Leveraged Buyouts in the Hospitality Industry: Five Years Later

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Abstract
When the author wrote her first article for the FIU Hospitality Review on leveraged buyouts' some five years ago, this business strategy was beginning to enjoy increasing popularity. Since that time leveraged buyouts grew to unprecedented levels both in number and size of transactions. However, following the failure of the UAL proposal and the collapse of the junk bond market in 1989, there has been a marked slowdown in buyout activity this article examines major developments affecting leveraged buyouts over the past five years and addresses their future implications for the hospitality industry.

Keywords
Elisa S. Moncarz, Leveraged Buyouts in the Hospitality Industry: Five Years Later, LBO, Debt, Financing, Acquisitions, Layoffs, Junk Bonds, UAL, FIU

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Leveraged Buyouts
in the Hospitality Industry:
Five Years Later

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When the author wrote her first article for the FIU Hospitality Review on leveraged buyouts some five years ago, this business strategy was beginning to enjoy increasing popularity. Since that time leveraged buyouts grew to unprecedented levels both in number and size of transactions. However, following the failure of the UAL proposal and the collapse of the junk bond market in 1989, there has been a marked slowdown in buyout activity. This article examines major developments affecting leveraged buyouts over the past five years and addresses their future implications for the hospitality industry.

The merits and demerits of leveraged buyouts (hereafter LBOs) became one of the hottest topics of discussion and debate in the 1980s. Indeed, the 1980s may be remembered as the “decade of the LBOs,” commencing with returns well over 40 percent to LBO participants and ending with the collapse of the junk bond market and the financial troubles experienced by Campeau and Resorts International.

The term LBO has been used in a variety of ways. It generally refers to an acquiror, which often includes the incumbent management of the acquired company (i.e., management buyouts or MBOs) taking a company (or division of a company) private by purchasing all the outstanding equity with significant amount of debt financing backed by the company’s assets. In essence, the transaction involves the substitution of debt for equity, and, thus, the resulting private firm is said to be “highly leveraged.” This huge amount of debt is expected to be serviced by a combination of operating income and asset dispositions (e.g., selling restaurant divisions or hotel properties to other companies).

A Typical LBO Has Three Main Constituencies:

- **management of the company** which acquires the company, division, or subsidiary it is currently managing, thereby entering the world of entrepreneurship. These individuals will hold a significant equity stake in the company after the buyout is completed.
• **buyout specialists** (such as Kohlberg, Kravis, Roberts and Company or Fortsmann, Little and Co.) that sponsors the going-private transaction while counseling and monitoring the LBO company after the buyout. "The LBO specialist arranges the debt and equity financing necessary to purchase the common stock held by the public and serves as a financial adviser and director of the post-buyout private corporation."²

• **lenders or institutional investors** who purchase equity and lend money to finance the transaction.

These ownership structures of LBOs are designed both to protect the parties who have provided the required financing and to improve manager's incentives and implement strategic changes, hence, enhancing the company's performance. Accordingly, an LBO firm would normally expect another restructuring within several years by selling the company back to the public or a third party.

One of the contributing factors to the LBO popularity is that major participants stand to gain by the transaction, as follows:

• Selling public shareholders receive a premium over the market value of the stock.

• Management acquires ownership of a company it is already running and the opportunity to enhance its value and thus receive future rewards directly from its efforts.

• Lending institutions receive a high yield investment and a new client with the incentive to grow.

**LBOs Have Experienced Major Growth in the Past Decade**

Although LBOs have been in existence since the 1960s, not until the '80s did they become a quantitatively significant component of overall merger and acquisition activity. "The number of going private transactions in 1988 was nearly eight times that of 1979."³

"The recessionary periods of the '70s and early '80s prompted the sale of many companies, divisions and subsidiaries."⁴ With ever-increasing pressure to remain competitive and to use resources more effectively, hospitality companies had to reasses their competitive strategy, thereby contributing to the LBO boom of the 1980s. Moreover, a very favorable economic environment in the mid and late '80s, accompanied by rising stock prices, facilitated the sale of companies at a higher price while carrying a heavy debt load.

The LBO phenomenon experienced in the 1980s was also the result of favorable tax laws. Three tax incentives have been proposed as important sources of wealth gains in LBOs: "the tax deductibility of interest payments on corporate debt, increased depreciation deductions associated with the step-up of assets (especially significant before the Tax Reform Act of 1986), and the tax advantages of Employee Stock Option Plans (ESOP)."⁵
A new theory was presented by Margaret Mendenhall Blair, a research associate at the Brookings Institute, concerning the reasons for the LBO boom of the 1980s. Blair contends that “the upsurge of real (inflation-adjusted) interest rates in the '80s to unprecedented levels coincided with declines of rate of returns of physical assets. The high real interest rates sharply cut the number of investment projects by raising the hurdle rate and resulted in more cash flows that managers could invest internally.” Accordingly, this triggered stockholders' dissatisfaction and stepped up pressures on corporate managers to increase the payout to shareholders.

**Media Attention Is Focused on LBOs in the Late '80s**

The news media, Congress, and the regulatory community focused considerable attention on LBOs during 1988 and 1989 (especially in the airline industry) “because of the use of this financing arrangement to fund corporate takeovers.” This interest was heightened by the size and volume of many LBOs, culminating with the $25.3 billion paid for RJR Nabisco in 1988.

On the face of it, “LBOs became a stock market game in which nearly everyone seemed to win, whether the manager-entrepreneur buying its own business, the shareholders receiving a premium for their stock ownership or the investment bankers overseeing the process.”

In the second half of the decade the development of the junk bond market, i.e., high risk, high yielding corporate bonds, opened another audience of investors since they provided a major portion of the financing for LBOs in the late 1980s. As a result, the junk bond market further focused concern on the major risk factors inherent to LBOs. Junk bonds offered investors higher yields because their issues were considered less able to meet their obligations that were more established borrowers.

Many observers contend that LBOs perform a useful and perhaps necessary function in downsizing companies (especially conglomerates) that have been too large, too bureaucratic, and inefficient in using their resources. Carl Icahn, a well-known corporate raider, noted that “LBOs and takeovers are part of a free-market response working to unseat corporate bureaucracies, control costs, and make America more competitive.”

Several analysts refer to a theory of corporate finance that shows how the distinction between ownership and control can have important implications for the performance of a firm. As this distinction becomes less clear, the conflict of interest between owners and managers becomes less severe. Since in many LBOs the manager becomes the owner, the consequences of managerial actions are entirely internalized by the firm's capital reorganization. In this manner, “by improving the organizational efficiency of the firm through a change of ownership the LBO can increase the firm's earnings.”
Michael C. Jensen noted in a recent article published by *Harvard Business Review* that "the emerging private organizations that resulted from the takeover and LBO activity of the '80s were making remarkable gains in operating efficiencies, employee productivity, and shareholders' value." Consistent with modern finance theory, the private organizations are not managing to maximize earnings per share but rather to maximize value. Jensen further noted that "over the long term, LBOs enhance U.S. economic performance relative to our most formidable competitor, Japan."

Other proponents of LBOs argue that they are justified on economic fundamentals since "they would bring tremendous benefits to the American economy, as managers, driven by the need to service and pay debt, employ corporate assets more efficiently, or sell them to those that will." Another proponent argued, "By placing ownership in the hands of a small group of investors and managers with powerful debt-driven incentives to improve productivity, companies can't help but shape up."

**Others Have a Different View Concerning LBOs.**

LBOs have been the subject of intense criticism and public debate. Many critics have expressed concern about the potential risks associated with LBOs. These concerns have been predicated implicitly on the notion that changes in the firm's financial structure have no positive real effects on the firm's output since a post-buyout firm must direct its funds to meet growing debt service instead of investing them in research and development or expansionary activities (a major ingredient for success in the hospitality industry). Indeed, the reduction in research and development and capital expenditures leaves the LBO company poorly positioned for the future.

Moreover, the LBO will leave the firm more vulnerable to future economic downturns, and the rise in interest rates will place ensuing pressure on cash flows, perhaps jeopardizing the firm's existence.

Many are also alarmed about the social value of LBOs. These doubts stem from the bad effects of wealth distributions, increased instability of the economy, and possible loss to society. A typical post-buyout strategy is to cut costs in order to increase profitability and ensure that the company can meet debt payments. This results in the layoff of employees, closing of divisions, and reduction of expenditures on research, development, and expansionary activities. "For example, Safeway Stores 1986 LBO would seem to be the model buyout in terms of productivity and operating profits. Yet, a two-month investigation revealed enormous human costs. The company dropped ten of thousands of employees from its payroll. Moreover, many employees found the post-buyout working environment more difficult with its high pressure quota systems."
LBOs May Have Positive Impact On Shareholders

There is empirical evidence that suggests that LBOs have had positive effects on the target firm's stock prices. Lehn and Poulsen found that the "cumulative daily abnormal returns from 20 days before to 20 days after the LBO announcement averaged 20.54 percent across the firms included in a sample during the period 1980-1987." Similarly, Torabzadeh and Bertin found that "announcements of LBOs have significant positive effects on the target firm's stock prices based on a study of 48 LBOs occurring from 1982 to 1985." The empirical observation that the purchase price of an LBO is on the average considerably higher than the market price before an LBO announcement suggests that these transactions have increased the firm's value and, hence, shareholders' wealth.

The issue of whether LBOs are productive has also received attention from researchers. Several recent studies of post buyout performance provide evidence suggesting that these transactions on the average have actually improved the firm's performance. For example, "Yago reports one study's findings that target firms of management buyouts are less likely to close plants that are other firms." A study by Steven Kaplan provides evidence that "LBOs increase operating efficiency without massive layoffs or big cuts in research and development. A sample of 48 larger MBOs completed between 1980 and 1986 experienced average operating income increases of 42 percent from the year prior to the buyout to the third year after the buyout. At the same time, cash flow increased by 96 percent during the same period." A study by Abbie Smith provided further support that significant increases in operating returns resulted from management incentives. Smith's study comprised 58 MBOs completed during the period 1977 and 1986. Palmeri also found that "the stocks of 70 LBO target firms that subsequently went public performed significantly better than the market since the public offering." In a 1989 study of financial performance, Pound and Gordon found that firms issuing high-yield securities experienced increases in cash flow, earnings, dividend payments, and sales. Long-term and short-term growth also improved.

LBO Activity Has Effect on Industry

The prevalence of LBOs in the hospitality industry during the 1980s has changed the structure of the industry (especially the food service industry) and is expected to have a long-term powerful impact on its future.

Table 1 shows the LBO activity in the hospitality industry from 1984 to 1989. Although the lodging or airline segments of the industry did not actively participate in the LBO craze of the middle and late 80s, the airline industry had three major and highly-publicized proposed buyouts in 1989 (i.e., United Airlines, American Airlines, and NWA). Yet, only one, NWA, was actually consummated, becoming the "largest buyout of 1989."
It is evident from Table 1 that most of the LBO activity occurred in the food service industry, peaking in 1988. "All LBO activity centers around companies with strong, stable, and growing cash flows and the restaurant industry provides that." However, the largest LBOs in the food service industry took place in 1984 and 1985. The mean value of LBOs went down after 1985 because there were smaller companies or divisions of larger companies going private during those years. Nonetheless, there was a dramatic increase in the mean and total value of LBO activity in 1989 as a result of two major LBOs completed in that year (i.e., NWA and TW Services).

Table 2 shows the five largest LBOs in the hospitality industry between 1984 and 1989. The two largest LBOs were consummated in 1989. A brief review of the five largest LBOs follows.

1989 Marks Three Large LBOs

NWA Inc., parent of Northwest Airlines, became "the largest LBO negotiated during 1989." The $3.58 billion buyout was led by an investor group that included former Marriott executives, Frederick Malek, Alfred Checci, and Gary Wilson. The LBO was financed entirely by equity investment and bank loans, thereby not including junk bonds. In June 1990 Frederick B. Rechtschler was named president and chief executive officer and NWA announced plans "to spend $422 million improving its food, upgrading its aircraft interiors and retraining its employees."

As of March 1990 "NWA reduced its $3.35 billion in debt to $2.1 billion, placing it in a better position than a number of other airlines. But, NWA still faces some financial hurdles that have been raised a little higher by the crisis in the Persian Gulf."
<table>
<thead>
<tr>
<th>Year</th>
<th>Company</th>
<th>Industry Segment</th>
<th>Total Value</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>NWA</td>
<td>Airline</td>
<td>$3,580.0</td>
</tr>
<tr>
<td>2.</td>
<td>TW Services</td>
<td>Food service</td>
<td>1,700.0</td>
</tr>
<tr>
<td>3.</td>
<td>ARA Services</td>
<td>Food service</td>
<td>882.5</td>
</tr>
<tr>
<td>4.</td>
<td>Motel 6</td>
<td>Lodging</td>
<td>881.5</td>
</tr>
<tr>
<td>5.</td>
<td>Days Inn</td>
<td>Lodging</td>
<td>765.0</td>
</tr>
</tbody>
</table>

TW Services management and Coninston Partners (a New York investment firm) formed TW Holdings to buy TW Services in 1989. In acquiring TW Services, the restaurant industry's fourth largest operator, "Coninston for the first time owned a company, since until then it usually had been a major shareholder." For nearly nine months between mid-1988 and 1989, Coninston was rentless in its chase of TW Services. Finally in December 1989, Coninston completed the LBO "by restructuring an original deal based on junk bonds whereby Coninston was forced to invest more equity and rely more heavily on bank loans." Since the buyout, TW Services has been selling a number of non-strategic subsidiaries for the express purpose of reducing debt. Yet, "TW Services flagship operations (i.e., Denny's and Canteen) have been infused with expansion and remodeling dollars." In its fiscal year 1989, TW Services lost $57.3 million (on a 5 percent increase in revenues to $3.4 billion) due to interest costs and the loss of feeding contracts at defense and auto plants. In the third quarter ending September 30, 1990, TW Services reported a $3.3 million loss compared to $44.2 million loss in the preceding year's quarter, after writing down $60 million in non-recurring related expenses. In December 1984, ARA Services (a Philadelphia-based contract feeder) was bought by a management-led buyout team for $882.5 million as a means to protect ARA from takeover efforts of various potential bidders. "ARA's selling shareholders received $71.75 a share, a windfall considering ARA's selling price before takeover talk was in the mid-$40s." As a result, the members of management who participated in the LBO attained "31 percent ownership of the company, putting up 2 percent of the capital and borrowing the rest against ARA's assets." In just a few months after the buyout, ARA reduced its total debt by $41 million (from just over $1 billion, including $150 million in loans before the buyout).
“In January 1990, ARA redeemed all its 16.5 percent subordinated debt at par by borrowing $151.7 million under a credit facility. Additionally, in April 1990 the company issued, through a private placement, $125 million of 12 percent subordinated debt due in 2000.”

ARA Services ranked number one among contract feeders in both 1989 and 1990 by number of U.S. units and number three by systemwide sales, according to Nation’s Restaurant News Survey.

Motel 6, the nation’s largest economy chain, went private in February 1985 in a $881 million LBO (including $125 million equity and $756 million debt) orchestrated by Kohlberg, Kravis, Roberts, and Company and a new management team. In October 1986, “15 percent of Motel 6 went public through a master limited partnership (equity investors still owned 52 percent).”

In July 1990 Motel 6 agreed to be acquired by French-based hotel giant Accor S.A. for $1.3 billion in cash. “Investors who paid $13.50 a unit when the public offering was completed in 1986 will nearly double their money in four years.”

Kohlberg, Kravis, Roberts, and Company and other participating investors “will receive a return of five times their original investment of $125 million.” Helped by a radio advertising campaign, Motel 6 increased its occupancy rates to an average of 77 percent (from 67 percent) and expanded to 64,000 rooms (from 42,000 rooms) between 1984 and 1989.

Tollman Hundley Corporation (Days Inn’s largest franchisee) acquired Days Inn of America for $765 million in 1989 ($90 million in cash and the assumption of $675 million debt). As of November 1990, “Days Inn has total long-term debt of $744 million, all but $5 million of which was inherited from the Days Inn’s previous owner, Reliance Group Holdings, Inc. (Reliance took Days Inn private in 1988).”

As of this writing, Days Inn Corporation is saddled with large, high-interest debt and has missed some repayments. It is trying to overhaul its capital structure. “Days Inn’s two primary problems are the average interest rate on the high-risk, high-yield debt (junk bonds) is extraordinary high (i.e., 14 percent) and most of the debt is due for repayment in the next few years. The company is in default on a total of $355 million of long-term, privately-placed debt.” As a result, Moody’s Investor Services lowered Days Inn’s subordinated debt ratings from Ca to Caa.

LBOs Produced Conglomerates in Food Service Industry

The wave of LBOs and takeovers has reshaped the food service industry in recent years and has produced a number of restaurant conglomerates, among them American Restaurant Group, Paragon Restaurants, TW Services, and Restaurant Enterprises.

American Restaurant Group comprises the former Saga Corporation Restaurant group (e.g., Grandy’s, Black Angus, and Velvet Turtle). “The LBO was completed in 1987 by former W.R. Grace Restaurant chief executive Anwar Soliman and his partners, who paid an estimated $275 million to buy the group from Marriott Corporation upon its acquisition of Saga.”

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Paragon Restaurants, formerly Vicorp Specialty Restaurant Group, was formed in 1986 "when Vicorp Chairman Gordon Miles and a top management team completed the divisional LBO of Vicorp Specialty Restaurants, a subsidiary of Vicorp Corp." Paragon Restaurant Group comprises 54 Hungry Hunger/Mountain Jacks Steak Houses, 33 Rusty Pelican Restaurants (acquired in 1987), and 16-unit Carlos Murphy's Restaurants. In 1990 "a Japanese restaurant company, Kyotaru Co. Ltd., agreed to buy the Paragon Steak House units." TW Services, formerly a wholly-owned subsidiary of Transworld Corp., acquired Denny's for $843 million in 1987. As a result, TW Services operates some of the best-known food service concepts in the industry, including Canteen (the nation’s second contract feeder), Denny’s (the largest family-style restaurant), Spartan Foods (operator of Hardee units and owner of Quincy steak chain), and El Pollo Loco (quick-service chicken chain).

After acquiring Denny’s in 1987, including the assumption of $625 million debt remaining from Denny’s 1985 LBO, “TW Services intended to maximize cash flow by rapidly expanding Denny’s and El Pollo Loco chains through franchising and upgrading Denny’s service, menu, and decor.” In December 1989 a New York investment firm, Coninston Partners, completed the LBO of TW Services, thus becoming one of the nation’s largest food service operators. In 1990 TW Services commenced a consolidation of its $3.7 billion empire.

Restaurant Enterprises Group comprises the former W.R. Grace Restaurant Company and its extensive dinner house holdings. In 1986 W.R. Grace Company, needing capital in order to buy back its stock, sold a 51 percent stake in W.R. Grace full-service restaurant division to a management-led buyout group for $580 million. “The group, spearheaded initially by Anwar Soliman, the vice-president of W.R. Grace Restaurant division, and eventually completed by Norman Habermann, acquired W.R. Grace full-service restaurants, including El Torito, Houlihans, Carrows, and Coco’s.”

Some Hospitality Firms Experienced Reverse LBOs

Public companies that go private via an LBO can typically expect another restructuring within three to five years after the buyout. A reverse LBO indicates that the firm became (or was acquired) by a publicly-held company. This is especially important for capital intensive companies since it is very difficult to remain private for an extended period of time as a result of the constant pressure of high debt.

Starting in 1986 several LBOs completed in the early or middle '80s began to cash in, thereby taking full advantage of the high stock prices that prevailed in those years. A case in point is Motel 6. Just a year after the $881 million LBO completed in 1985, Kohlberg, Kravis, Roberts, and Company sold 15 percent of the company to the public for $13.50 a unit using the master limited partnership vehicle while keeping control of the company.
Another company able to cash in on returning huge earnings to the LBO participants was Foodmaker, Inc., the parent of the Jack-in-the-Box fast-food chain. In 1985 an investment group led by Foodmaker's president and chief executive officer Jack Goodall bought the division from Ralston Purina for $430 million. In early 1987 “Foodmaker sold four million shares to the public at $13.50 each, thereby tripling the market value of the equity stake of the LBO partners.” However, late in 1988, Foodmaker decided to go private again in a new management-led LBO for $247 million. According to Jack Goodall, “The market has undervalued Foodmaker stock prices in spite of the big success experienced by Jack-in-the-Box with new product offerings and impressive sales growth. Investors continued to back away from Foodmaker because of its alarming 5 to 1 debt to equity ratio helped by its purchase of Chi-Chi’s Mexican restaurant chain in April 1988 for $235 million.”

Future Outlook Is Cloudy For LBOs

After an unprecedented wave of LBOs in the '80s, 1989 “may be remembered more for the deals that failed, especially the $6.79 billion proposed management/union led buyout of UAL, parent of United Airlines, that, according to many analysts, triggered the mini-stock crash of October 1989.”

The collapse of the junk bond market made it increasingly difficult for buyouts to raise capital. This resulted in many deals falling apart and being in need of restructuring (e.g., TW Services). “Only 16 LBOs valued over $10 million were completed in the first quarter of 1990 in all industries, a 71 percent drop from the 56 completed in the first quarter of 1989.”

Moreover, more and more LBOs are running into financial trouble. As a result, lenders are becoming increasingly wary of financing highly-leveraged transactions, and many back away from LBO lending. Deleveraging has become trendy in the 1990s. When LBO funds try to cash out by selling the company, they often can't get top prices.

Some LBOs fell in default on loan agreements because of decreasing profitability. As an example, Service America, the number four contract feeder in the nation, defaulted on a $195 million loan from General Electric Credit Corporation, the senior creditor on the $500 management-led buyout completed in 1987. In June 1990, Service America informed the SEC “that as a result of posting no earnings for the fiscal year 1990 (violating terms of the loan agreement), the company was to submit a restructuring plan that included a new bond offering on the company's $127 million subordinated debentures.”

Service America's “financial health was adversely affected by three events: the near collapse of the high interest-high yield junk bond market, the plant closings and layoffs among customers in the auto and defense industries where Service America had major contracts, and a charge related to the relocation of offices and severance pay needed to satisfy contracts of employees that were let go after the LBO.”
In spite of the slowdown in LBO activity, an article published in *The New York Times* on November 23, 1990, reported that "two major LBO specialists (Kohlberg, Kravis, Roberts, and Company and Fortsmann, Little and Co.) are trying to persuade pension funds and other institutional investors to replenish their funds so that they can buy more companies." However, future deals are expected to require more equity financing, thereby reducing the astronomical returns of the past decade.

**Increased Corporate Debt Might Increase Future Recessions**

The proliferation of LBOs and other highly-leveraged transactions during the past decade has added debt to the financial system. Because of this increased debt burden, a major future concern is "that bankruptcy and near-bankruptcy of LBOs and other heavily indebted firms might increase the severity of a future (or perhaps current) recession caused by factors other than the debt." That is, the bankruptcy risk will probably contribute to the severity of a given recession. Indeed, the bankruptcy filings of Campeau and Resorts International has raised anxieties about what will happen to the economy if the LBOs of the 1980s should crash in the 1990s.

"During the past decade, debt as a percentage of total capital has grown from 34 to 49 percent (at non-financial companies) whereas interest coverage has decreased 4.6 to 3.3 times." "In dollar terms, corporations took on $700 billion of additional debt from 1984 to 1988, with total debt rising to $1.9 trillion." Analysts at Moody's Investors Services forecast that defaults will rise about 10 percent on junk bond issuers in 1990 without forecasting recession. "The total dollar value of all these defaults would be approximately $20 billion, a figure that does not include the enormous costs of bankruptcy."

Nonetheless, Michael Jensen contends that critics of leverage fail to appreciate "that insolvency in and of itself is not always something to avoid and that the costs of becoming insolvent are likely to be much smaller in the new world of high leverage than in the old world of equity-dominated balance sheets."

**There Are Lessons to be Learned From LBOs**

As the 1990s begin, the future climate of LBOs looks uncertain. Higher debt burdens of the past decade, better known as the "excesses of the 1980s," suggest increased risk of financial failure and could exacerbate the severity of a future (or ongoing) recession or slowdown in economic activity. Indeed, the market has curbed buyout activity as the classic LBO loses its luster due to the collapse of the junk bond market while emitting dangers of sending companies into bankruptcy.

The role of corporate debt has long been debated. Critics contend that growing indebtedness has hobbled companies and robbed them of their future. Conversely, the LBO activity of the past decade provides a good illustration of how management can generate higher productivity gains, and magnification of returns on investment, at the expense of...
subjecting the firm to greater financial risk. Indeed, empirical research, though preliminary, demonstrates that LBOs have provided beneficial contributions to corporations and the economy.

In a book published by the Oxford University Press in early 1991, Glenn Yago states “that by relying on factual data instead of rhetoric we can demystify LBOs and focus our attention on the significant variations among them.” In so doing, we can identify those factors of financial management structure in LBOs that optimize their social, economic, and financial impact.

There might be fewer LBOs in the 1990s, yet alternative vehicles that emulate the benefits of the LBO insofar as productivity gains should replace the classic LBO. The real challenge to the hospitality industry is to design innovative ways that provide management incentives more nearly as they are in LBOs, keeping in proper perspective the entrepreneurial spirit that will always be present in the industry.

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