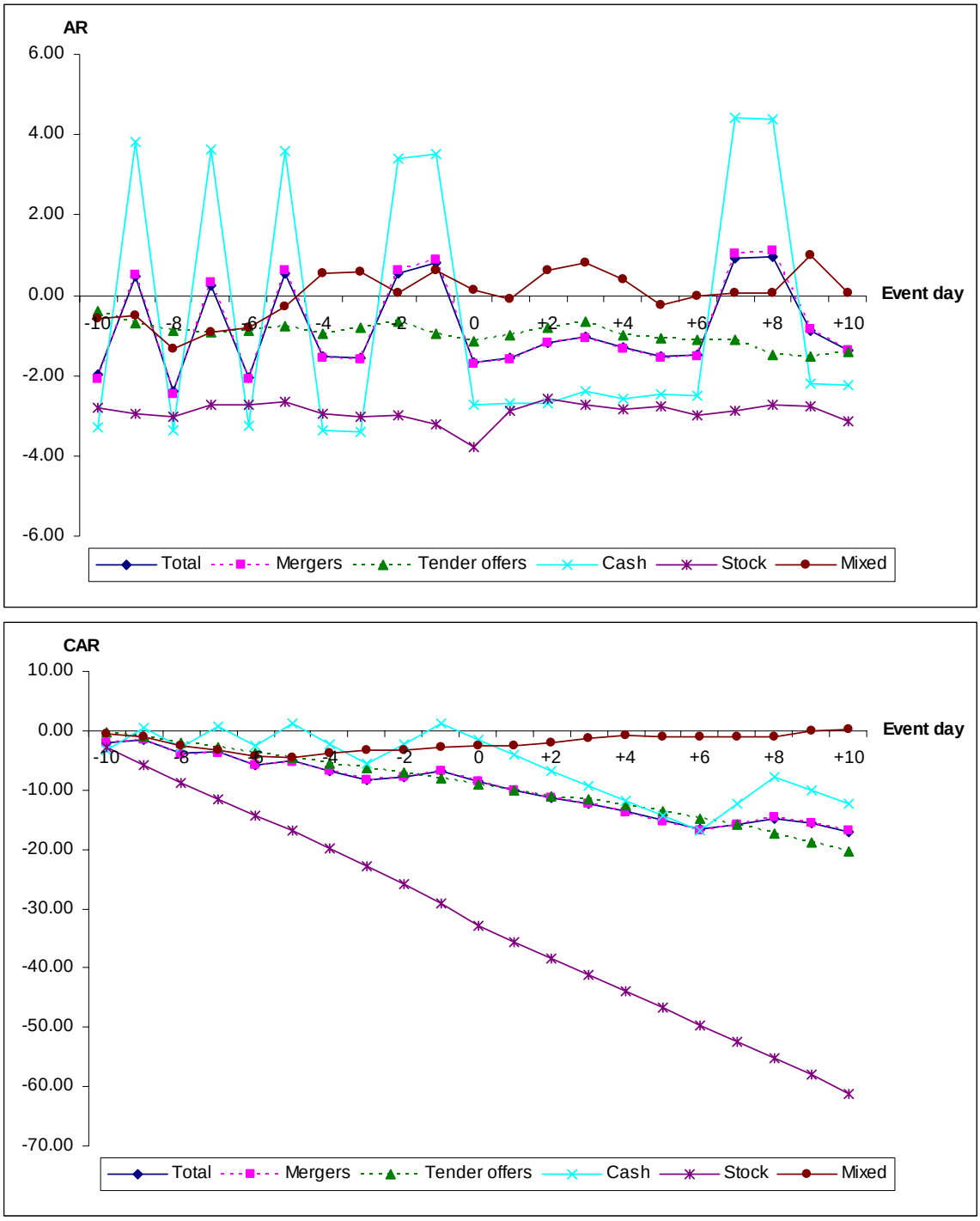
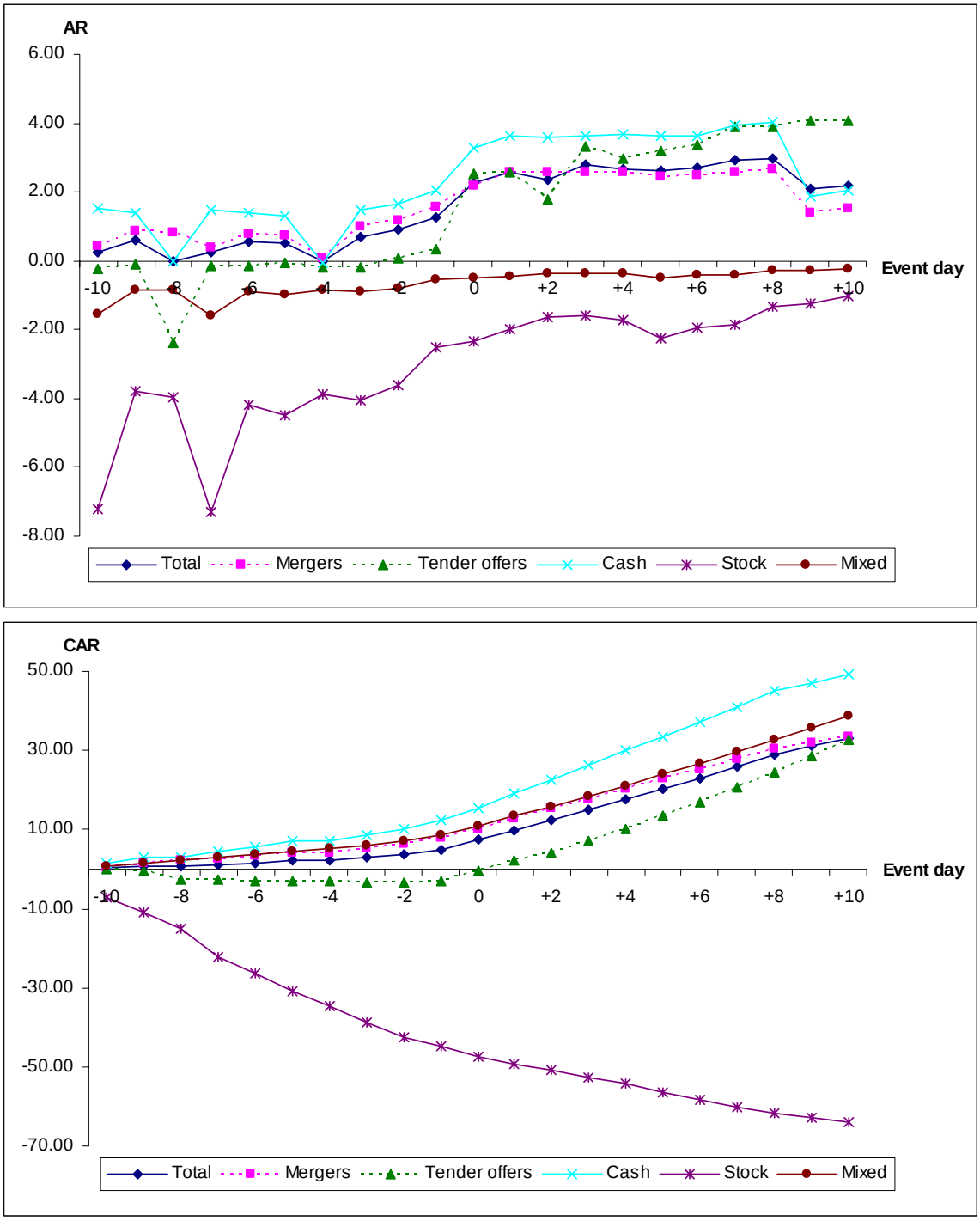


Figure 4-2. AR and CAR for target hotels



Post-Acquisition Performance in the Restaurant Industry

For the restaurant industry, the post-acquisition performance of acquiring restaurant firms is summarized in Table 4-5. It also shows the results for mergers and tender offers separately. The results of t-tests did not find any statistical significance for AR of acquiring restaurants. On the other hand, the descriptive statistics indicated small increases in the stock prices of acquiring restaurants ($CAR_{-10}^{+10} = 5.25$). When mergers and tender offers were analyzed separately, CAR was higher in tender offers ($CAR_{-10}^{+10} = 12.50$) than in mergers ($CAR_{-10}^{+10} = 4.55$).

Additionally, Table 4-6 reports the post-acquisition performance of target restaurants. Likewise, descriptive statistics showed increase in the stock prices of target restaurants ($CAR_{-10}^{+10} = 53.64$) even though ARs were not statistically significant. Also, CAR for the shareholders of target restaurants was higher in tender offers ($CAR_{-10}^{+10} = 82.05$) compared to mergers ($CAR_{-10}^{+10} = 38.34$). Overall, it was found that the stock reacted favorably when a merger and acquisition transaction was tendered. This pattern is parallel with Canina (2001) and Loughran and Vijh(1997).

Table 4-5. Abnormal returns for acquiring restaurants and merger modes

Event day	Total (n=79)			Mergers (n=72)			Tender offers (n=7)		
	AR	t	CAR	AR	t	CAR	AR	t	CAR
-10	-0.27	-0.08	-0.27	-0.33	-0.09	-0.33	0.44	0.29	0.44
-9	-0.59	-0.17	-0.86	-0.69	-0.19	-1.03	0.47	0.31	0.91
-8	-0.01	0.00	-0.87	-0.05	-0.01	-1.08	0.38	0.25	1.29
-7	0.23	0.07	-0.64	0.21	0.06	-0.87	0.41	0.26	1.70
-6	-0.28	-0.08	-0.92	-0.34	-0.09	-1.21	0.34	0.22	2.04
-5	0.13	0.04	-0.79	0.10	0.03	-1.11	0.46	0.30	2.49
-4	0.06	0.02	-0.73	0.01	0.00	-1.10	0.56	0.36	3.05
-3	-0.60	-0.17	-1.32	-0.71	-0.20	-1.81	0.61	0.40	3.67
-2	-0.97	-0.28	-2.30	-1.12	-0.31	-2.93	0.60	0.39	4.27
-1	-0.58	-0.17	-2.88	-0.70	-0.19	-3.63	0.57	0.37	4.83
0	0.11	0.03	-2.76	0.07	0.02	-3.56	0.61	0.40	5.45
1	0.98	0.28	-1.79	1.01	0.28	-2.55	0.59	0.39	6.04
2	0.88	0.25	-0.91	0.91	0.25	-1.64	0.54	0.35	6.58
3	0.39	0.11	-0.52	0.38	0.11	-1.25	0.46	0.30	7.04
4	0.84	0.24	0.32	0.88	0.24	-0.38	0.44	0.29	7.48
5	0.65	0.19	0.96	0.63	0.18	0.25	0.80	0.52	8.28
6	0.99	0.29	1.95	1.00	0.28	1.25	0.92	0.60	9.20
7	0.70	0.20	2.65	0.68	0.19	1.93	0.88	0.57	10.07
8	0.87	0.25	3.52	0.88	0.24	2.81	0.73	0.48	10.81
9	0.80	0.23	4.32	0.80	0.22	3.62	0.79	0.51	11.60
10	0.93	0.27	5.25	0.93	0.26	4.55	0.91	0.59	12.50

Table 4-6. Abnormal returns for target restaurants and merger modes

Event day	Total (n=80)			Mergers (n=52)			Tender offers (n=28)		
	AR	t	CAR	AR	t	CAR	AR	t	CAR
-10	1.51	0.45	1.51	0.98	0.34	0.98	2.50	0.60	2.50
-9	1.37	0.41	2.88	0.75	0.26	1.72	2.54	0.61	5.03
-8	1.07	0.32	3.95	0.62	0.22	2.35	1.88	0.45	6.92
-7	1.26	0.37	5.21	0.93	0.33	3.28	1.86	0.45	8.78
-6	1.53	0.45	6.74	0.88	0.31	4.16	2.74	0.66	11.52
-5	1.77	0.52	8.51	1.17	0.41	5.33	2.89	0.70	14.41
-4	1.67	0.50	10.18	0.99	0.35	6.32	2.94	0.71	17.34
-3	1.65	0.49	11.83	0.89	0.31	7.22	3.05	0.74	20.40
-2	1.45	0.43	13.28	0.54	0.19	7.76	3.14	0.76	23.53
-1	1.94	0.58	15.22	1.26	0.44	9.02	3.21	0.78	26.74
0	3.07	0.91	18.30	2.17	0.76	11.19	4.75	1.15	31.49
1	3.70	1.10	21.99	2.71	0.94	13.90	5.53	1.33	37.02
2	3.74	1.11	25.73	2.78	0.97	16.68	5.53	1.34	42.55
3	3.76	1.11	29.49	2.82	0.98	19.50	5.50	1.33	48.05
4	3.77	1.12	33.27	2.86	0.99	22.36	5.47	1.32	53.53
5	3.34	0.99	36.60	2.87	1.00	25.22	4.21	1.02	57.74
6	3.76	1.12	40.37	2.78	0.97	28.01	5.59	1.35	63.33
7	3.35	0.99	43.72	2.79	0.97	30.80	4.39	1.06	67.72
8	3.47	1.03	47.19	2.52	0.88	33.32	5.22	1.26	72.94
9	3.00	0.89	50.19	2.79	0.97	36.11	3.40	0.82	76.34
10	3.45	1.02	53.64	2.23	0.78	38.34	5.71	1.38	82.05

Next, the method of payment was also considered in the restaurant industry and the results are shown in Table 4-7 and Table 4-8. Table 4-7 summarizes the daily abnormal returns and cumulative abnormal returns for acquiring restaurant firms. For the acquiring companies, the stock market reacted favorably to the merger and acquisition announcements on and following the announcements when the payment was pure cash ($AR_0 = 0.77$) or mixed ($AR_0 = 0.04$), but reacted negatively when the payment was pure stock ($AR_0 = -1.24$). As a result, the CAR for acquiring restaurants are positive when

deals were cash payment (CAR_{-10}^{+10} = 12.74) and mixed payment (CAR_{-10}^{+10} = 9.83). On the contrary, the stock payment shows a negative CAR (CAR_{10}^{+10} =-16.72).

Table 4-7. Abnormal returns for acquiring restaurants and payment methods

Event day	Total (n=79)			Cash (n=40)			Stock (n= 18)			Mixed (n=21)		
	AR	t	CAR	AR	t	CAR	AR	t	CAR	AR	t	CAR
-10	-0.27	-0.08	-0.27	0.61	0.24	0.61	-0.63	-0.14	-0.63	-1.62	-0.40	-1.62
-9	-0.59	-0.17	-0.86	0.66	0.25	1.27	-2.99	-0.69	-3.62	-0.91	-0.23	-2.53
-8	-0.01	0.00	-0.87	0.67	0.26	1.94	-0.60	-0.14	-4.22	-0.82	-0.20	-3.35
-7	0.23	0.07	-0.64	0.67	0.26	2.61	-0.47	-0.11	-4.69	-0.02	0.00	-3.36
-6	-0.28	-0.08	-0.92	0.09	0.04	2.71	-0.24	-0.05	-4.92	-1.03	-0.25	-4.39
-5	0.13	0.04	-0.79	0.68	0.26	3.38	-0.67	-0.15	-5.60	-0.23	-0.06	-4.62
-4	0.06	0.02	-0.73	0.66	0.25	4.04	-1.09	-0.25	-6.68	-0.10	-0.02	-4.71
-3	-0.60	-0.17	-1.32	0.01	0.00	4.05	-1.14	-0.26	-7.83	-1.28	-0.32	-5.99
-2	-0.97	-0.28	-2.30	-0.12	-0.04	3.94	-1.25	-0.29	-9.07	-2.37	-0.59	-8.36
-1	-0.58	-0.17	-2.88	-0.02	-0.01	3.92	-1.62	-0.37	-10.69	-0.76	-0.19	-9.12
0	0.11	0.03	-2.76	0.77	0.30	4.68	-1.24	-0.29	-11.94	0.04	0.01	-9.09
1	0.98	0.28	-1.79	0.93	0.36	5.61	-0.41	-0.09	-12.34	2.25	0.56	-6.84
2	0.88	0.25	-0.91	0.83	0.32	6.45	-0.66	-0.15	-13.00	2.28	0.57	-4.56
3	0.39	0.11	-0.52	0.36	0.14	6.80	-0.54	-0.13	-13.55	1.25	0.31	-3.30
4	0.84	0.24	0.32	0.82	0.32	7.62	-0.71	-0.16	-14.25	2.19	0.54	-1.11
5	0.65	0.19	0.96	0.88	0.34	8.50	0.11	0.03	-14.14	0.66	0.16	-0.44
6	0.99	0.29	1.95	0.92	0.35	9.42	-0.29	-0.07	-14.43	2.22	0.55	1.77
7	0.70	0.20	2.65	0.90	0.35	10.32	-0.72	-0.17	-15.15	1.53	0.38	3.31
8	0.87	0.25	3.52	0.68	0.26	11.00	-0.64	-0.15	-15.79	2.53	0.63	5.84
9	0.80	0.23	4.32	0.97	0.38	11.97	-0.52	-0.12	-16.31	1.61	0.40	7.45
10	0.93	0.27	5.25	0.77	0.30	12.74	-0.41	-0.10	-16.72	2.39	0.59	9.83

Table 4-8. Abnormal returns for target restaurants and payment methods

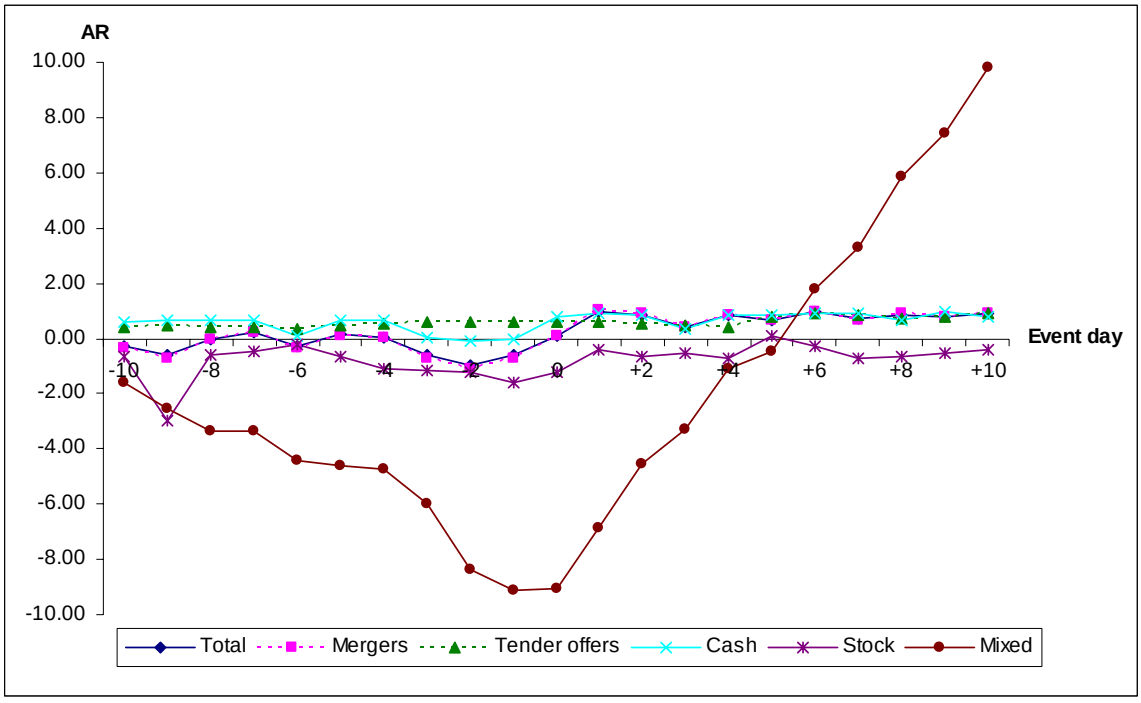
Event day	Total (n=80)			Cash (n=53)			Stock (n=10)			Mixed (n=17)		
	AR	t	CAR	AR	t	CAR	AR	t	CAR	AR	t	CAR
-10	1.51	0.45	1.51	1.85	0.50	1.85	1.39	0.54	1.39	0.53	0.19	0.53
-9	1.37	0.41	2.88	1.86	0.51	3.71	0.17	0.07	1.56	0.55	0.20	1.09
-8	1.07	0.32	3.95	1.42	0.39	5.13	0.11	0.04	1.67	0.53	0.19	1.62
-7	1.26	0.37	5.21	1.44	0.39	6.56	1.43	0.56	3.11	0.60	0.22	2.21
-6	1.53	0.45	6.74	2.09	0.57	8.65	1.54	0.60	4.65	-0.21	-0.08	2.00
-5	1.77	0.52	8.51	2.13	0.58	10.78	1.36	0.53	6.01	0.89	0.32	2.89
-4	1.67	0.50	10.18	2.00	0.54	12.78	1.52	0.59	7.53	0.76	0.28	3.65
-3	1.65	0.49	11.83	2.19	0.60	14.97	0.31	0.12	7.84	0.75	0.27	4.40
-2	1.45	0.43	13.28	1.60	0.44	16.57	1.66	0.65	9.50	0.84	0.31	5.24
-1	1.94	0.58	15.22	2.29	0.62	18.86	1.75	0.68	11.25	0.98	0.36	6.22
0	3.07	0.91	18.30	3.33	0.90	22.18	1.88	0.73	13.12	3.00	1.10	9.22
1	3.70	1.10	21.99	4.04	1.10	26.23	2.65	1.03	15.77	3.23	1.18	12.45
2	3.74	1.11	25.73	4.02	1.09	30.25	3.12	1.22	18.90	3.23	1.18	15.67
3	3.76	1.11	29.49	4.04	1.10	34.29	3.09	1.21	21.99	3.28	1.20	18.96
4	3.77	1.12	33.27	4.03	1.10	38.32	3.21	1.25	25.20	3.30	1.21	22.26
5	3.34	0.99	36.60	3.34	0.91	41.65	3.31	1.29	28.52	3.36	1.23	25.62
6	3.76	1.12	40.37	4.02	1.09	45.67	3.24	1.26	31.76	3.27	1.20	28.89
7	3.35	0.99	43.72	3.39	0.92	49.06	3.23	1.26	34.99	3.32	1.21	32.22
8	3.47	1.03	47.19	3.84	1.04	52.90	3.41	1.33	38.40	2.35	0.86	34.56
9	3.00	0.89	50.19	2.85	0.77	55.74	3.20	1.25	41.60	3.38	1.23	37.94
10	3.45	1.02	53.64	3.53	0.96	59.28	3.15	1.23	44.75	3.35	1.23	41.29

For the target restaurants, stocks showed positive AR on and following the announcement day ($AR_0 = 3.70$). Overall, the stock market reacted favorably to merger and acquisition announcements for the target restaurants. In addition, the shareholders of target restaurants firms gained the most when the merger and acquisition deals were cash payment ($CAR_{-10}^{+10} = 59.28$). The stock payment had a $CAR_{-10}^{+10} = 44.75$ and the mixed payment had a $CAR_{-10}^{+10} = 41.29$. The results are summarized in Table 4-8.

Figure 4-3 illustrates the AR and CAR for acquiring restaurant firms. In general, the AR of acquiring restaurant firms generally fluctuated around zero except when the payment was mixed. The mixed payment included cash, stock, and other types of payments. When the mixed payment was used in merger and acquisition transactions, the AR showed a stable increase since the announcement day. It appears that the stock market realized these stocks were undervalued since the merger and acquisition announcements were made. Generally, merger and acquisition transactions were positively absorbed by the stock market when they were paid by pure cash and they were tendered. On the other hand, they were negatively absorbed by the market when payments were made purely by stock.

Figure 4-4 displays the AR and CAR for target restaurants firms. It is obvious that merger and acquisition announcements for the target restaurants were perceived quite positively by the stock market regardless of the mode of merger or method of payment. However, it reacted more positively to the announcements on and following the event day when the deals were tendered (as opposed to merged) and paid by pure cash (as opposed to pure stock and mixed payment).

Figure 4-3. AR and CAR for acquiring restaurants



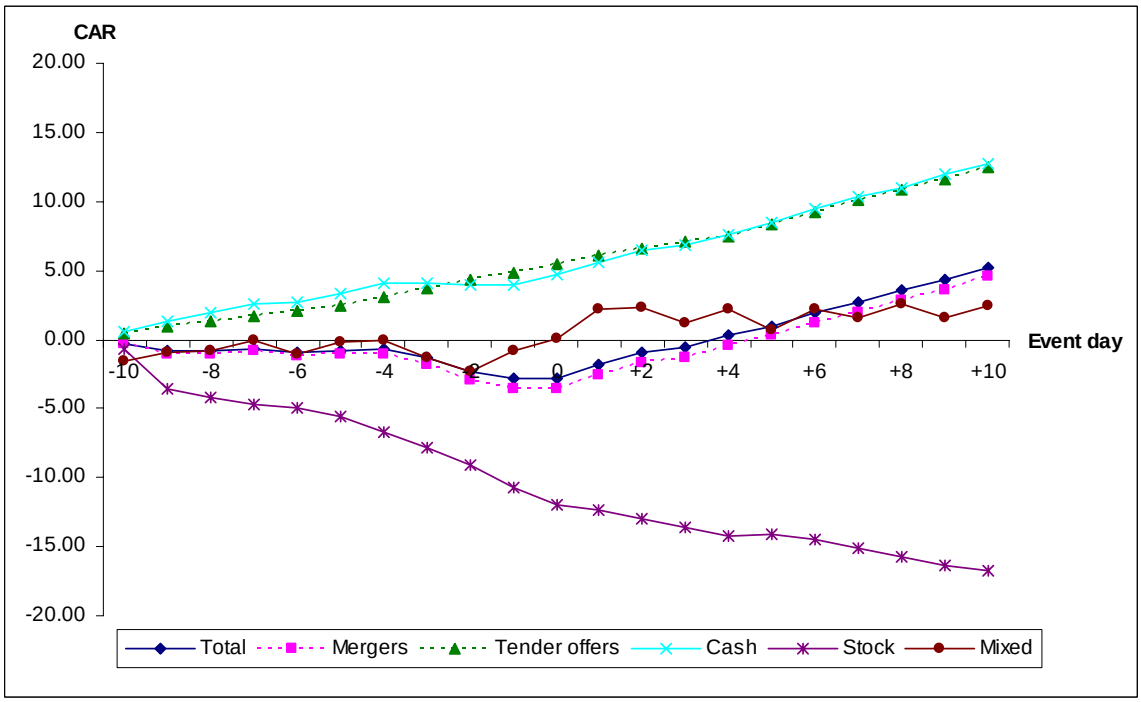
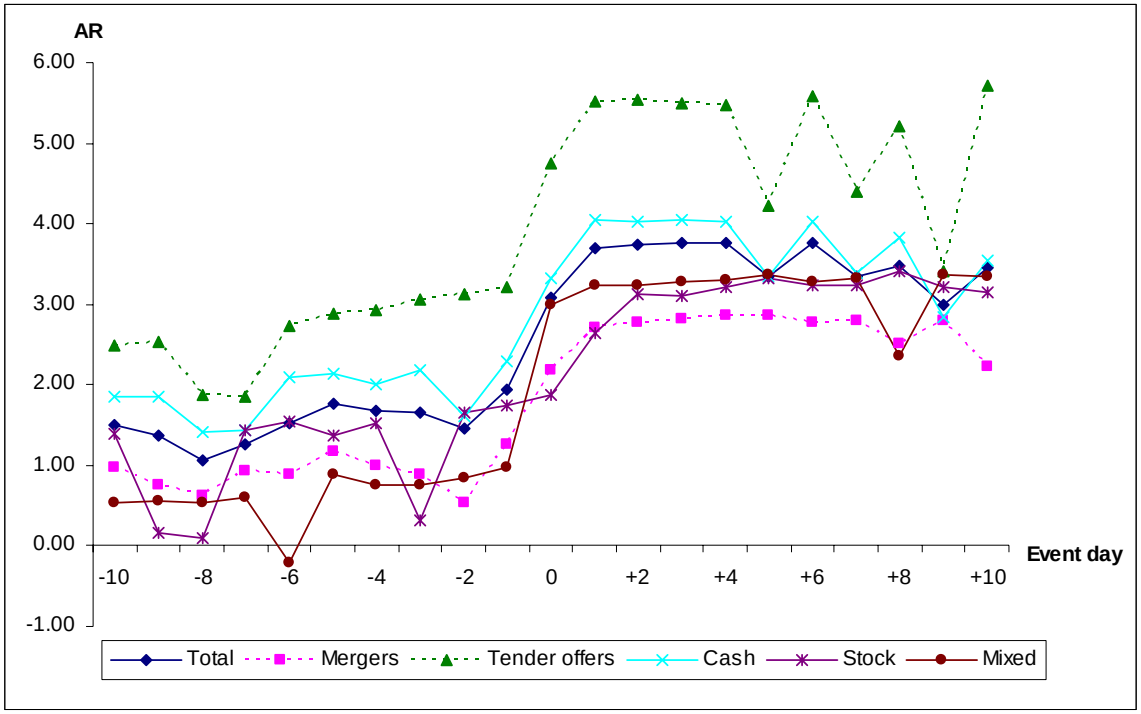
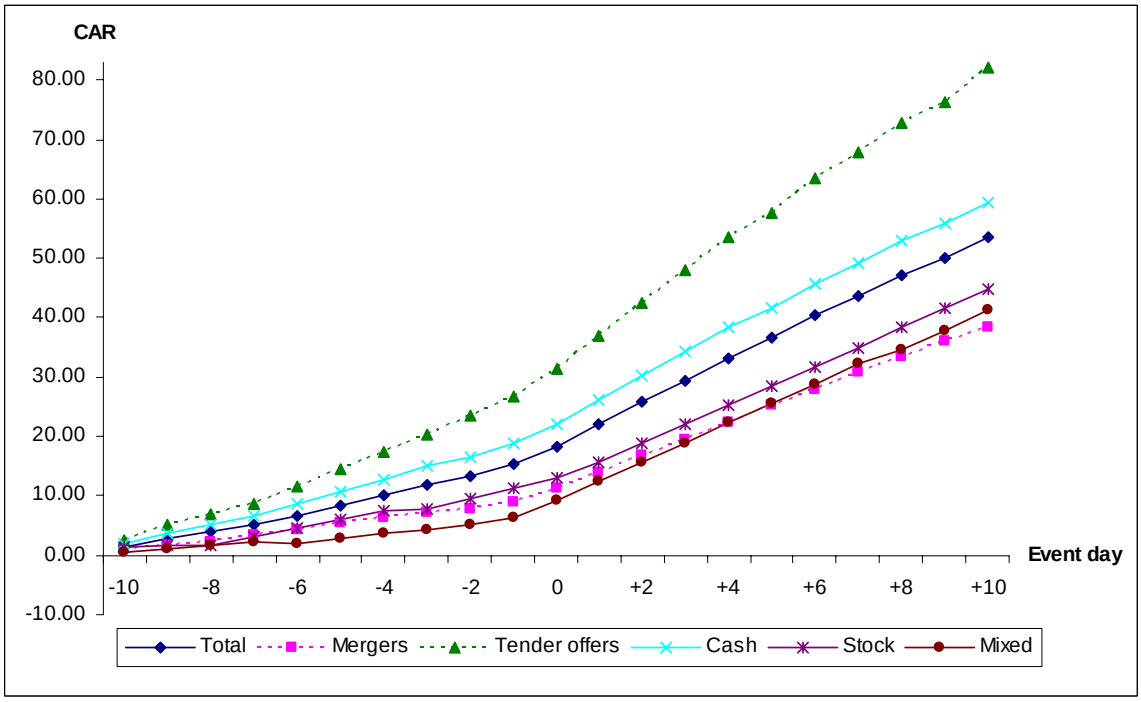


Figure 4-4. AR and CAR for target restaurants





2. Accounting-Based Performance

This study further investigated long-term post-acquisition performance of acquiring hospitality firms using accounting-based performance measures. ROA, ROE, and operating cash flow to assets ratio were used as profitability measures. In addition, sales to assets ratio was used to measure overall efficiency of acquiring hospitality firms. Finally, in order to assess acquiring hospitality firm's growth, the year-to-year percentage change in sales was used.

Descriptive statistics of accounting-based performance measures of acquiring hospitality firms are summarized in Table 4-9. Descriptive statistics show that ROA and ROE increased after acquisitions in both 3-year and 5-year performance measures. This phenomenon was more obvious in the restaurant industry. However, standard deviations of these measures are too big to conclude that acquisitions lead to increased profitability in the hospitality industry. On the other hand, a ratio of operating cash flow to assets, another profitability measure stays about the same following acquisitions. Similarly, the rate of sales to assets, the efficiency measure, did not change much after acquisitions. However, as seen in Table 4-9, the year-to-year percentage change in sales decreases after acquisitions, especially in the hotel industry.

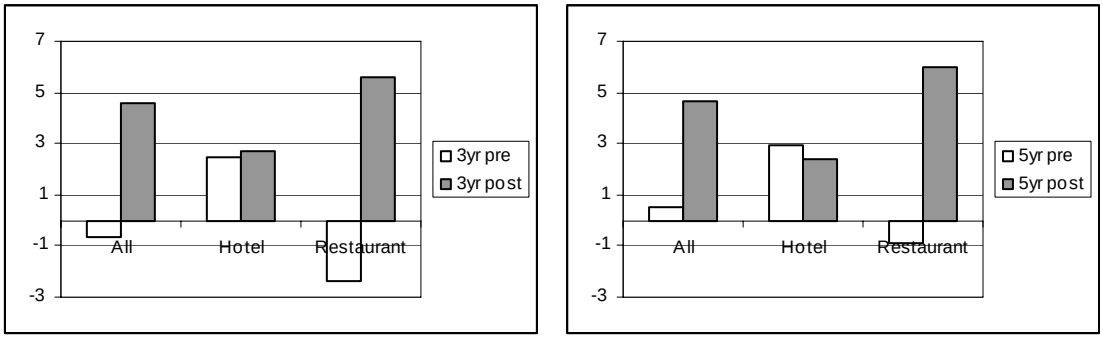
Table 4-9. Descriptive statistics of accounting-based performance measures

All (n=14)		*3 year*				*5 year*			
		Pre-		Post-		Pre-		Post-	
Performance Measure		Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
Profitability	ROA	-0.64	19.79	4.59	5.93	0.48	14.53	4.68	5.82
	ROE	-0.34	38.36	8.69	13.41	0.66	30.08	8.46	11.57
	Operating cash flow/Assets	10.93	10.89	12.18	6.61	12.22	6.43	12.24	6.69
Efficiency	Sales/Assets	122.34	52.80	122.54	52.51	121.69	51.66	126.90	56.63
Growth	$Sales/Sales_{t-1}$	28.11	64.03	12.88	13.02	21.05	42.36	9.58	9.26
Hotel (n=4)									
Performance Measure		Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
Profitability	ROA	2.50	2.03	2.71	1.09	2.95	1.95	2.36	2.08
	ROE	13.58	13.48	10.76	2.45	11.53	13.02	7.60	6.92
	Operating cash flow/Assets	8.20	2.54	7.04	1.40	7.68	2.53	7.13	1.47
Efficiency	Sales/Assets	78.00	43.21	68.12	30.74	83.69	52.61	69.83	31.37
Growth	$Sales/Sales_{t-1}$	66.06	94.47	10.71	10.79	43.48	58.80	8.01	6.09
Restaurant (n=9)									
Performance Measure		Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
Profitability	ROA	-2.38	24.99	5.63	7.29	-0.89	18.30	5.97	6.91
	ROE	-8.07	45.95	7.53	16.88	-5.38	35.65	8.94	13.89
	Operating cash flow/Assets	12.44	13.50	15.03	6.67	15.05	6.58	15.08	6.81
Efficiency	Sales/Assets	146.98	41.04	152.77	33.61	142.80	39.37	158.60	39.40
Growth	$Sales/Sales_{t-1}$	7.02	28.30	14.09	14.58	8.59	26.42	10.45	10.88

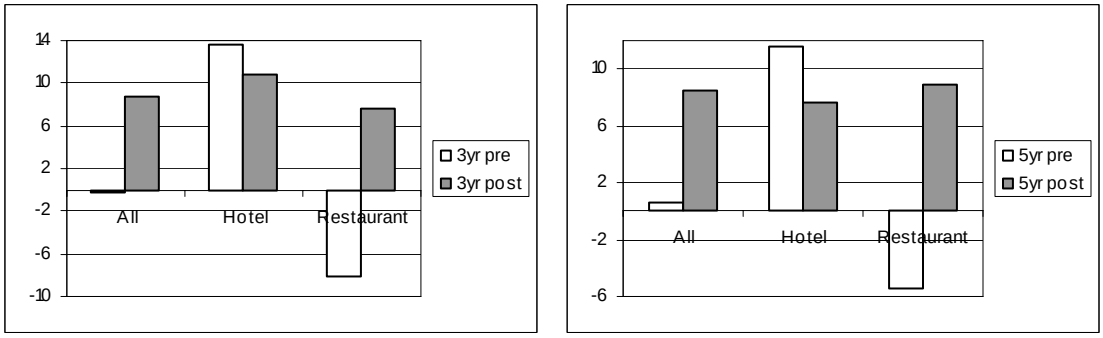
S.D.: Standard deviation

Figure 4-5. Pre- and post-acquisition performance of acquiring firms

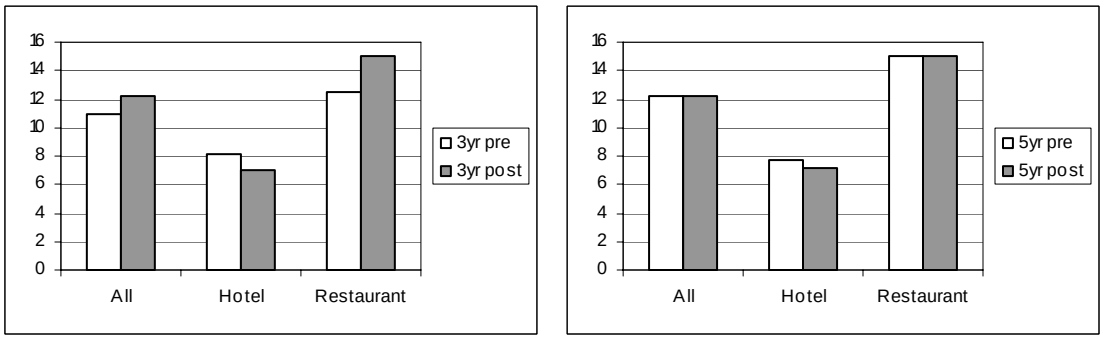
ROA



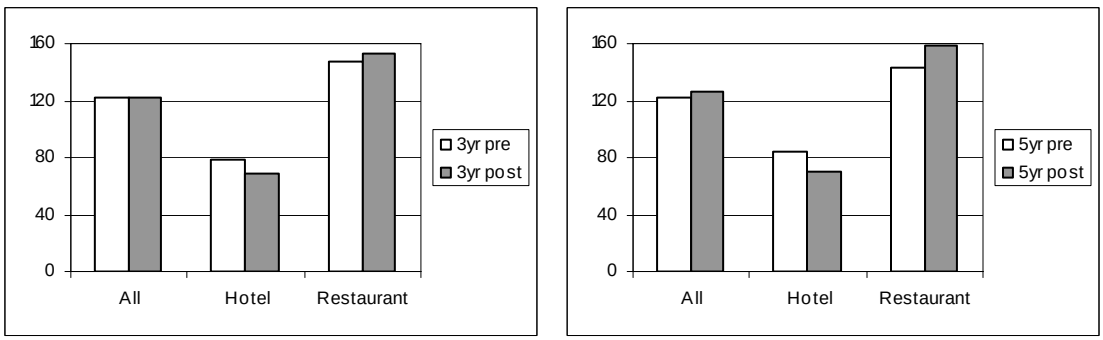
ROE



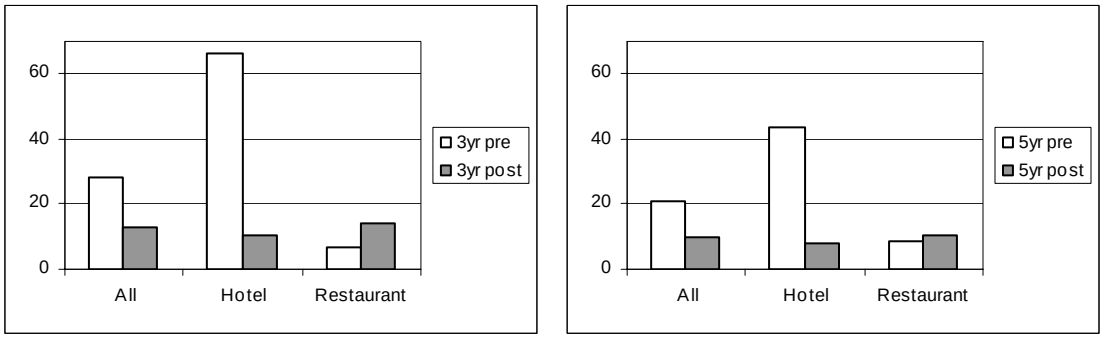
Operating cash flow/Assets



Sales/Assets



Sales/Sales$_{t-1}$



While descriptive statistics suggest some differences between pre- and post-acquisition performance in the hospitality industry, none of statistical tests identified significant differences between pre- and post-acquisition performance in both a pooled data set and the restaurant industries. However, it was found that the acquiring hotel firm's growth rate lowered significantly following mergers and acquisitions in both 3-year ($Z= -2.02$, $p<.05$) and 5-year tests ($Z= -1.75$, $p<.10$). Figure 4-5 illustrates pre- and post-acquisition accounting-based performance of acquiring hospitality firms. Additionally, the results of t-tests and Wilcoxon ranks tests are summarized in Table 4-10.

Table 4-10. The results of t-tests and Wilcoxon ranks tests

All (n=14)		*3 year*				*5 year*			
		Pre-		Post-		Pre-		Post-	
Performance Measure		M.D.	S.D.	t	Z	M.D.	S.D.	t	Z
Profitability	ROA	-5.22	21.27	-0.92	-0.28	-4.20	16.52	-0.95	-0.09
	ROE	-9.02	42.79	-0.79	-0.03	-7.80	34.82	-0.84	-0.16
	Operating cash flow/Assets	-1.25	9.87	-0.47	-0.35	-0.08	5.18	-0.06	-0.03
Efficiency	Sales/Assets	-0.19	29.65	-0.02	-0.28	-5.21	35.97	-0.54	-0.41
Growth	$Sales/Sales_{t-1}$	15.23	68.35	0.83	-1.35	11.47	45.03	0.95	-1.54
Hotel (n=5)									
Performance Measure		M.D.	S.D.	t	Z	M.D.	S.D.	t	Z
Profitability	ROA	-0.21	1.08	-0.43	-0.40	0.59	1.31	1.02	-1.21
	ROE	2.82	13.02	0.48	-0.13	3.92	11.20	0.78	-0.94
	Operating cash flow/Assets	1.16	2.86	0.91	-0.67	0.55	2.87	0.43	-0.40
Efficiency	Sales/Assets	9.88	17.67	1.25	-0.94	13.86	24.82	1.25	-1.48
Growth	$Sales/Sales_{t-1}$	55.34	94.83	1.30	-2.02**	35.47	58.34	1.36	-1.75*
Restaurant (n=9)									
Performance Measure		M.D.	S.D.	t	Z	M.D.	S.D.	t	Z
Profitability	ROA	-8.01	26.65	-0.90	-0.06	-6.86	20.50	-1.00	-0.41
	ROE	-15.61	52.48	-0.89	-0.18	-14.32	42.12	-1.02	-0.41
	Operating cash flow/Assets	-2.59	12.19	-0.64	-0.06	-0.48	6.39	-0.21	-0.14
Efficiency	Sales/Assets	-5.79	34.26	-0.51	-0.30	-15.81	37.96	-1.25	-1.01
Growth	$Sales/Sales_{t-1}$	-7.06	39.11	-0.54	-0.18	-1.86	32.14	-0.17	-0.41

M.D.: Mean difference / S.D.: Standard deviation
* p<.10, ** p<.05

CHAPTER V

CONCLUSIONS

1. Summary and Implications

Summary

This study attempts to investigate short-term financial performance of both acquiring and acquired hospitality firms and long-term accounting-based performance of acquiring hospitality firms. As a result, this study provides an empirical illustration of post-acquisition performance in the hotel and restaurant industries, using mergers and acquisitions from 1980 to 2004. At the first stage of analysis, short-term post-acquisition performance of hospitality firms was analyzed using stock prices. At this stage, the mode of mergers and method of payment were taken into consideration. At the second stage of analysis, accounting-based performance measures including profitability, efficiency, and growth measures were adopted in order to assess long-term post-acquisition performance of acquiring hospitality firms. The summary of the empirical findings of this study is presented in the following sections.

Relationship between the mode of merger and performance

Overall, it was found that merger and acquisition announcements have no impact on acquiring hospitality firms' stock prices and insignificant positive impact on acquired firms' stock prices, which was comparable to the majority of previous studies. When the mode of merger was taken into consideration, this study found that investors reacted favorably to tender offers compared to mergers, which was consistent with Canina (2001) and Loughran and Vijh (1997). This phenomenon was more prominent for target companies. This implies that the investors' expectations regarding increased market power and efficiency (Canina, 2001).

Relationship between the method of payment and performance

Furthermore, this study considered the method of payment (i.e., cash, stock, and mixed payments) and each payment method was analyzed separately. The contrast between pure cash payment and pure stock payment was particularly sharp. The results exhibit that the merger and acquisition announcements in the hospitality industry were negatively absorbed by the stock market when they were paid by pure stock. Acquiring hospitality firms with stock financing showed negative abnormal returns in both the hotel ($CAR_{-10}^{+10} = -61.73$) and restaurant ($CAR_{-10}^{+10} = -16.72$) industries. Acquired hotels with stock payment also earned negative abnormal returns ($CAR_{-10}^{+10} = -63.86$). Even though the acquired restaurants with stock payment earned positive abnormal returns ($CAR_{-10}^{+10} = 44.75$), it was smaller than the acquired restaurant with cash payment ($CAR_{-10}^{+10} = 59.28$). On the other hand, merger and acquisition announcements in the industry were

perceived positively when the payments were made by pure cash, which is consistent with Loughran and Vijh (1997).

Impact of mergers and acquisitions on long-term performance

As mentioned earlier, the ultimate goal of any merger or acquisition is to create synergy through economies of scale and scope. Accordingly, prior studies reported that enhancing profitability, efficiency, and growth are common objectives of mergers and acquisitions. While the results from financial performance exhibit little and insignificant wealth loss for acquiring company, there is a possibility that the effect of acquisitions appears slowly. Therefore, this study adopted accounting-based performance measures including profitability, efficiency, and growth measures in order to assess long-term post-acquisition performance of acquiring hospitality firms. In particular, 3-year and 5-year pre-acquisition performance measures were compared to corresponding 3-year and 5-year acquisition performance measures, using t-tests and Wilcoxon ranks tests.

Overall, the findings of this study does not support that acquiring hospitality firms achieved those objectives after acquisitions. While descriptive statistics indicated some differences between pre- and post-acquisition performance, statistical tests did not find any significant differences between pre- and post-acquisition performance in terms of profitability and efficiency. On the other hand, the growth rate of acquiring hotels, as measured by sales divided by the previous year value of sales, decreased significantly following mergers and acquisitions in both 3-year and 5-year tests.

Implications

The findings of this study have both practical and theoretical implications that are useful for both practitioners and researchers.

Practical implications

The results of this study confirmed that market participants reacted favorably to tender offers compared to mergers. This implies that the investors believe that tender offers provide an opportunity to sell their stocks at a premium price. At the same time, it could be possible that the stock market feels more confidence about the performance of merged hospitality firms when merger and acquisition deals are tendered. At any event, market participants use a wide range of financial and non-financial information from internal and external sources when making decisions in order to maximize their gains and avoid losses. They can achieve their objectives by buying securities of target hospitality companies prior to tender offer announcements or buying right after them. This study also exhibited that the stock market reacted positively to acquisitions with cash payment and negatively to acquisitions with stock payment. Therefore, investors can assure their gains and avoid losses by selling prior to stock-financed acquisitions and buying prior to cash-financed acquisitions, or by selling right after stock-financed acquisition announcements and buying right after cash-financed acquisition announcements.

One of the important issues facing the merged hospitality business units is to increase operational performance. However, this study did not find any improvement in operational performance of merged hospitality firms in terms of profitability, efficiency, and growth rate. Rather, the results indicated that the growth rate, as measured by year-

to-year change of sales, decreased in the merged hotels. One can argue that the merged hospitality firms already achieved their growth goals through acquisitions and it is not surprising if their growth rates slow down. While this view has some possibility, it is still the utmost goal of mergers and acquisitions to create synergy by either creating efficiency or by eliminating inefficiency. Considering that the growth rate of this study was sales growth (not book-value or market-value of assets), it is concluded that the merged hospitality firms failed to create synergy after acquisitions. Thus, merger and acquisition practitioners should carefully design mergers and acquisitions so that merged firms are operationally successful. Furthermore, when designing mergers and acquisitions, practitioners should consider qualitative aspects such as organizational cultures as well.

Theoretical implications

This study is the first study that examined the relationship between post-acquisition performance of hospitality firms and payment methods used for acquisitions. The results of this study revealed strong performance of cash acquisitions and weak performance of stock acquisitions. They are partly attributed to the perception of investors that the stock payment signals stock overvaluation, resulting in negative market reactions. This finding contributes to our body knowledge of the dynamics of hospitality acquisitions. While investigating informed trading prior to acquisitions of hospitality firms, Oak and Andrew (2006) also reported differences in the stock market's reaction surrounding hospitality acquisition payment announcements in terms of ask-bid depth. Combining together, one can conclude that the reaction of the stock market is robustly

related to the acquisition payment methods used in the hospitality acquisitions. Therefore, it becomes necessary to include the payment methods used for acquisitions into merger and acquisition studies in the field of the hospitality.

One can safely say that the ultimate goal of acquisition is to create synergy. In addition, Kim and Olsen (1999) documented that accelerating the acquiring company's growth is the most important objective of lodging acquisitions. However, this study demonstrated that the acquiring hotel's sales growth, in reality, lowered following acquisitions indicating a failure in creating synergy. This under-expected performance might be due to a matching problem between an acquirer and a target or insufficient preparation for organizational integration. In addition, this under-expected performance may arise because the true objective of hospitality acquisitions is not creating synergy or facilitating growth but others such as obtaining tax benefit, extending product lines (and/or markets), improving market power, and empire-building. It is also possible that a company acquire its competitor because the acquiring company notices business opportunities through the competitor's brand name. In this case, the acquiring company maintains the brand name after the acquisition. As a matter of fact, corporate mergers and acquisitions often occur between competitors (i.e., horizontal merger), particularly in the early consolidation stage. Hospitality researchers need to discover the sources of this under-expected performance and how to overcome them.

2. Limitations and Suggestions for Future Research

This study contributes to the merger and acquisition literature in the hospitality industry by utilizing recent data and incorporating both short-term financial performance and long-term accounting-based performance. Yet, there are several limitations that should be taken into consideration when interpreting the findings of the current study.

One limitation is related to other types of information available in the stock market except merger and acquisition announcements. This study investigates the relationship between merger and acquisition announcements and stock prices of hospitality firms. Ideally, event-window abnormal returns should reflect the isolated effect of acquisition announcements on acquiring and acquired firms' stock prices. However, there could be other events that affect stock prices of the firms. Additionally, the relationship among different acquisition announcements is ignored in this study. That is, the stock market might react differently to an acquisition announcement if a major competitor just announced an acquisition.

Another limitation of this study involves the small number of companies included in the study, which makes it difficult to generalize the findings of the study. For example, there were only two acquiring hotel firms involved in tendered transactions. It is hoped that further studies will overcome the sample size problem with the abundance of data. Given the complexity of the effects of mergers and acquisitions on performance of hospitality firms, studies with a large sample will provide meaningful insights into the dynamics of mergers and acquisitions in the hospitality industry.

Since evaluating the impact of mergers and acquisitions on a firm's performance precisely is difficult, it is necessary to find the appropriate performance measures. While this study incorporates both market-based and accounting-based measures to assess post-acquisition performance of hospitality firms, other types of performance measures such as market share and operational efficiencies were not included in this study. Future research integrating those performance measures will surely enhance our understanding concerning post-acquisition performance in the hospitality industry. For the hotel industry, for instance, average daily rate (ADR), occupancy rate, and revenue per available room (RevPAR) would be great performance indicators as well as market share. Including other types of measures such as market share and operating efficiencies could be one of the interesting future research areas in the hospitality industry. However, it is practically difficult to collect those data. Therefore, it is suggested that future research conduct close examinations on post-acquisition performance with small sample sizes.

Finally, the scope of the study includes mergers and acquisitions in the hotel and restaurant industries. Future studies with an extended scope would advance our understanding regarding dynamics of mergers and acquisitions in hospitality-related areas such as the gaming industry, theme parks, airlines, and other recreational services.

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APPENDICES

APPENDIX A

ACQUIRING HOTEL COMPANIES

Date Announced	Date Effective	Company	Transaction Value ($mil)	Tender Offer	Payment
12/9/1983	3/30/1984	Holiday Inns Inc	111.0	No	Mixed
2/16/1984	4/12/1984	Elsinore Corp	58.0	No	Mixed
7/5/1984	7/5/1984	Golden Nugget Inc	100.0	No	Mixed
8/16/1985	9/26/1985	Resorts International Inc	97.3	No	Cash
9/24/1985	11/25/1985	Prime Motor Inns Inc	235.0	No	Mixed
11/15/1985	4/25/1986	Bally Manufacturing Corp	564.5	Yes	Mixed
5/7/1986	8/4/1986	Marriott Corp	500.5	Yes	Cash
5/23/1988	12/30/1988	Golden Nugget Inc	40.0	No	Cash
6/22/1988	11/10/1988	ITT Corp	71.0	No	Cash
8/23/1988	12/1/1988	Sahara Casino Partners LP	112.5	No	Cash
10/15/1991	1/21/1992	CUC International Inc	266.0	No	Stock
10/5/1992	1/26/1993	Mirage Resorts Inc	70.0	No	Cash
1/26/1995	4/3/1995	Showboat Inc	25.0	No	Cash
3/20/1995	6/1/1995	Circus Circus Enterprises Inc	608.5	No	Mixed
6/15/1995	7/3/1995	La Quinta Inns Inc	189.3	No	Mixed
7/6/1995	11/30/1995	Grand Casinos Inc	139.2	No	Stock
8/19/1996	12/16/1996	Sun International Hotels Ltd	309.6	No	Mixed
10/1/1996	11/27/1996	Hudson Hotels Corp	60.2	No	Mixed
1/17/1997	4/11/1997	Extended Stay America Inc	295.9	No	Stock
2/4/1997	3/14/1997	Suburban Lodges of America Inc	23.0	No	Stock
3/18/1997	6/21/1997	Host Marriott Corp	540.0	No	Mixed
5/15/1997	5/15/1997	Signature Resorts Inc	59.4	No	Stock
7/25/1997	12/1/1997	Prime Hospitality Corp	133.2	No	Stock
9/2/1997	12/19/1997	Promus Hotel Corp	1703.6	No	Stock
7/1/1998	7/1/1998	Sonesta International Hotels	33.2	No	Mixed
9/23/1998	9/23/1998	Amerihost Properties Inc	37.0	No	Mixed
3/16/1999	10/14/1999	Hollywood Casino Corp	40.3	No	Cash
4/27/1999	12/30/1999	Park Place Entertainment Corp	3000.0	No	Cash
7/19/1999	10/1/1999	Starwood Hotel & Resorts	406.1	No	Mixed
9/7/1999	12/1/1999	Hilton Hotels Corp	3642.7	No	Mixed
10/6/1999	3/2/2000	Isle of Capri Casinos Inc	235.6	No	Mixed
12/17/1999	1/4/2000	Cavanaughs Hospitality Corp	61.4	No	Cash
3/16/2000	3/16/2000	Marriott International Inc	73.0	No	Cash
10/18/2001	1/2/2002	WestCoast Hospitality Corp	50.6	No	Mixed
5/2/2002	7/31/2002	MeriStar Hotels & Resorts Inc	78.7	No	Stock
12/5/2003	5/3/2004	Sands Regent	37.9	No	Mixed
3/3/2004	3/3/2004	Starwood Hotel & Resorts	40.0	No	Cash
7/15/2004	9/3/2004	La Quinta Corp	412.0	No	Cash

APPENDIX B

TARGET HOTEL COMPANIES

Date Announced	Date Effective	Company	Transaction Value ($mil)	Tender Offer	Payment
4/22/1983	4/22/1983	Bally's Park Place Inc	286.3	No	Mixed
8/17/1983	8/17/1983	Hilton Hotels Corp	70.0	No	Mixed
8/1/1984	9/18/1984	American Motor Inns Inc	216.0	Yes	Mixed
11/15/1985	4/25/1986	MGM Grand Hotels Inc	564.5	Yes	Mixed
11/25/1985	12/30/1985	Servico Inc	54.4	No	Cash
9/26/1986	9/26/1986	Holiday Corp	63.3	No	Cash
10/19/1987	12/30/1987	Northview Corp	60.0	Yes	Cash
3/17/1988	11/15/1988	Resorts International Inc	1013.5	Yes	Mixed
7/11/1988	4/25/1989	Servico Inc	79.8	No	Cash
11/15/1988	4/19/1989	Princeville Corp	70.0	Yes	Cash
4/27/1989	5/8/1989	Hilton Hotels Corp	165.0	No	Cash
5/9/1989	5/22/1989	ITT Corp	700.0	No	Cash
7/12/1990	9/17/1990	Motel 6 LP	2300.0	Yes	Mixed
7/19/1990	12/27/1990	Caesars New Jersey Inc	48.4	Yes	Cash
10/18/1993	1/24/1994	La Quinta Motor Inns LP	46.4	Yes	Cash
11/4/1994	1/29/1995	United Inns	66.6	Yes	Cash
4/5/1995	8/2/1995	Club Med Inc	153.4	Yes	Cash
1/24/1996	8/8/1996	National Lodging Corp	57.0	No	Cash
3/20/1996	7/1/1997	Boomtown Inc	183.5	No	Mixed
6/6/1996	12/18/1996	Bally Entertainment Corp	3138.1	No	Mixed
1/17/1997	4/11/1997	Studio Plus Hotels Inc	295.9	No	Stock
4/14/1997	1/5/1998	Wyndham Hotel Corp	773.1	No	Mixed
5/27/1997	12/18/1997	HFS Inc	11342.9	No	Stock
9/2/1997	12/19/1997	Doubletree Corp	1703.6	No	Stock
10/20/1997	2/24/1998	ITT Corp	13748.2	No	Mixed
11/13/1997	3/25/1998	Chartwell Leisure Inc	240.8	No	Cash
12/2/1997	6/2/1998	Interstate Hotels Co	2055.9	No	Mixed
12/19/1997	1/20/1998	Showboat Inc	1147.6	No	Mixed
12/31/1997	5/22/1998	Red Lion Inns LP	276.0	No	Mixed
1/5/1998	7/17/1998	La Quinta Inns Inc	2907.5	No	Mixed
3/23/1998	7/28/1998	Bristol Hotel Co	1793.2	No	Mixed
6/29/1998	12/31/1998	Grand Casinos Inc	832.4	No	Mixed
8/10/1998	1/4/1999	Rio Hotel & Casino Inc	821.9	No	Mixed
11/9/1998	3/1/1999	Primadonna Resorts Inc	268.4	No	Stock
6/11/1999	10/26/1999	Supertel Hospitality Inc	52.8	No	Stock
7/12/1999	8/13/1999	Red Roof Inns Inc	1128.1	Yes	Mixed
7/19/1999	10/1/1999	Vistana Inc	406.1	No	Mixed
9/7/1999	12/1/1999	Promus Hotel Corp	3642.7	No	Mixed
10/6/1999	3/2/2000	Lady Luck Gaming Corp	235.6	No	Mixed
2/22/2000	5/31/2000	Mirage Resorts Inc	6483.3	No	Mixed
2/28/2000	4/30/2000	Bristol Hotels & Resorts Inc	152.5	Yes	Cash
3/23/2000	6/8/2000	Homestead Village Inc	156.8	Yes	Cash
9/19/2000	11/30/2000	US Franchise Systems Inc	100.2	Yes	Cash
9/21/2000	1/5/2001	Sunburst Hospitality Corp	120.8	No	Cash

Date Announced	Date Effective	Company	Transaction Value ($mil)	Tender Offer	Payment
4/27/2001	2/22/2002	Black Hawk Gaming & Dvlp Co	36.3	No	Cash
1/29/2002	5/1/2002	Suburban Lodges of America Inc	109.8	No	Cash
3/27/2002	6/7/2002	Crestline Capital Corp	570.2	No	Cash
4/1/2002	6/3/2002	Trendwest Resorts	987.2	No	Mixed
8/7/2002	3/3/2003	Hollywood Casino Corp	916.5	No	Mixed
3/5/2004	5/12/2004	Extended Stay America Inc	2066.0	No	Cash
6/4/2004	4/25/2005	Mandalay Resort Group	7811.2	No	Mixed
7/15/2004	6/13/2005	Caesars Entertainment Inc	6332.3	No	Mixed
8/18/2004	10/8/2004	Prime Hospitality Corp	570.2	No	Cash
4/27/2001	2/22/2002	Black Hawk Gaming & Dvlp Co	36.3	No	Cash
1/29/2002	5/1/2002	Suburban Lodges of America Inc	109.8	No	Cash
3/27/2002	6/7/2002	Crestline Capital Corp	570.2	No	Cash
4/1/2002	6/3/2002	Trendwest Resorts	987.2	No	Mixed
8/7/2002	3/3/2003	Hollywood Casino Corp	916.5	No	Mixed
3/5/2004	5/12/2004	Extended Stay America Inc	2066.0	No	Cash
6/4/2004	4/25/2005	Mandalay Resort Group	7811.2	No	Mixed
7/15/2004	6/13/2005	Caesars Entertainment Inc	6332.3	No	Mixed
8/18/2004	10/8/2004	Prime Hospitality Corp	570.2	No	Cash

APPENDIX C

ACQUIRING RESTAURANT COMPANIES

Date Announced	Date Effective	Company	Transaction Value ($mil)	Tender Offer	Payment
1/22/1982	5/27/1982	Pillsbury Co	43.4	No	Mixed
6/28/1983	7/28/1983	Saga Corp	66.0	No	Mixed
9/12/1983	12/29/1983	Godfather's Pizza Inc	317.3	No	Mixed
11/21/1983	2/22/1984	VICORP Restaurants Inc	65.0	No	Mixed
11/23/1983	11/23/1983	Restaurant Associates Inds Inc	17.3	No	Mixed
12/14/1984	10/16/1985	LLC Corp	76.5	No	Stock
1/10/1985	5/28/1985	Taco Villa Inc(WR Grace & Co)	48.0	No	Stock
5/14/1985	7/9/1985	Sizzler Restaurants Intl Inc	20.0	No	Cash
5/21/1985	8/7/1985	Pillsbury Co	361.0	Yes	Cash
9/18/1985	12/30/1985	Wendys International Inc	43.0	Yes	Stock
5/27/1986	5/27/1986	National Pizza Co	14.0	No	Cash
2/6/1987	7/30/1987	Pantera's Corp	61.5	No	Mixed
3/30/1987	3/30/1987	Morrison Inc	15.1	No	Cash
3/21/1988	9/14/1988	TPI Enterprises Inc	123.0	Yes	Cash
9/29/1988	12/29/1989	Piccadilly Cafeterias Inc	33.0	No	Cash
2/28/1989	2/28/1989	Chilis Inc	17.9	No	Stock
3/10/1989	4/25/1991	Collins Foods International	122.0	Yes	Stock
3/17/1989	5/17/1989	Famous Restaurants Inc	23.0	No	Cash
7/27/1989	11/26/1989	National Pizza Co	29.6	Yes	Cash
3/4/1991	7/1/1991	ELXSI Corp	22.0	No	Cash
3/26/1992	6/15/1992	Rally's Hamburger	12.0	No	Cash
5/18/1993	6/10/1993	National Pizza Co	20.0	No	Cash
7/26/1993	9/9/1993	Checkers Drive-In Restaurants	12.3	No	Stock
10/19/1993	12/28/1993	Main Street and Main Inc	42.0	No	Stock
3/15/1994	6/3/1994	Starbucks Corp	26.0	No	Stock
3/23/1994	4/29/2004	Capucino's Inc	73.5	No	Stock
4/20/1994	4/20/1994	Outback Steakhouse Inc	19.6	No	Stock
7/5/1994	7/5/1994	Billy Blues Food Corp	24.9	No	Stock
7/14/1994	9/26/1994	DavCo Restaurants Inc	18.4	No	Mixed
10/14/1994	3/23/1995	Applebees International Inc	63.7	No	Mixed
11/10/1994	1/17/1995	Morrison Restaurants Inc	23.0	No	Mixed
7/20/1995	8/29/1995	Brinker International Inc	72.5	No	Stock
8/15/1995	11/17/1995	Apple South Inc	207.1	No	Stock
9/5/1995	9/9/1996	Shoney's Inc	160.1	No	Mixed
9/18/1995	10/17/1995	Lone Star Steakhouse,Saloon	23.0	No	Cash
2/22/1996	6/7/1996	Quality Dining Inc	110.2	No	Stock
4/19/1996	8/9/1996	Landry's Seafood Restaurants	74.1	No	Mixed
6/3/1996	7/4/1996	Denamerica Corp	65.0	No	Cash
6/4/1996	9/20/1996	Buffets Inc	174.0	No	Stock
6/14/1996	9/13/1996	Longhorn Steaks Inc	48.5	No	Stock
7/10/1996	11/22/1996	Wendys International Inc	28.0	No	Cash
7/15/1996	9/30/1996	Luby's Cafeterias Inc	14.8	No	Cash
8/2/1996	8/30/1996	McDonald's Corp	74.0	No	Cash
3/27/1997	5/22/1997	Triarc Cos Inc	300.0	No	Cash

Date Announced	Date Effective	Company	Transaction Value ($mil)	Tender Offer	Payment
5/2/1997	7/3/1997	Casa Ole Restaurants Inc	11.6	No	Mixed
7/23/1997	12/2/1997	Benihana Inc	18.8	No	Cash
8/15/1997	11/21/1997	Eateries Inc	10.2	No	Cash
8/28/1997	8/28/1997	Fine Host Corp	26.5	No	Mixed
10/30/1997	7/15/1998	Boston Chicken Inc	181.0	No	Mixed
12/23/1997	3/25/1998	Applebees International Inc	93.4	No	Cash
1/15/1998	4/2/1998	CKE Restaurants Inc	426.4	No	Mixed
4/23/1998	7/31/1998	Piccadilly Cafeterias Inc	46.2	Yes	Cash
7/29/1998	11/25/1998	New World Coffee & Bagels Inc	20.0	No	Mixed
11/30/1998	10/1/1999	Nathan's Famous Inc	14.0	No	Mixed
12/11/1998	2/16/1999	Cracker Barrel Old Country Str	178.3	No	Cash
1/29/1999	8/9/1999	Checkers Drive-In Restaurants	35.8	No	Stock
5/10/1999	7/14/1999	Morgan's Foods Inc	33.7	No	Cash
6/25/1999	7/28/1999	CEC Entertainment Inc	19.0	No	Cash
11/5/1999	11/30/1999	Creative Host Services Inc	20.0	No	Cash
11/22/1999	11/22/1999	Starbucks Corp	10.0	No	Cash
5/24/2000	8/30/2000	Sizzler International Inc	19.1	No	Mixed
9/26/2000	12/1/2000	Landry's Seafood Restaurants	70.8	Yes	Cash
11/20/2000	4/12/2001	Brinker International Inc	93.0	No	Cash
11/19/2001	3/1/2002	CKE Restaurants Inc	72.4	No	Stock
12/17/2001	1/15/2002	Buca Inc	18.0	No	Cash
1/16/2002	5/17/2002	Darden Restaurants Inc	10.5	No	Cash
3/12/2002	5/7/2002	Tricon Global Restaurants	320.0	No	Cash
5/31/2002	6/21/2002	Wendys International Inc	275.0	No	Cash
7/16/2002	11/7/2002	Applebees International Inc	32.8	No	Cash
9/11/2002	10/4/2002	Landry's Restaurants Inc	75.0	No	Cash
10/28/2002	1/28/2003	O Charleys Inc	160.7	No	Mixed
11/13/2002	12/4/2002	Benihana Inc	12.2	No	Mixed
1/21/2003	1/21/2003	Jack in the Box Inc	45.0	No	Cash
4/16/2003	7/14/2003	Starbucks Corp	72.0	No	Cash
9/26/2003	1/8/2004	Mexican Restaurants Inc	13.8	No	Cash
6/14/2004	7/7/2004	Bob Evans Farms Inc	182.0	No	Mixed
6/28/2004	7/22/2004	Triarc Cos Inc	86.5	No	Cash
9/3/2004	9/22/2004	Outback Steakhouse Inc	42.5	No	Cash
11/5/2004	12/29/2004	Steak n Shake Co	20.5	No	Cash

APPENDIX D

TARGET RESTAURANT COMPANIES

Date Announced	Date Effective	Company	Transaction Value ($mil)	Tender Offer	Payment
11/20/1981	3/3/1982	Host International inc	152.4	No	Mixed
9/12/1983	12/29/1983	Chart House Inc	317.3	No	Mixed
1/29/1984	1/29/1984	Denny's Inc	734.2	No	Cash
9/12/1984	12/19/1984	ARA Services Inc	921.4	No	Mixed
5/21/1985	8/7/1985	Diversifoods Inc	361.0	Yes	Cash
12/5/1985	10/15/1986	A&M Food Services Inc	43.9	No	Stock
5/7/1986	8/4/1986	Saga Corp	500.5	Yes	Cash
5/9/1986	12/30/1986	El Torito Restaurants Inc	62.5	Yes	Cash
9/25/1986	12/22/1986	Carrols Corp	88.0	No	Cash
11/3/1986	7/23/1987	Nathan's Famous Inc	20.7	No	Cash
11/3/1986	12/31/1986	Pasquale Food Inc	164.7	Yes	Cash
11/21/1986	9/9/1987	Ponderosa Inc	282.0	Yes	Cash
2/6/1987	7/30/1987	Pizza Inn Inc	61.5	No	Mixed
2/16/1987	3/2/1988	Calny Inc	52.0	No	Cash
8/25/1987	3/4/1988	Restaurant Associates Inds Inc	58.8	Yes	Cash
9/22/1987	11/23/1987	Rusty Pelican Restaurants Inc	46.1	No	Mixed
12/22/1987	5/12/1988	Hamburger Hamlets Inc	29.2	No	Cash
2/5/1988	10/27/1988	International King's Table Inc	47.0	Yes	Cash
2/22/1988	4/13/1988	Chi-Chi's Inc	265.9	Yes	Cash
3/21/1988	9/14/1988	Shoney's South Inc	123.0	Yes	Cash
5/12/1988	10/31/1988	Restaurant Management Services	47.3	No	Cash
7/25/1988	11/23/1988	Fuddruckers Inc	11.7	No	Stock
8/29/1988	12/9/1988	Foodmaker Inc	474.8	Yes	Mixed
10/4/1988	1/10/1989	Pillsbury Co	5757.9	Yes	Cash
10/13/1988	1/4/1989	Associated Hosts Inc	22.0	Yes	Cash
10/24/1988	9/21/1989	Church's Fried Chicken Inc	395.7	Yes	Mixed
3/10/1989	4/25/1991	Sizzler Restaurants Intl Inc	122.0	Yes	Stock
5/12/1989	12/15/1989	McDonald's Corp	300.0	No	Cash
5/19/1989	2/21/1990	TGI Friday's Inc	52.7	No	Cash
8/7/1989	5/21/1990	Jerrico Inc	607.0	Yes	Mixed
8/30/1989	10/18/1989	USACafes LP	70.2	No	Cash
11/17/1989	1/3/1990	Dunkin' Donuts Inc	304.6	Yes	Cash
5/6/1992	9/30/1992	Showbiz Pizza Time Inc	10.7	No	Cash
6/25/1992	11/17/1992	TW Holdings Inc	450.0	No	Mixed
1/3/1994	1/3/1994	Au Bon Pain Co Inc	30.0	No	Cash
1/24/1994	5/18/1994	On The Border Cafes Inc	30.8	No	Stock
8/24/1994	10/24/1994	Rally's Hamburgers Inc	10.0	No	Cash
8/15/1995	11/17/1995	DF&R Restaurants Inc	207.1	No	Stock
9/5/1995	9/9/1996	TPI Enterprises Inc	160.1	No	Mixed
1/11/1996	7/30/1996	Golf Enterprises Inc	82.9	No	Mixed
6/4/1996	9/20/1996	HomeTown Buffet Inc	174.0	No	Stock
6/14/1996	9/13/1996	Bugaboo Creek Steak House Inc	48.5	No	Stock
5/23/1997	5/23/1997	Chart House Enterprises Inc	19.6	No	Cash
5/28/1997	7/17/1997	DAKA International Inc	194.0	Yes	Mixed

Date Announced	Date Effective	Company	Transaction Value ($mil)	Tender Offer	Payment
7/23/1997	12/2/1997	Rudy's Restaurant Group	18.8	No	Cash
8/4/1997	12/23/1997	Perkins Family Restaurant LP	76.3	No	Cash
9/2/1997	12/3/1997	Ground Round Restaurants Inc	17.5	Yes	Cash
9/5/1997	4/3/1998	DavCo Restaurants Inc	133.6	No	Cash
9/23/1997	1/22/1998	El Chico Restaurants Inc	49.2	No	Cash
9/26/1997	2/3/1998	Sagebrush Inc	39.4	No	Stock
4/3/1998	7/21/1998	Bertucci's Inc	96.5	Yes	Cash
4/23/1998	7/31/1998	Morrison Restaurants Inc	46.2	Yes	Cash
6/4/1998	7/20/1998	Pollo Tropical Inc	94.6	Yes	Cash
6/10/1998	10/30/1998	Koo Koo Roo Inc	158.0	No	Mixed
9/18/1998	1/25/1999	Spaghetti Warehouse	54.3	No	Mixed
11/25/1998	9/29/1999	Sbarro Inc	386.4	No	Cash
11/30/1998	10/1/1999	Miami Subs Corp	14.0	No	Mixed
12/3/1998	4/5/1999	Back Bay Restaurants Group Inc	38.9	No	Cash
12/11/1998	2/16/1999	Logans Roadhouse Inc	178.3	No	Cash
1/29/1999	8/9/1999	Rally's Hamburgers Inc	35.8	No	Stock
2/9/1999	7/8/1999	Coffee People Inc	31.7	No	Mixed
3/19/1999	8/13/1999	Rock Bottom Restaurants Inc	58.5	No	Cash
7/26/1999	9/2/1999	Host Marriott Services	547.3	Yes	Cash
6/5/2000	9/28/2000	Buffets Inc	646.8	No	Cash
9/26/2000	12/1/2000	Rainforest Cafe Inc	70.8	Yes	Cash
10/6/2000	12/20/2000	Taco Cabana Inc	151.4	No	Mixed
10/25/2000	7/31/2001	Uno Restaurant Corp	45.4	Yes	Cash
11/16/2000	7/17/2001	Il Fornaio America Corp	77.3	No	Cash
12/14/2000	8/31/2001	NPC International Inc	93.6	No	Cash
1/25/2001	6/20/2001	Sodexho Marriott Services Inc	1144.5	Yes	Cash
2/6/2001	4/5/2001	Morrison Management Specialist	572.9	Yes	Cash
2/15/2001	5/14/2001	VICORP Restaurants Inc	178.8	No	Cash
3/9/2001	3/9/2001	Luby's Inc	10.0	No	Cash
3/23/2001	8/31/2001	PJ America Inc	22.7	Yes	Cash
10/8/2001	1/24/2002	Blimpie International Inc	25.8	No	Cash
11/19/2001	3/1/2002	Santa Barbara Restaurant Group	72.4	No	Stock
5/21/2002	7/25/2002	Morton's Restaurant Group Inc	71.1	No	Cash
9/30/2003	3/10/2004	Garden Fresh Restaurant Corp	103.0	No	Cash
2/18/2004	4/16/2004	Creative Host Services Inc	33.1	Yes	Cash
6/15/2004	4/13/2005	Quality Dining Inc	21.1	No	Cash

VITA

Dong Jin Kim

Candidate for the Degree of

Doctor of Philosophy

Thesis: THE POST-ACQUISITION PERFORMANCE IN THE HOTEL AND RESTAURANT INDUSTRIES

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Institution: Oklahoma State University Location: Stillwater, Oklahoma

Title of Study: THE POST-ACQUISITION PERFORMANCE IN THE HOTEL AND RESTAURANT INDUSTRIES

Pages in Study: 103 Candidate for the Degree of Doctor of Philosophy

Major Field: Human Environmental Sciences

Scope and Method of Study: This study provides an empirical illustration of post-acquisition performance in the hotel and restaurant industries, using mergers and acquisitions from 1980 to 2004. At the first stage of analysis, short-term post-acquisition performance of hospitality firms was analyzed using stock prices. At the second stage of analysis, accounting-based performance measures including profitability, efficiency, and growth measures were adopted in order to assess long-term post-acquisition performance of acquiring hospitality firms.

Findings and Conclusions: Overall, it was found that merger and acquisition announcements have no impact on acquiring hospitality firms' stock prices and insignificant positive impact on acquired firms' stock prices. When the mode of merger was taken into consideration, this study found that investors reacted favorably to tender offers compared to mergers. This phenomenon was more prominent for target hospitality companies. The results exhibit that the merger and acquisition announcements in the hospitality industry were negatively absorbed by the stock market when they were paid by pure stock. On the other hand, merger and acquisition announcements in the hospitality industry were perceived positively when the payments were made by pure cash. Further, this study found that the growth rate of acquiring hotels, as measured by sales divided by the previous year value of sales, decreased significantly following mergers and acquisitions in both 3-year and 5-year tests.

ADVISER'S APPROVAL: Dr. Woo Gon Kim